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McNamara papers

Memos for the record
1975 (Jul. - Dec.)

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Memoranda for the Record - Memoranda 13

Third Meeting to Discuss Future Work on Development, December 22, 1976

Present: Messrs. McNamara, Chenery, Clark, Haq

The discussion was focussed on Attachment 1 to Mr. Chenery's memorandum of December 13, 1976, on the DPS policy work program for CY1977. The following comments were made on the 13 papers listed in the attachment:

1. Liberalization of Trade in Agricultural Commodities and Processed Products. Mr. Haq said that there would be no difficulty in preparing this paper by March 1977. Mr. McNamara said that for all papers specific dates of completion should be given.
2. Liberalization of Trade in Industrial Products. This paper would be much more difficult. Mr. McNamara said that he believed that a paper could be prepared by the end of March 1977 if only those products which accounted for, say, 60% of LDC industrial exports were included. For those products, however, the analysis should be specific, showing by product which trade constraints had to be changed, by how much and with benefit to whom.
3. ICP and Common Fund. It should discuss the impact and the distribution of costs and benefits among the parties.
4. Basic Issues for Improvement in the International Trade Framework. The paper should be finished no later than by the end of May 1977.
5. Review of Global Targets. The paper should be prepared in close coordination with Mr. Clark.
6. Updated Summary of Prospects. This paper should not be prepared separate from the prospects paper.
7. Prospects Paper. Mr. McNamara said that the timing for this paper was poor, since the main "markets" for the paper was the Development Committee and the Governors' meeting. He suggested that the prospects paper should be prepared annually on a regular basis and that we should have an annual "draw-off date" in time for the major audiences. The Regions should be consulted before the major draw-off date. However, it should be possible throughout the year to draw off the prospects conclusions without consultation with the Regions. A format should be prepared for the annual major draw off in an understandable and readable form directed at the public. By the public Mr. McNamara understood the Bank staff, the Ministers of Finance, as well as the public at large.
8. External Debt. Should be prepared by the end of January 1977.
9. ODA Flows. Mr. Stern said that the Development Committee staff would prepare a paper on this subject, based on materials supplied by DAC. Mr. McNamara said that such a paper would probably not be satisfactory and that the Bank should prepare its version by June 1, 1977.
10. Basic Needs Issue Paper. Mr. McNamara said that he found the whole complex of papers on strategies for the developing countries very important and interesting, but again he stressed the importance of having the work ready in time for the major audiences, namely, the Brandt Commission, the ACC, the Governors' meeting, and the Development Committee. Mr. Chenery suggested that the work might be undertaken in two steps, with policy papers ready by June 1977 to be followed by more detailed analytical work.

11 & 12. Basic Needs. No comments, except for timing.

13. Adjustment Assistance for Structural Change. Mr. Stern did not find this paper very useful. It was decided to discuss the matter again during the first week in January 1977.

14. Progress on Development. This paper was added to the list. Mr. McNamara said that he hoped the Bank some day could publish the authoritative report on development, including both progress and prospects. Progress was particularly important since so many donors were disappointed with what they considered to be the lack of results from development assistance.

15. It was decided that Messrs. Chenery and Haq would revise Attachment Int 1 for further discussion during the first week of January 1977.

SB
December 23, 1976

Fifth Meeting on the "Role of the Bank" Study, December 22, 1976

Present: Messrs. McNamara, Knapp, Stern, Chenery, Cargill, Goodman, Adler, Wood

Mr. McNamara asked Mr. Wood to prepare a time schedule for the capital increase introducing the new financial assumptions and an optimal legislative schedule which could be supported within an appropriate definition of "disruptive" and which would still lead to a satisfactory lending program for IBRD. The schedule should be prepared during the first week of January 1977 and circulated to the group for a subsequent meeting. It might be possible to defer the Board decision on a capital increase for one or two years, particularly if a selective capital increase could take place along with the forthcoming increase in IMF quotas.

The following technical notes were discussed:

