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Washington, D.C.

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McNamara tapes

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Brandt Commission - Correspondence 13

Folder 13

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RETURN TO ARCHIVES IN MC C3-120

ISN # 109391 ACC# A1995-256

BOX # 1

LOCATION M-101-2-01

OFFICE MEMORANDUM

815/11/31 *Phed*

TO: Members of the Personnel Management Committee

DATE: April 9, 1981

FROM: Martijn J.W.M. Paijmans *P*SUBJECT: Response to the Brandt Commission Recommendation No. 7,
concerned with giving Borrowing Countries a greater role
in the Decision-making and Management of the World Bank

1. I have attached for your consideration a copy of the above paper which has been amended to take into account comments made during the discussion of the paper at the President's Council meeting on November 24 last year.

2. The most substantial amendments, following that discussion, are the addition of a new paragraph 19, and a Table showing the change in Part I/Part II proportions at the N-Q levels, between 1976 and 1980.

Attachment

FROM:

BRANDT COMMISSION RECOMMENDATION NO. 7 CONCERNED WITH GIVING
BORROWING COUNTRIES A GREATER ROLE IN THE
MANAGEMENT OF THE WORLD BANK

As referred to in the President's memorandum of February 22, 1980
(SecM80-128), attached hereto is a memorandum dealing with that portion of
the Brandt Commission Recommendation No. 7 which is concerned with giving
borrowing countries a greater role in the management of the World Bank.

Distribution:

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Brandt Commission's Recommendation Concerning the Representation of Developing Country Nationals in the World Bank's Management Structure 1/

Recommendation: "Lending through international financial institutions should be improved through . . . 7. Giving borrowing countries a greater role in decision making and management." 2/

Introduction

1. The Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt makes a reference to the issue of greater power sharing with the developing world in the management of the international monetary and financial institutions. "A special responsibility falls on the World Bank....In order to represent more fully the interests of its clients, we are convinced that it should widen representation of Third World countries in its management. 3/....Adequate representation of developing countries in the staff and management, consistent with objective standards of quality in recruitment, will be an important step in building confidence." 4/
2. This paper describes our fundamental agreement with this recommendation of the Brandt Commission and explains our own reasons for wanting to increase the number of developing country nationals on the staff and consequently in management positions in the Bank. The paper examines the early history of developing country staff representation in the Bank, tracing the growth of their representation at the managerial level in recent years. Finally, the

1/ As referred to in Article V (Section 5) of the Bank's Articles of Agreement, entitled "President and Staff"

2/ Willy Brandt and others, North-South: A Program for Survival, London: Pan Books, 1980, p. 291. (The portion of the recommendation concerning a greater role for borrowing countries in "decision making" will be dealt with in a separate paper)

3/ Ibid, p. 275

4/ Ibid, p. 249

paper outlines the programs we are introducing to ensure a systematic and sensitive identification of relevant managerial potential from amongst Bank staff which, given the rising proportion of developing country nationals on the staff, should also lead to their appointment to positions of managerial responsibility.

The Need for Stronger Developing Country Representation in the Management of the Bank

3. The Brandt Commission has emphasized the importance of strengthening the role of developing countries in the management of the Bank in order to build the confidence of the Third World in the institution. The Bank is a cooperative enterprise representing both developed and developing nations, and its international development role can be carried out effectively only if the views of its members are reflected in the management of major issues.

4. The practical way in which the Bank can accomplish this goal is to increase the number of member developing country nationals both on the professional staff and within the management structure. This has been an important Bank objective for many years and progress has been made in meeting this goal over the last decade (as will be described in paragraphs 13-14). Today these reasons are even more compelling than they were in the past and arise directly from the way in which the Bank's role has been developing and will develop in the future and the increasing diversification of its operations.

5. One of these developments is the shift from "infrastructure" lending to sectors where social structures and cultural factors are more important to success, for example, rural development, health, education, and rural water supply. Although rigorous technical and economic analyses play an all important role in preparing operations in these sectors, they have to be tempered by a basic sensitivity to and understanding of the social structure, aspirations, and cultural values of a developing country; and such assets have become as important as technical and economic skills. Therefore, the Bank has an urgent need to bring into managerial and professional staff individuals who can apply and adapt their developing country experience and sensitivity to the Bank's operations.

6. Related to the above is the increasing importance of country and sector economic policy initiatives aimed at improving the development impact of projects but which, at the same time, may have sweeping social effects. Here again the perspective, awareness, and orientation of staff and managers from developing countries will be imperative in assessing and bringing about the desired consequences of such initiatives.

7. Furthermore, the past distinction among the member countries of the Bank between developed nations as the donors of aid and developing nations as the receivers of aid is becoming blurred in some instances, with the growth of wealth within some developing countries. Such countries are already (or have the potential to become) capital contributors in their own right, while at the same time continuing with their own internal development programs. It is important that the unique perspective of these member nations is fully taken into account at the management level if the Bank is to operate realistically within the increasingly complex world of international relations and development.

8. In summary, therefore, the traditional mix of technical managerial skills, which will continue to be essential to the Bank and its membership, needs to be widened. Both at the managerial level and within the professional staff as a whole, the aim of the Bank is to reflect in a more pronounced way the diversity of its membership, and to enrich its insight and understanding by drawing on the experience which member developing country nationals offer. The Bank has entered a time of great diversification of its operations. Just as advanced technical skills have helped the Bank maintain its high standards and expertise, so a greater infusion of developing country expertise is essential for the Bank to maintain its relevance and credibility in a dynamic world where priorities are shifting and new development strategies are emerging.

The History of Developing Country Representation at the Managerial and Professional Levels

9. Early in the Bank's 34 year life, there was little explicit recognition of the need for, or any consolidated effort made to ensure a significant representation of nationals from developing countries, either in the Bank as a whole or at management levels. The Articles of Agreement (V.5d) set out two staffing requirements: the need to ensure that the selection of staff is based on the highest standards of efficiency and technical competence; in addition, there was also the need to ensure a wide geographical distribution of staff. The second requirement was for some time given relatively little emphasis because of the circumstances of the period. In the same way as capital finance in the early Post World War II era was available in very few places (primarily the United States), so the major accessible source of skilled manpower existed mainly in the United States, the United Kingdom, and a few other developed countries. In the war-torn nations, the task of reconstruction absorbed the available talent. In developing countries, the available skills were scarce and in great demand. So for its first fifteen to twenty years, the Bank drew largely upon a few leading industrialized nations for its supply of money and talent until the growing prosperity in other countries produced a new flow of resources. At the same time,

there emerged in the international community an active interest in exercising more influence over the growth of international development finance.

10. The first reasonably sizable recruitment of developing country nationals into professional positions in the Bank began in the early Sixties. The largest of these groups came from the Indian Subcontinent where education, training, and English language proficiency enabled individuals to fit more readily the Bank's mode of operation at that time. In 1968, the Indian Subcontinental group ^{1/} constituted one-third of the developing country nationals on the professional staff of the Bank. The only other developing country group of any size was the staff from Latin America. In total, the professional developing country staff amounted to 20 percent in 1968.

11. In the following period, there was a rapid increase and diversification of the Bank's lending activities, and this coincided with a greater understanding of the need to strengthen the participation of the receiving nations in the World Bank's task of financing development on an international scale. In this climate, the first sustained attention was given to increase the number of less developed country nationals in the Bank's professional and managerial staff. Already by 1972, the number of professional staff from developing countries had grown almost threefold from the number in 1968. This trend has continued since. Overall, the representation at professional levels of staff from developing countries has increased from 20 percent in 1968 to 33.7 percent today.

12. The Bank's staff have the complex function to advise member countries in the crucial field of their development policy, and work on projects which have significant impact on the economic, social, and financial well-being of those countries. In the interests of its own membership, the Bank has never compromised on the qualification of its staff, and it has been the Bank's foremost concern to recruit very high-quality professionals with substantial experience. On entering the Bank as a professional, the individual would benefit from the experience of working in the Bank environment on a series of assignments. If successful and convincingly demonstrating the ability to manage others, the person, will after a period of years, have risen to a position of management responsibility. Given the time required to develop this management capability within the Bank, in the late Sixties some of the professionals from developing countries began to take their place in management alongside their colleagues from developed countries. By the early Seventies, an increasing number of developing country professionals

^{1/} This group consists of India, Pakistan, and Bangladesh.

began to benefit from this development resulting in an increase in the number promoted to managerial positions.

13. The attached table illustrates the change in the proportion of developing country nationals at the managerial and higher professional levels (division chief level and above) since 1976. As the table shows the number of Part II staff at these levels has increased from 20.7 percent in 1976 to 25.2 percent in 1980. This growth has been particularly evident and important in the Operations Departments where decisions are made on lending and where developmental sensitivity and experience is especially important to the Bank. (Of the 47 additional senior positions in Operations since 1976, 23 were filled by staff from developing countries.)

14. The number of positions at the most senior level of the Bank's management (director level and above) increased from 81 in 1976 to 85 in 1980; and during that time, the number of senior managers in this category from developing countries increased from 16 to 20, almost entirely concentrated within the Operations Complex of the Bank. This represents 23.5 percent of the total number occupying these senior management levels. The number of Vice Presidents in the Bank Group increased from 17 in 1976 to 20 today. Part II Nationals among them increased from 4 to 6 over this period, enlarging their share at the Vice Presidential level from 23.5% in 1976, to 30% in 1980. Today, two of the six Regional Vice Presidents are Part II Nationals, compared to one in 1976.

How Managers are Appointed

15. As indicated above, managers in the Bank (with a few exceptions) develop through the professional ranks. The Bank is justified in claiming that it is unique among international financial or developmental organizations because of its size (about 5,500 total staff), the diversity of the professional and, in particular, technical skills needed to accomplish its development role, and the vast representation of almost one hundred different nationalities among its staff. In addition, the Bank is an institution which has to offer its professional staff a career in order to attract and retain the required high quality and motivated talent capable of producing its primarily technical output. Therefore, the larger majority of the managers in the Bank have been developed from within. Over the last 5 years, 237 managerial and senior vacancies have been filled from within the organization by promotion, in contrast to only 28 recruited into managerial ranks directly from the outside to provide special skills not readily available within the institution.

16. The individuals who reach managerial positions in the way discussed enter the Bank in one of two streams. The larger stream consists of highly-qualified professionals recruited in mid career with extensive pre-Bank experience in their field of expertise. The second much smaller group is young staff with high academic training but limited work experience, recruited through a very competitive Young Professional Program. Professional staff in both of these streams are very carefully selected for their personal qualities,

integrity, intelligence, and versatility. For an individual to emerge from either stream as a manager, such a person must not only possess these characteristics but, in a very testing environment, show the ability to lead and manage through a range of visible achievements, both in terms of professional skills and the display of managerial qualities.

17. Over time, therefore, there has grown up within the Bank a generally accepted and successful way of identifying managerial potential, based on the competence and achievement of the individual working in a demanding professional/technical environment. The staff who have achieved managerial promotions have done so because they have been able to demonstrate the qualities which the organization has come to recognize as indicative of management talent. However, with the growth in the size of the institution, the increasing diversification of the Bank's activities and the evolution of its role described above, there is a recognized need for the Bank to widen the basis for assessing managerial effectiveness and potential to give more weight to the special sensitivities and insight which developing country nationals can bring to the managerial process.

The Future

18. It takes somewhere between 5 and 7 years for an experienced professional, from the date of joining the Bank, to develop to the level where the person may be ready for consideration to an appointment at the first level of management. Twelve years ago, the managerial staff from developing countries represented 20 percent of the total. Today developing country nationals occupy 25.2 percent of all managerial and senior positions and 24 percent of the top management positions. This is a respectable achievement. It is recognized that the total number of developing country nationals at all senior levels as well as junior management levels should rise. The trend has been set to increase this essential participation, and the Bank is moving steadily in the direction of fulfilling this goal. The comments of the Brandt Commission have come at an opportune time to help sharpen our perspective and underline our commitment.

19. Meeting the goal of increasing developing country representation in management is a long-range and demanding task for the Bank. The primary institutional objective is to ensure that both the professional and managerial staff are of the highest quality. Therefore, an increase in the number of developing country nationals must be accomplished in a way which does not compromise that primary objective. Talented and well qualified developing country nationals are undoubtedly available both inside and outside the institution, and the Bank has already embarked on the task of identifying, attracting and nurturing this talent in a way that benefits both those individuals, and the broader institutional objectives. This task is one requiring the same carefully managed process of identification and development of managerial talent as consistently followed until now, which has provided the Bank with the experienced and knowledgeable managerial teams necessary to lead the work in assisting the developing countries. While there is scope for the Bank to improve its methods of placing developing country nationals, the very nature of the process requires both intensive

use of time and resources to accomplish both objectives, and it would be unrealistic and counterproductive to encourage quick results, as in any case the increase in developing country nationals is also dependent upon the opportunities made available by institutional demand at managerial levels. Nevertheless, despite the demanding nature of this task the Bank is committed to make significant progress over a time scale that will make it possible to increase the proportion of developing country nationals with the experience and qualifications the Bank requires.

20. At the more junior level of management, the key to progress in placing more developing country nationals is the increased recruitment of these nationals at the professional level. Plans have already been established to achieve this goal in an even more concerted fashion than was demonstrated in the past. Once on board, they will benefit from the increased attention the Bank has recently been giving to the management and development of its human resources; and those with potential will succeed in securing managerial promotions.

21. At the more senior levels of management, there may from time to time be specific positions where it will be desirable and appropriate to recruit highly-qualified individuals from outside, particularly from developing countries. We are especially alert to identify individuals in developing countries with a particular skill or expertise which the organization urgently or specially needs and who are willing to consider international service in the Bank.

Summary

22. The Bank agrees with the proposals of the Brandt Commission to increase the number of developing country nationals within the Bank's management. There are important reasons related to the development and diversification of the Bank's role for increasing this participation. This realization has existed for some time, and the Bank has already made progress towards achieving this goal but recognizes the need in the coming years to do more. The task is both complex and long term because of the special nature of managerial responsibility in the Bank and the time it takes to develop managers from within. Nevertheless, the Bank considers this goal of the highest priority and plans to achieve progress through a combination of strategies--increasing the number of developing country nationals recruited at the professional level so that, as a result of experience within the Bank, an increased number will secure managerial appointments; an improved monitoring of the progress and potential of existing managers to find individuals suited to senior managerial responsibility, which will benefit developing country nationals along with other management staff; and there will also be the recruitment, for specific functions at a senior level, of developing country individuals who can offer the Bank unique skills or expertise.

in the years immediately ahead
in the management structure

THE CHANGE IN THE PART I/PART II PROPORTIONS AT N-Q LEVELS, BETWEEN 1976 AND 1980

*Account
show 68, 70*

1976

	Operations Departments		Support Departments		Total IBRD		IFC		Total Bank Group	
	<u>No.</u>	<u>% of Total</u>	<u>No.</u>	<u>% of Total</u>	<u>No.</u>	<u>% of Total</u>	<u>No.</u>	<u>% of Total</u>	<u>No.</u>	<u>% of Total</u>
Total	231	-	106	-	337	-	31	-	368	-
Part I	185	80.1	86	81.1	271	80.4	21	67.7	292	79.3
Part II	46	19.9	20	18.9	66	19.6	10	32.3	76	20.7
<hr/>										
Total	278	-	120	-	398	-	46	-	444	-
Part I	209	75.2	92	76.7	301	75.6	31	67.4	332	74.8
Part II	69	24.8	28	23.3	97	24.4	15	32.6	112	25.2

1980

805/11/30

OFFICE MEMORANDUM

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WBG ARCHIVES



DATE: April 3, 1980

TO: Mr. Robert S. McNamara, President

FROM: P. N. Damry

P. N. Damry
4/3/80

STRICTLY CONFIDENTIAL

SUBJECT: Brandt Commission Recommendation on Power Sharing by Developed and Developing Countries

1. You asked me to develop a paper on this recommendation. I have yet much reading of Bretton Woods history to get through in this context but some conclusions are already emerging as a result of reading done recently and I thought I should place these before you in synoptic form, for two reasons: firstly, my preliminary conclusions diverge on philosophical grounds from the cryptically stated Brandt recommendation on power sharing and, secondly, because a paper on the same subject has been assigned by you to Legal, Secretarys and Organization Planning Departments (No. 15 of the list to the Board), and that will probably differ from these views in substantive matters and to a substantial extent.

2. Tentatively, I conclude as follows:

(i) In any practical sense "power sharing" can relate, not to mobilization but only to decisions relating to utilization of resources;

(ii) Because of the extent of delegation by Governors under the Articles, weighted voting is very seldom a distorting factor at the Governors level in matters where only a simple majority vote is involved;

(iii) By the same token, in the rare cases where the Governors' approval depends on a special majority, (two thirds or three quarters), weighted voting can be a distorting factor in the eyes of Part II countries, but management must regard this as inescapable in an Institution of which the operations do not depend on political factors but their funding does;

(iv) In practical terms, therefore, power sharing can relate only to operational decisions at the Executive Directors' level (policy and project or non-project lending); but even at EDs' level the present imbalance in favour of developed countries is actually desirable because:

a) significant superiority in voting power gives Part I EDs the reassurance which permits and encourages flexibility;

b) conflicts of interest and severe disparities are already appearing among the borrower countries themselves and Part II interests as a whole, collectively, would suffer if a more collectively powerful group, the Part I EDs, were unable to hold the balance even between various Part II interests.

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4/4

Mr. Robert S. McNamara

April 3, 1980

3. The above views would probably be offensive to enlightened thinking and need some explanation:

(i) The relationship between quantum and direction of aid on the one hand and geopolitical and commercial self-interest on the other, are becoming increasingly evident, though so far only Mrs. Thatcher has had the courage to say this openly. Inflation and recession will exacerbate these trends. The deportment of some newly independent countries, and especially the attitude of their rulers towards constitutional safeguards, have made for greater cynicism in aid givers and this will grow worse before things get better. To me it seems to follow that Part II countries stand to gain nothing by seeking a greater share in decision-making when it comes to decisions on raising capital, or the putting together of an IDA replenishment or consortium aid and other resource-related operations. In these matters the path of wisdom for Part II countries lies in their placing their moral support, irrespective of voting power, solidly behind management and individually or collectively using their influence to set their house in order so as to qualify the administratively weaker LDCs for aid which is both more copious and freer of reservations. The power of the purse is wielded, not when Governors vote approving resolutions, but when legislatures vote appropriations. Thus, the extent to which LDCs can influence the Governors vote in such matters has little bearing on the flow of the life blood of development -- real resources -- to the IFIs.

(ii) As for the Directors' decisions (policy and project or non-project lending), there is in fact a fallacy in our argument that, simply because there have been only 15 roll call votes in 34 years, voting power at this "operational" level is not really important. When I place what Directors say in the Board room against what they say individually to me, I must conclude that on any innovation or modification or other area of controversy, the Part I Directors act as they do in the Board because they know they have, or have not, the votes. Apart from their obvious recognition of the quality of management of the World Bank, the Part I Directors approach their task with a more open mind and with a readiness for greater flexibility mainly because they are aware that in the final analysis they can vote the proposal down. A merely marginal superiority in voting power, and certainly parity, would bring about great psychological changes in the attitude of Part I Directors towards a good Part II cause.

Mr. Robert S. McNamara

April 3, 1980

(iii) Among the borrowers are relatively richer ones. In any scheme of power sharing intra-borrower power distribution will, in due course, become as serious an issue - perhaps more serious -- as the present Part I/Part II imbalance. There are bound to be growing claims to a greater share in more slowly growing resources. Intra-Part II strains will show up badly in this decade. By a parity of reasoning, the arguments for reducing Part I voting power will be used to bring down the power of the bigger Part II shareholders. Will, for instance, India or Indonesia be ready to part with some of their voting power in favour of those West African countries which today feel that voting power has something to do with their share of the most concessional aid?

4. Thus, to my way of thinking, the voting structure by its very lopsidedness, is probably a safeguard to Part II interests rather than the reverse. I have not seen a good Part II cause suffering by reason of this imbalance. The only reservation I would add is that for purely cosmetic reasons the US would do well to forego some small measure of its shareholding, in its own political interests, because it is perceived as using its preponderant shareholding status to block development progress. This image of the US can probably be regarded as self-inflicted injustice to the US Executive side since the hurdles are generally legislative. The administration would present a better image if the US share of voting power were slightly reduced so as not to give it (and not any other single member), a veto power over the "80%" resolutions. The US Administration, would, on reflection, probably find its present situation needlessly odious.

5. If changing the voting structure is thus not a desirable way of achieving a perceived desirable change in power sharing, are there any other means (again this can only relate to the EDs level)? One must first recognize that "power sharing" cannot, and must not, be allowed to imply sharing of functions that belong to the management. Investigation, appraisal, negotiation, consideration of alternatives and the concrete formulation of operational proposals of all kinds, must rest wholly with management. Anything else would mean chaos and damage to LDC interests. Thus, it would not be a good way to achieve power sharing if management were to take LDCs into their confidence, or induct them into the proposal-formulation process earlier than the developed countries, which is a method perhaps some LDC Directors might favour. If management finds it desirable to adopt consultative procedures prior to formal Board discussion this must be with the whole Board: otherwise management will find itself embroiled in intra-LDC schism.

Mr. Robert S. McNamara

April 3, 1980

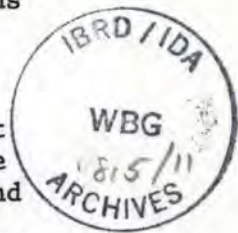
6. However, we cannot refrain from some action at least, even if only for purely psychological reasons. The Rules of Procedure for meetings of the EDs have been made by the EDs themselves and they do require the Governors' approval. Section 4 of these Rules provides that any single ED may require a formal vote on any matter before the Board. This can be changed by action of the EDs so as to leave the Chairman to ascertain and announce to the meeting the sense of the Board or of a majority but leaving the requirement of all formal voting to be obligatory only if a numerical majority of the Directors ask for it. This may prove a simpler solution than the one which I think we shall be incorporating in the formal Legal, Secretarys and OPD paper you have called for, which would probably be that there should be a reserved list of subjects on which any single Director can call for a formal vote.

7. If you have no objection, quite apart from the paper you have called for from the three departments, I will develop the above views in a sort of background staff paper, not necessarily representing the views of management, after completing my reading.

PNDamry:lhv

2/13/80
815/11/27

Heath Press Conference in London today (2/12) lasted an hour and was attended by about 50 newsmen. Major points made by Heath in his presentation and in answer to questions were as follows:



One. We have moved a long way from the world of the Pearson Report and from the concept of aid as charity. The central message of the Brandt Report was that mankind's survival required mutual action and a recognition of mutual interest. This was not just a two-sided affair since the South was now composed of many parts, including OPEC countries, NICS and powerful raw material producers. Hence the Report recommended a differentiated program of action not a single set of solutions.

Two. The Bank and Fund have expanded and adapted over the years and must continue to do so. However there was still a fundamental problem which had not been addressed and which had emerged in so many conversations with third world leaders, namely that the Bretton Woods institutions were created in another age - the Anglo-American Age - which no longer corresponded to the new geopolitical realities. Hence there must be changes at the Bank in structure and "representation". Without such changes the OPEC countries would never be induced to play a more active role with the Bank. OPEC countries would not support an institution which was not representative.

Three. If the Bank and IMF cannot move on the representation issue and towards meeting the financing gaps identified by the Report (more flexible forms of finance, etc.) then a new institution (s) would be required. Heath clearly regarded this as a second best solution as he did not want to see any more large international organizations. Indeed he emphasized the Report's recommendation on constituting a monitoring body to make existing institutions much more effective and collaborative.

Four. In answer to questions as to how the Brandt strategy would work where most if not all others had failed Heath said the key to successful international negotiation was neither to discuss everything at once (a la CIEC) or one thing at a time as at last week's UNIDO meeting. A limited manageable agenda had to be selected in which both North and South had an interest in making concessions on return for identifiable payoffs. This was the logic behind the report's suggestion that progress in the international negotiating arenas would be enhanced by bringing together a small group of heads of state to consider a well defined and well-understood set of issues on which there could be mutual compromise.

Five. Heath spoke of the notion of the Concordat. In this connection he said the commission had not been "soft" on OPEC but had campaigned to bring the oil producers onto outside. The whole world absolutely needed security of oil supplies for the next 20 years while alternative energy sources were being developed. The oil producers for their part were entitled to expect no erosion in the real price of oil through international inflation. Heath could not put a figure on the magnitude of the OPEC oil surplus, but he was emphatic that whatever the new constraints on the commercial banking system we must invent new ways of recycling such surpluses back to developing countries for productive long term investment.

2/13/80

PRESS DIGEST

LONDON: Brandt Commission Report. The Brandt Commission's Report, presented to U.N. Secretary-General Kurt Waldheim yesterday, is given full and prominent coverage in Fleet Street papers today.

The "Times" leads its front page with a report angled on the Commission's call for a world summit. The paper in addition carries on inside pages an editorial, a half-page summary of the Commission's proposals and an article in its business section.

The "Guardian" carries a front-page story a two-page "Third World Review Special" analyzing the report and assessing the prospects for implementation, and an editorial.

The "Times" says in its commentary that the report "is about as good a statement as any yet made of the global view. Its analytical sections are a devastating indictment of human folly..."

The "Guardian" says the report is written in language not far from panic. "The warnings have been there at conference after conference: mass starvation in parts of the Third World, a breakdown of the international monetary system, a failure in raw material supply bringing chaos in the industrial world."

Both papers focus on a major theme of the report: that the crisis belongs to both North and South and, in the "Times'" words, "we should not be thinking in terms of aid to developing countries but in terms of mutual benefit and common survival."

"...If the world is seen as a single nation," the paper goes on, "it makes sense to raise the living standards of the poor to stimulate trade and economic growth. It also makes sense to meet grievances before they provoke war."

Of the recommendations the "Times" says: "Some of these are vulnerable. The report does not wholly face the problem that massive transfers of resources to the South would inevitably mean massive financing of deficits in those areas. Its recommendations on new forms of special drawing rights could be inflationary. The world money supply needs to be treated separately from the problems of helping those in need."

"A more consistent distinction between those countries that rely for the foreseeable future on charity and those that, with the right sort of help, could generate their own growth would help to distinguish those forms of financing that can be subject to more or less normal banking criteria from those that cannot."

"There will also be doubts about whether the recommendations on stabilizing commodity prices take full account of the extent to which future scarcities will drive up prices," the "Times" says.

/...

2/13/80

"The bad record of the South in making the best use of aid, which has done much to disillusion the North, is met with the somewhat optimistic acknowledgement that social, political and agrarian reforms are widely needed," the article says.

"The argument that there are simply not enough resources, particularly of energy, to give the whole world a decent living is only partly met with a plea for better use of resources. But there is a strong warning that competition for resources could be one of the greatest dangers of the future.

"As a description of the problems that face us, and a warning of what could happen if we fail to respond, the report can hardly be faulted. It ought to become one of the basic documents of the decade. It is a partial answer to those who feel that politicians never lift their eyes above the next election.

"Here are some politicians, relieved of the daily strains of office, who have drawn on their reserves of experience and idealism to seek answers to the largest questions of all.

The paper concludes: "The best hope, perhaps, is that global and national perceptions will come together on the simple issue of survival. The Third World has the resources that the developed world needs. It also has tensions which could explode.

"National self-interest alone demands a more determined look at these problems. Obviously they would be tackled best in cooperation with the Soviet Union and its allies, whose aggression has added so much to the burden of world armaments, but if rivalry must continue it is all the more important that the Western democracies should pursue their own enlightened self-interest in cooperation with the Third World."

The "Guardian" says that the diagnosis and urgency of Brandt's recommendations "will be much more striking to Northerners than Southerners because the crisis is the North's more than the South's. It is the well-developed countries which will face a plummeting standard of living if the new international order is not achieved.

"For by definition the hungry, badly equipped, and technologically simple parts of the world have less to lose from any catastrophe that may impend. But it is not in the South's interest that maldistribution of wealth should endure or that the Western economies should fail to deliver the goods.

"The Brandt Commission does not, as past apologists for the development lobby have done too often, disguise the self-interest of the enterprise.

/...

"But half the participants were from the Third World, and the unanimity of the report spreads that self-interest to Upper Volta and Indonesia as well as to Britain, the United States and OPEC. We have been warned, but then we have been warned before," the paper concludes.

- 0 -

In its special two-page review of the report, the "Guardian" summarizes the report and its recommendations and publishes an interview with Commission member Shridath Ramphal, the Commonwealth Secretary General.

His interview with Third World Review editor Altaf Gauhar reflects Gauhar's views as much as Mr. Ramphal's.

He quotes Mr. Ramphal as saying: "The Commission's report could be a positive contribution towards the development cause and indeed the goals of the New International Economic Order generally."

But Gauhar questions Mr. Ramphal at length on aspects of the report which he feels are loaded in the North's favor. "...The South was being called upon to provide assured access to oil supplies, under a guarantee of gradual and moderate price increases in real terms, and to allow the Western multinationals free access to the minerals and raw materials of the developing countries, without any binding code of conduct to regulate their activities.

"In return the South would be led on by a vague and general promise of larger transfer of resources from the North. That did not look like an attractive balance sheet of the basis of mutuality of interests," Gauhar writes.

Gauhar also asks why the proposed World Development Fund could not absorb the World Bank and IMF. "No such suggestion was made," Mr. Ramphal says. "We thought that both the World Bank and the IMF could perform better in areas in which they have competence, subject to certain reforms. No other course would have led to a consensus document."

In article on the origins of the Commission, writer Richard Norton-Taylor notes that the decision to set up the ICIDI was first mooted by World Bank President Robert McNamara in 1977 when the conference on International Economic Development--the so-called North-South dialogue--was faltering.

"It was designed to take the steam out of recriminations, just as the North-South dialogue was an attempt by Henry Kissinger then U.S. Secretary of State, to divert a possible threat of a militant OPEC-Third World bloc.

"Brandt at first refused McNamara's offer, and preferred to wait for the final outcome of the conference on International Economic Development. He accepted by the autumn when the conference broke down..."

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Norton-Taylor also writes in his article that, ironically, if the Commission's proposals are to be accepted, in particular the creation of a World Development Fund, "the one institution whose future will be in doubt will be McNamara's World Bank."

- 0 -

David Tonge, writing in the "Financial Times", says that it is no criticism to point out that few of the Brandt Commission's ideas are totally fresh. "Instead their ancestry is often old but honorable..." Tonge writes in a six page, mainly factual, summary of the Commission's work.

"To this extent the prospects for the Brandt Commission are identical with those for the North-South dialogue. One of the weaknesses of this dialogue is that no group of countries willingly relinquishes a position of privilege. At present only OPEC can force the West to take note."

"This autumn the U.N. is to hold a special session on North-South issues and to start global negotiations on "practicable subjects to be agreed on mutual interest. The North-South dialogue is thus on the table," Tonge says.

"Governments in the West are in two minds as to whether OPEC will bat for the developing countries, he goes on. "Some EEC members have tried to approach OPEC to do it in advance of North-South negotiations. So far they have been rebuffed.

"But that such feelers were put out indicates the change since the days of (Lester) Pearson and why Brandt's vision cannot be brushed aside."

- 0 -

AMSTERDAM: The Amsterdam newspaper "De Volkskrant" today commends the Brandt Commission for its report saying that the members of the Commission have shown courage in their attempt to break the present deadlock in the North-South dialogue.

"While the present world economy is defended at international conferences, the Commission emphatically stresses the necessity of reforming the international economic system and of introducing a better monetary system and flow of funds to developing countries."

The paper says the idea of a new fund is piquant since the Commission in fact by-passes the World Bank which initiated the Commission.

The Commission is not only making a serious attempt to break the North-South deadlock but apparently also has a better listening post concerning developments in the Third World, the paper comments.

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2/13/80

"De Volkskrant" says with international economic relations shifting so strongly a new opening can be made through the proposed fund which could serve as a crystallization point in a new economic environment.

"Brandt proposes this, not only translating inter-dependency into policy plans, but also with a view to the increasing tendency of Third World countries to mutually bind their strength," the paper says.

Furthermore, perhaps the Brandt Commission has sufficient credibility to finally get the East Bloc countries actively involved in the Third World cause, it adds.

The paper notes that the Commission can do little more than suggest new ideas, not all of which can be realized. But the least that can be attempted is to get politicians or preferably heads of state together to obtain a real breakthrough in the North-South dialogue, the paper says.

BONN: German newspapers give prominent coverage today to the Brandt Commission report.

The "Frankfurter Rundschau" says in an editorial that the report presents a warning to the world in letters of fire.

The paper says the report "cannot sink so deep into an archive drawer as some powerful politicians would like it to..."

"A lack of novelties, of ready-made recipes, which development-conscious people might have wished for, represents at the same time the danger that this appeal to the world's conscience might disappear into the abyss.

"Brandt draws attention to the contradictions of his task, which necessitates the introduction of fundamental--even radical--changes in the relationship between the world's rich and poor by means of this peaceful appeal."

"Currency, trade or market experts might have objections to individual recommendations by the Commission," the "Frankfurter Rundschau" says.

But it adds "All specialist thinking pales before the example in the report's introduction that a starfighter costs the equivalent of 40,000 health centers."

Other newspapers confine themselves to factual reports on the Commission's findings.

(The above summary was provided by Reuters.)

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2/13/80

U.S. PRESS DIGEST

Rich Lands Told to Loosen Reins on Aid to Poor Ones: The "New York Times" (February 13, page 3) says that more aid to poor lands from rich lands was urged by the Brandt Commission. The commission urged an emergency increase in aid of \$30 billion a year by 1985, totalling two and a half times the present level. It also called for a rise in loans and aid totalling \$50 billion to \$60 billion a year in the next five years. The article says "The most novel feature of the 304-page report issued by the commission is a series of proposals to weaken the control of national legislatures over the granting of aid. The commission calls for 'universal taxation' of all countries with the size of their contributions linked to their national incomes. As a starter, the study urges consideration of a new World Development Fund to collect and distribute taxes on foreign trade, especially on arms, and the mining of minerals in the deep sea." Correspondent Bernard Nossiter notes that the report urges a major shift in power within international institutions like the World Bank and the IMF, and says that the proposed new World Development Fund should divide decision making "more evenly" among rich and poor nations. Nossiter writes: "Another recommendation would again double the recently doubled lending power of the World Bank, to \$160 billion. The document does not discuss objections by senior bank officials that they are already experiencing problems in supervising the loans they now make. But this problem could be overcome by the commission's proposal that more loans simply support the budgets of the poor nations and not be tied to specific projects like dams, roads or clinics."

Brandt Commission Seeks Revived North-South Dialogue: Reporting on the Brandt Commission's findings, The "Washington Post" (page 25) says that "The suggestion of a summit involving about 25 head of nations representing the 'major world groupings' is one of the commission's original contributions." The "Post" adds that "Brandt stressed to reporters that such a summit can still be possible despite new U.S.-Soviet tensions and he said it should be conducted with the minimum of pomp and publicity. The leaders who attend would be unable to make commitments on behalf of others, but the Brandt Commission urged a summit because 'we believe the present deadlock is so serious, and the need to break through is so evident, that nothing should delay discussion and negotiation at the highest level'."

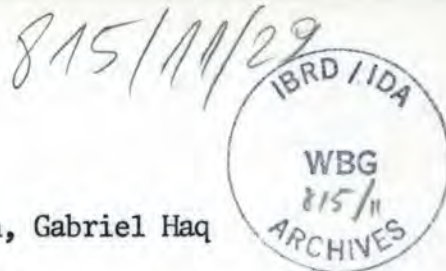
OFFICE OF THE PRESIDENT

Meeting on Brandt Commission Report, February 8, 1980

Present: Messrs. McNamara, Chenery, Clark, Damry, Husain, Gabriel Haq

Mr. McNamara suggested the following approach:

- (a) Responsibility for formulating the Bank's work in response to the Brandt Commission Report would be assigned to Mr. Chenery.
- (b) The Bank would prepare a topics list of Brandt Commission proposals relating to the World Bank; it would propose to the Board that a program of studies on these recommendations should be initiated; work should then be assigned to different units in the Bank. He asked Mr. Chenery to prepare the list for submission to the Finance Committee on Monday and for discussion by the Committee on Tuesday afternoon.
- (c) After the Finance Committee, extended by the participants in this meeting, had reviewed the topics list on Tuesday, it would be distributed to the PC with copies of the Brandt Commission Report for discussion the week thereafter.
- (d) The list of recommendations and the study program would then be taken to the Board by March 1 for discussion before the end of March, in order to have the Board's views before the Development Committee discussions in Hamburg in April. The list should leave out topics which institutions other than the Bank should deal with. In his view, no reaction to the Brandt Report should be put before the Development Committee for the Hamburg meeting; the Development Committee should simply be told that the Bank had extracted carefully from the Report the recommendations relating to the Bank and was in the process of preparing studies in preparation for the October Development Committee meeting.
- Mr. McNamara said that, in his view, the most important recommendation for the Bank was the Brandt Commission's proposed change in the gearing ratio. In view of the dramatically increasing current account deficits of oil-importing LDCs and the uncertainty surrounding the financing of these deficits, he would propose publicizing that recommendation and embarking on a three-phase program for the Bank:
- (i) Under phase one, the Bank would over the next 3-6 months seek acceptance and establish the policy of structural adjustment lending. The Bank would organize for this new activity but would not plan on incrementing its five-year lending program.
- (ii) Phase two would lead to incremental lending for structural adjustment in FY81 possibly at a level of \$1 to \$2 billion. These increments would be accommodated within the conventional structure of Bank finance but with a change of its gearing ratio. If such a change were not approved, the next capital increase would have to take place sooner than presently envisaged. The investment banks would not like consideration of a change in the gearing ratio because they consisted mainly of sales people who would argue that they had no assurance that the Bank would not move later from a 2:1 ratio to a 10:1 ratio. This second phase would cover the period 6-18 months from now.
- (iii) Finally, phase three would cover a period approximately 18-36 months from now and would move the Bank into unconventional financing, e.g., establishing a new subsidiary for energy financing and borrowing with SDR linkage. This third phase would come only if the activities under phase two proved to be inadequate.



Phase three should also include major efforts to obtain larger OPEC participation in the Bank; e.g., an energy subsidiary could be funded out of, say, \$300 million per annum of IBRD income transfers, and \$600 million per year of OPEC funds.

He had discussed this strategy recently with Mr. de Larosiere who agreed that there would be serious problems in financing LDC deficits and that the Bank and the Fund should work more closely together in the field of structural adjustment lending, e.g., through joint missions. Mr. de Larosiere had even argued that, if the Bank moved into structural adjustment lending, the Fund might not have to ask countries for as much "belt-tightening" as in the past.

Mr. Damry said that changes in the Bank's financial structure, to take place under phase two, would require 80% of the votes and would therefore take much longer to achieve than outlined by Mr. McNamara.

In response to a question, Mr. McNamara said that it was now the majority view in the U.S. Administration that it would help in getting the IBRD General Capital Increase legislation through Congress if the argument could be used that this would be the last capital increase because of the intended change in the gearing ratio. Management should tell the Board that the other issues relating to the future of the Bank should be seen against this program of helping financing of LDC current account deficits through a change in the gearing ratio. For example, the IBRD liquidity and income issues should be seen in that light.

Mr. Haq said that Mr. McNamara's three-phase program lacked initiatives on the IDA side in order to obtain badly needed increases in concessional flows. Mr. McNamara replied that the only answer now available was to shift certain countries out of IDA in order to set free larger IDA amounts for the poorest countries. Mr. Husain agreed that IDA lending could be shifted more towards Africa in the future.

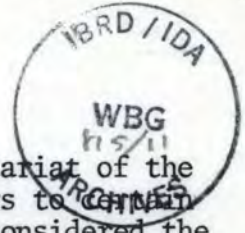
As to the Brandt Commission Report, Mr. Chenery recommended not challenging the Report's analyses but rather making good use of its recommendations. Mr. McNamara agreed. In Mr. Chenery's view, the Brandt Commission Report was weak on its data, but some recommendations were well presented. Mr. McNamara agreed that the Report was a "net-plus" for development. But it was sad that the Report was poorly presented so that few would read it and it would not have much leverage.

Mr. Clark argued that the Report changed perceptions; in particular, it increased the sense of LDC responsibility. The Report would help the Bank in the Third World and criticism of the Bank was actually helpful. Mr. Haq argued that the Report would have a greater influence than the Pearson Report had 10 years ago. Mr. Husain said that the Bank should simply seize on those recommendations of the Report which were useful for its purposes. Mr. Gabriel commented that Willy Brandt's introduction to the Report was good, setting the right frame of mind.

Mr. McNamara then commented on the specific recommendations relating to the Bank which should be covered by the Bank's work program.

815/11/28

Meeting on Brandt Commission, September 17, 1979



Present: Messrs. McNamara, Fritz Fischer, William Clark

Mr. Fischer made the following points: (a) the Secretariat of the Brandt Commission was presently sending some first-draft chapters to individuals for comment, but these drafts could by no means be considered the final product; (b) although the concept of establishing a World Development Fund had found considerable support among the Commissioners, e.g., Messrs. Ramphal and Ted Heath, he did expect the final reports rather to talk more generally about the additional financing needs of LDCs and not to focus on the issue of a new financial institution; Mr. Brandt himself had commented that he did not see how the OECD nations would agree to financing of a new institution in which they would have less say; (c) the issue of armaments would not be made the number one theme; and (d) it had been suggested that a limited summit meeting of, say, 25 heads of state from the North and the South should be organized under the umbrella of the UN in order to discuss informally, without a communique and press coverage, the 5-6 main items of the report and the policy priorities emanating from the report, and then to have these heads of state act as "multipliers." Only after such a meeting should a general UN debate on the report be initiated.

Mr. McNamara said that he considered the proposal for an informal summit meeting on the report to be an excellent idea. As to the question of a new financial institution, he urged that the existing institutions not be spared but also not destroyed. In the present difficult environment, it would be a serious mistake to weaken existing institutions.

Mr. Fischer argued that a new institution was possibly required in the energy field. Mr. McNamara agreed. Further, Mr. Fischer mentioned that it had been suggested that the IDA replenishment period be extended because three years was too short, and that IDA be separated from the Bank because it was not a "bank." Mr. McNamara said that separating IDA from IBRD would be a mistake. It was important to emphasize that IDA was not a welfare institution but rather a hard-headed investment agency.

In conclusion, Mr. McNamara said that the way Willy Brandt had been able to organize and conduct the deliberations of the Brandt Commission constituted a magnificent political achievement.

CKW
September 27, 1979

687

815/11/26

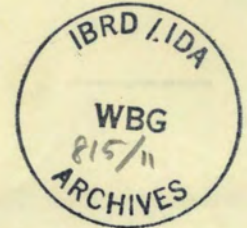


From: The Rt. Hon. Edward Heath, M.B.E., M.P.

HOUSE OF COMMONS

17 July 1979

Dear Bob.



I was sorry that neither of us had the time to meet in Washington last Friday but I was very glad to have the opportunity of a few minutes' talk with you on the telephone. I know that Kay Graham is keeping you well briefed on the activities of the Brandt Commission but I felt it might have been useful for us to have a further word about the shape of the final report.

7/30

It was good of you to undertake to come over to Europe if we get into really serious difficulties. I hope this will not be the case but I shall not hesitate to send you a message if we require your help.

All good wishes for your present trip.

Edward Heath

Mr Robert McNamara

RECEIVED
JUL 30 1979

802/11/158

From: The Rt Hon. Edward Heath, M.B.E., M.P.



HOUSE OF COMMONS

17 July 1979



Handwritten signature/initials

I was sorry that neither of us had the time to meet in Washington last Friday but I was very glad to have the opportunity of a few minutes' talk with you on the telephone. I know that Ray Graham is keeping you well briefed on the activities of the Grand Commission but I felt it might have been useful for us to have a further word about the shape of the final report.

It was good of you to undertake to come over to Europe if we got into really serious difficulties. I hope this will not be the case but I shall not hesitate to send you a message if we require your help.

All good wishes for your present trip.

Handwritten signature/initials

Mr Robert M... INCOMING MAIL UNIT

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OFFICE MEMORANDUM

815/11/25

TO: Mr. Robert S. McNamara
FROM: William Clark *WPC*
SUBJECT: Your conversation with Peterson and Botero

DATE: June 25, 1979

From all my conversations about the Brandt report I gather that the core is to be written by Brandt himself (with assists from Bob Cassen, Anthony Sampson and Fritz Fischer). It will be quite short (say 20,000 words) and its outline is likely to be discussed at the Vienna meeting in early July.



The essential points are:

1. The theme of interdependence; the task of raising living standards in the Third World cannot be shirked in the rest of the century by the industrialised world, including the Communist world.
2. The task is vast and urgent and can only be carried out in the last two decades of this century by a new sort of total global effort. There will be a description of what this effort must be including a world tax, a World Development Fund, and a world allocation authority. A lot of the argument is still about how this authority should operate; should it be a wholesaler or retailer of funds, should it vote by shares of contribution, by sovereign states or by some mixture.

At last hearing the proposal was that the world authority should vote more or less on U.N. lines, but it should allocate funds through existing institutions such as IBRD, IMF, IDB etc. But there is strong support for giving large program loans to needy countries outside the existing institutions. There is similar pressure to ease the terms and conditions of IBRD and IMF loans - briefly to put much more power in the hands of the borrowers, including more power to Part II countries in our Boards.

I would suggest that you explain to Peterson and Botero the need to avoid making the Bank like UNDP where allocation is by the borrowers, who are not always the best judges of what their priorities are. We probably must accept that the Part II countries will get a larger voice in the World Development Fund, but it is essential to ensure that the funds made available are allocated primarily with economic development in view, rather than political balance.

I think that we have two things to fear: (i) being pushed into "political" allocations of our Funds in the name of Third World rights; (ii) being by-passed, through other agencies allocating funds on a far looser basis (program loans etc.) which would destroy our leverage. Is either course in the interest of World Development or the Third World? (Peterson should be easy to persuade, I suspect Rodrigo, with 17 metre rails in his mind and a firm belief that the Part I countries owe 0.7% of G.N.P., will be harder).

But the dilemma Brandt faces is how to meet the very widespread demand for a massive increase in the flow of resources to LDCs, without massively increasing the size and power of the IBRD, which the balance of opinion on the Commission feels ought not to grow faster than it is growing, even though most agree that it is by far the most efficient agency for development.

I hope you can find out if this diagnosis is roughly correct, and then consider how best to protect our efficiency, and retain our primacy as a pioneer. I doubt whether we can hope to avoid many proposals for alternative flows of resources - but you could stress that the success of the Brandt Commission will be judged by the practicality and possibility of implementation of its proposals. Proposals that please the Third World's political leaders, but are not economically sound or have no chance of being adopted will leave the situation far worse. But (a last warning) we should avoid saying "that has no chance in the U.S. Congress" - we should ask will it get through U.K. Parliament, German Bundestag etc. so that the U.S. may be pressured into following.

WDC:ark:sf

815 / 11 / 24



Stress
mutual interest

Dangers of Protectionism
Attack on poverty

In 1988 goal ~~to~~ ^{to} ~~will~~ ^{will} ~~negotiate~~ ^{negotiate} with DC's
International foundation for EPC negs with DC's

Negotiating forum

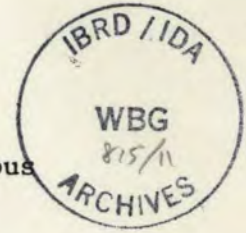
to make progress to ~~reach~~ ^{reach} parity (7 points) in ^{interdependence}
need for global approach + global ^{in some instances}
global ^{best}

OFFICE MEMORANDUM

815 / 11/23

TO: Files

DATE: March 12, 1979

FROM: William Clark *W.C.*SUBJECT: Note of Conversation between R.S. McNamara
and Willy Brandt in Bonn, March 7, 1979

Willy Brandt, who appeared in good but slightly less vigorous health, greeted R. McNamara warmly and there followed 90 minutes of extremely good humoured exchange of views.

Willy Brandt began by saying that the Commission had quarrelled in Kuala Lumpur but had been more friendly and positive in Switzerland. He had raised the question of disarmament because he believed that a reduction in arms was a moral necessity if man was to survive. He recalled that RSM had spoken on the same theme in Montreal in 1966.

RSM agreed that even if the money saved were wasted there should be less expenditure on arms; it was a double benefit if the savings by rich and poor countries were spent on development.

W.B. picked up the point that there would be savings by LDCs and emphasised the importance of that for peace "probably the safest place for arms is Europe, and the least safe Africa or Asia".

W.B. said that the non-economic sides of development were of particular interest to him, but he found the Secretariat too economist minded. They had said they could not consider population, he felt his Commission could not fail to consider population; he intended to do so with help from Bob Cassen. He found the Third World rather cowardly about population repeating the Bucharest formula that nothing could be done till they had been helped to raise their standards of living. W.B. had talked with Mahler of WHO about this and he was going to provide a paper (possibly a chapter in the final report) on health in relation to development. Also about women and the family structure in relation to development.

RSM assured W.B. that he thought it was quite realistic to imagine that programs started in early 1980s would have a major impact on development by end of century. The Bank had decided to invest in health, but in preventive rather than curative and along far less sophisticated lines than modern western hospital medicine.

W.B. described his timetable and plans for the Report. It would consist of a foreword by himself which he alone would sign, then more detailed recommendations probably signed by the whole Commission. There would be something like 18-20 recommendations of a fairly broad nature. This volume would be short, some 150-200 pages and he would be helped in drafting it, by Antony Sampson whom he already found very sympathetic and useful. There would be a further volume - probably later -

containing secretariat papers intended for experts.

The first volume would begin to be drafted between now and the May meeting. It would be brought forward officially at the July (Vienna) meeting and redrafted in the light of that meeting. It would be finally discussed at the October meeting; signed and dated about January 1st, 1980; presented to Secretary-General Waldheim about January 10, and published in the main languages from Zurich almost simultaneously. Members of the Commission would personally take it to Heads of Governments with whom they were personally acquainted and try to "sell it" to those countries. One climax to all this would be the Special General Assembly of May (?) 1980.

RSM welcomed this program and said that he agreed with W.B.'s comment that essential to any selling job was the moral basis for action. Both agreed in a friendly exchange that the moral basis must be fundamental and one must build on that a sense of cooperation in a mutual interest.

W.B. mentioned that he had been very impressed by the revival of moral interest e.g. the German churches' proclamation about Unctad; the World Council of Churches' emphasis on this for Protestants, Pope Paul's emphasis for Catholics, the reception of Pope John Paul II in Mexico - a developing country; even the moral/religious basis of the revolution in Iran.

W.B. said the Report would rest on three legs: Survival, Justice, Jobs. Olof Palme had suggested that Jobs be put first; Ramphal had said no put Justice (and so moral basis) first because that could be sold to LDCs and the U.S.

On the financial and monetary aspects W.B. said that he leaned strongly to some form of automatic transfer of resources from North to South, but he hesitated to use the word Tax.

RSM said he favoured the report using the word tax; it was what the world would be coming to by year 2000 anyway. W.B. said could it be a tax on trade without discouraging trade? In any case it was agreed the 0.7% of G.N.P. was a sort of tax, it should be so labelled and greater efforts made to meet the target. W.B. said he was considering a 'tax' on all - rich and poor - which would produce funds redistributed towards the poor. R.S.M. favoured this idea.

On Bretton Woods institutions W.B. said there was a good deal of hostility shown to the I.M.F., which had not emerged at the New York Meeting attended by de Larosiere. Both Part I and Part II countries were critical of its failure to take proper account of development needs. RSM said that the Fund was not unimprovable, in general it was a guardian of financial common sense, and in so far as it was failing

it should be changed and strengthened.

W.B. said the Bank was generally praised - though not in Drag Avramovic's paper. But there was a feeling that there were certain gaps in the transfer of resources, e.g. program loans, medium term funds, debt restructuring etc. And there was the feeling that Bretton Woods institutions were founded before the Third World had emerged, and were basically Anglo-American, and how could they be expected to meet the current needs of LDCs? W.B. said that in the choice between creating a new institution and reforming the present ones, the Commission was oddly divided; for instance, Palme and Yaker were for reform, Heath was for a new institution (preferably in Europe, most preferably in London!). In any case Peterson and Botero and perhaps one or two other Commissioners would come to Washington on March 26 to examine this problem and report back to the May meeting.

RSM responded by saying that the real need was for more finance and better terms for the LDCs. To create a new institution to do this would take a very long time and would detract from the support and effectiveness of existing institutions - which were under strain in getting support from the OECD countries at this moment. It would be far better to argue toughly for such reform as would largely satisfy the LDCs but could be accepted by the OECD countries. If this was not acceptable to Bank or Fund or the major shareholders then a new institution might be justified, though if it could not command the support of the OECD powers nor the confidence of the private financial markets it might be a dead duck.

W.B. said that one objection raised to the Bank was that it was too big and too centralised. RSM responded by pointing to the importance of a critical mass which could really do the job of research and monitoring effectively for the Third World and indeed for the global economy. There was not enough work done on the crucial issue of mutual interest, for instance on commodity prices. The South was very concerned by this lack of a firm basis for cooperation.

W.B. "The South is concerned and suspicious". It suspects that both Basic Needs and Mutual Interest are plots to deprive them of their due by the North.

RSM. There is not enough examination of international economics, too much emphasis on purely national problems. How national policies affect the global economy, e.g. national effects on international inflation, the U.S.\$ overhang etc. need examination. Probably the Third World does need a Secretariat of its own, but it should not be used just for confrontation with OECD.

W.B. said there was need for much more research on energy - where is coal or solar power not being used fully? How much energy has mankind to spare? RSM mentioned the Board discussion on our energy paper.

The Soviet East. W.B. spoke confidentially of his contacts with the Soviet and China. Breznev is a very sick man really run by a group of aides; he does feel that arms expenditure is a waste, the money should be used better. The experts he told to meet Ohlin and Egon Bahr showed some interest in trade; so especially did the Poles and Hungarians.

The Report will try, without polemics, to move the Russians and Chinese forward (W.B. will show it to Russians and Chinese before publication). It will try to show that the industrial world is not just the North-West but includes the Soviet and Eastern Europe.

Both then discussed East-West relations and Salt II. It was agreed that the failure of Salt II, if negotiated, to be ratified would be a great disaster.

WDClark:sf

195

315 To Mr. Stern
in dupl.

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ONE WILLIAM STREET
NEW YORK, N. Y. 10004

Law

815/11/22

PETER G. PETERSON
CHAIRMAN OF THE BOARD

February 27, 1979

The Honorable
Robert S. McNamara
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433



3/5

Dear Bob:

Governor Jha wanted you to have this.

He drafted it for our most recent
Brandt Commission meeting.

Sincerely,

Handwritten notes:
Mr. Tolson
J. Edgar
8/2/1979

ONE WILLIAM STREET
NEW YORK, N. Y. 10004

PETER O. PETERSON
CHAIRMAN OF THE BOARD

February 27, 1979



The Honorable
Robert G. McNamara
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Bob:

Governor Jha wanted you to have this.
He drafted it for our most recent
Board Commission meeting.

Sincerely,

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Functioning of the World Bank
by
L.K. Jha
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*Dear Bob Kulkarni
Governor - He wanted Jha
to have this.
He drafted it for our
most recent Board
Cairo meeting.*

This note is confined to the functioning of the Bank and is based on my own experience in dealing with the Bank in the sixties as well as more recent discussions with the President and some senior executives of the Bank. It was written a couple of months ago before the Secretariat Papers on Monetary and Financial Issues had been circulated. The reforms suggested on this note are not an alternative to the proposals made by the Secretariat but should, I feel, be considered as supplementary measures.

Lord Keynes is credited with the remark that the Bretton Woods twins had been wrongly named. It is the IMF which should have been called a Bank and the IBRD which should have been called a Fund! My point is that the World Bank has to function not just as a Bank but as an agency for promoting development. "No bad debts" may do credit to the former but indicate undue conservatism in the latter.

Overall the Bank has been moving in the right direction - particularly in recent years when it has had some one without a banking background to preside over its affairs - involving itself in much more than the financing of viable projects and becoming a forum for initiatives in regard to a wide range of development issues.

If this is to be - and I feel it should be - its true role, some internal reorganisation and changes in its traditions and practices are called for. The bureaucracy of the Bank exercises considerable influence on the policies and priorities of developing countries. The pull it exerts is not always healthy.

Bank teams visiting borrowing countries set very high standards for the projects they finance. Dealing with such teams and complying with their specifications strain the administrative resources of developing countries sometimes resulting in the neglect of other projects. Often the project stands in strange contrast to those which the country finances out of its own resources. Policy commitments, sometimes confined to the project and sometimes pertaining to the whole economy, obtained as a condition for approval to the loan give rise to various other problems, including political ones. The bureaucracy of the Bank can indulge in arm twisting which, however well intentioned, often has many undesirable side effects.

This state of affairs has come about because of the inadequacy of overall supervision and guidance. The Annual Meeting of Governors is more a ceremonial occasion than a policy formulating forum. The Executive Directors with their weighted voting tend to reflect the interests and views of the governments they represent.

Their importance has been on the decline. The Board does not become a think-tank on development. In effect too much has tended to revolve on the President and Vice Presidents in steering the policies of the Bank.

There has been a tradition that the World Bank must have an American as a President, while the I.M.F. should have a European Managing Director. Even, at the Vice President's level developed country presence (including American) has always been strong. While developed country involvement in the top management cannot be dismissed as undesirable or unnecessary, developing country participation on a near-equal basis is also essential. The solution I would propose is that in addition to the President, there should be an Executive Vice President enjoying almost equal powers. One of them should be from a developing country and the other from a developed country, each chosen solely on the criterion of being the best available person without regard to his nationality.

In the recent past a high level Development Committee has been set up. It is a step in the right direction. But the Committee has not yet become as effective as it should be. The Development Committee should be made the forum for decision-making, the distinction between the Board of Directors and the Development Committee being that the former should deal with loan applications while the latter should be concerned with the overall policies

of the Bank. The system of weighted voting should not have any relevance in the Development Committee.

The Development Committee should have direct contact with and be serviced by the secretariats of the Bank and the Fund, following the pattern of the Interim Committee of the I.M.F. Its having a separate secretariat of its own has given rise to some unhealthy trends.

The Bank has been reluctant to finance local currency expenditure on projects. As it is not an export-import bank but a development bank its role must be to meet capital shortage and not merely foreign exchange shortage. The Bank could certainly ask the borrowing country to provide a reasonable proportion of the capital needed for the project. But it should not limit the Bank's contribution to the value of imports. Bank lending should not create a bias for imports against indigenous suppliers.

The Bank should be more ready to finance programmes as distinct from projects. With the growing recognition that development is a process which entails much more than a number of impressive projects being set up, programme lending should receive greater emphasis in the future.

The Bank should promote economic cooperation among developing countries. Its policy of relying almost exclusively on consultants from developed countries results in the specifications and technology for Bank financed

projects being oriented towards supplies from developed countries. Exports follow the experts. There is a great deal of technical expertise available within the Third World now. The Bank should adopt policies to secure greater involvement of consultants and experts from developing countries. They are likely to have better knowledge of working conditions in developing countries and to introduce the kind of technology which would be more "appropriate" for other developing countries.

In selling capital goods to one another developing countries are handicapped because they are unable to offer the kind of long term credit which developed countries do. One solution to the problem would be to set up an Export-Import Bank as Mr. Al-Hamad has proposed. As an alternative the World Bank itself could extend its activities in this field, which would have the advantage of a quicker start and lower overheads.

What is referred to as a "third window" should become a regular feature of the leading operations of the Bank family, so that instead of only IDA's soft loans and Bank's normal loans an in-between category comes into being. The Bank will then have to requisite flexibility in providing loans on appropriate terms having regard to the nature of the project and the plight of the borrowing country.

On issues pertaining to economic policy and development strategy the Bank should have a high level exchange with the countries concerned but these are not areas into which Bank teams negotiating loans for individual projects should enter.

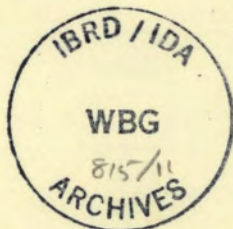
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From: The Rt. Hon. Edward Heath, M.B.E., M.P.

815/11/21



HOUSE OF COMMONS

27 February 1979



Dear Bob,

I am writing to thank you for kindly coming to see me at The Madison when I was in Washington last week.

2/5
I found our talk most useful and I greatly enjoyed it.

I will be telephoning you after the next Brandt Commission meeting to let you know what happens.

Best wishes

Edward Heath

Mr Robert McNamara

From: The Rt. Hon. Edward Heath, M.P.



HOUSE OF COMMONS

February 1979



Handwritten signature

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Handwritten signature

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1979 MAR -5 PM 4: 08

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Mr Robert M... ..

The World Bank

815/19/20

February 13, 1979

Messrs. McNamara ✓
Cargill
Stern



2/13
Please find attached the Branch Commission Secretariat Paper I informed you about some time ago. Mr. Ohlin sent me this paper with great reluctance. Any reaction from us needs to take account of the fact that they were not supposed to send this paper to us before the meeting of the Commission (February 23 - 26).

I will send you other papers prepared for the same meeting when they are copied.

A. Karaosmanoglu

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Attachment