1. Private Bank Lending: Demand and Supply Factors, and Relationship of Official and Private Finance for Middle-Income Borrowers--Mr. Knapp said that it was encouraging to see the continuity in commercial bank lending which belied its short-term nature. However, because of the apparent short-term nature of the commercial bank lending, the debt-service ratios painted a false picture of the debt situation in borrowing countries. We should pay more attention to the interest burden or calculate the debt-service ratios as if the lending were in fact long-term. Mr. Stern disagreed with this latter point, since this assumed automatic roll-over and this would be a dubious assumption if things were not going well. Mr. Knapp said that the relationship between IBRD and the commercial banks was increasingly important for the latter. We should consider exchanging more information with the banks. Mr. McNamara agreed and said that, while we might supply information on the economic situation in borrowing countries to the commercial banks, they should be willing to give us figures to expand our debt-reporting system. He asked Mr. Goodman to include an expansion of the debt-reporting system on the work program for the Vice President Finance. Mr. Knapp suggested that, after consultative group meetings, it might be appropriate for governments to meet with the commercial banks. Mr. McNamara said that this could only be done in cases where the Bank could truly perform the role of the honest broker. It was agreed that Mr. Wood would include something about the expanding relationship between the World Bank and the commercial banks in the Board paper. Mr. Knapp felt that the notes suggested that public finance might be used in certain cases to bail out the commercial banks. Mr. Wood said that the argument was that World Bank involvement could lead to remedial actions by the borrowing country in cases where creditworthiness was declining. Mr. Knapp also asked whether the Regions had been consulted on the country analysis. Mr. Wood said that they had not in any systematic way. Mr. McNamara said that we should not spend time on this now, particularly since the Regional Vice Presidents would get the draft of the Board paper for comments. Mr. Chenery said that there was not much difference between the estimates in the notes and the prospects paper. Mr. McNamara felt that there were still some figures which he found difficult to reconcile and he asked Mr. Wood to reconcile the figures in the table on page 2 of the note on Demand Factors for Private Bank Lending with page 17 of the Manila Speech. Mr. Goodman said that we had still not systematically surveyed the UK, Japanese and German commercial banks and this might affect our conclusions. Mr. Wood said that such a survey would be undertaken next year. Mr. McNamara referred to Mr. Solomon's article in the December 21 issue of the Washington Post. He said that the central lesson of that article, namely that one should not focus attention exclusively on

the debtors' ability to repay without equal attention to the ability of creditors to receive repayment should be included in the Board paper.

2. Use of the Bank's Guarantee--There were no comments on this Technical Note.

SB
December 23, 1976

Fourth Meeting on the "Role of the Bank" Study, December 17, 1976

Present: Messrs. McNamara, Knapp, Broches, Chenery, Stern, Goodman, Rotberg, Adler, Wood

The following papers were discussed:

1. Voting Rights--Mr. McNamara asked Mr. Broches to list the possible actions to increase LDC votes in the Bank, including actions which would require a change in the Articles of Agreement. Decisions of the Board should be categorized according to those which were influenced by votes and those which were not. He asked Mr. Broches to chair a committee consisting of Messrs. Broches, Nurick, Adler, Damry and Benjenk to study the possible actions. The committee should finish its work in time for the Board paper on the Role of the Bank. Mr. McNamara stressed that the Bank could not escape the political atmosphere which had been created through the new international economic order. Mr. Stern agreed but said that we should not consider the Bank in "north-south" terms. There was much more fluidity in voting blocs in the Bank than in other fora.
2. Absorptive Capacity for IBRD Obligations--Mr. Chenery said that this was much more a political than an economic problem. Mr. Rotberg said that the problem in the U.S. market was our image as a "social service organization." This view was held by many potential investors and could make it difficult for us to increase or keep our share of the market. Mr. Goodman said that the OPEC market should be further discussed. Mr. McNamara said that we should not dig too deeply into this subject but we should include a statement to the effect that we were getting money from OPEC indirectly through intermediaries. Mr. Goodman did not feel we could do much more in central bank issues. Messrs. McNamara and Adler disagreed and Mr. McNamara said that the paper should refer to the possibility and desirability of more central bank issues. Mr. Stern agreed with the central conclusion of the paper, namely that availability of funds is not likely to be a binding constraint on IBRD growth. There was some discussion of the puzzling lack of long-term money in the German and Japanese markets. This was difficult to explain but factors, such as government intervention and traditional institutions were of influence.
3. Access to Capital Markets--Mr. Knapp said that our access to the U.S. market would become a political issue when we attempted to raise more than, say, 50% of our funds in the U.S. market. The argument would be that we were tapping resources which could otherwise be used for domestic purposes. Mr. Stern recognized that this argument would be used but said that it was false, since funds would flow into the U.S. market when interest rates started to rise on account of increased borrowing. Mr. McNamara said that this should be explained in the paper. Mr. Chenery said that the U.S., through its capital market, could function as an intermediary or even a central bank for the world. Mr. McNamara said that this point should also be included in the paper.
4. Optimum Maturities of IBRD Borrowing--Mr. McNamara said that he found the note interesting but that it did not lead to any conclusion for our maturity policy. Mr. Wood said that the conclusion was negative, namely that we should not attempt to achieve specific maturities in our borrowing program, since this was not of major importance. Mr. Knapp said that we had less roll-over risk than most borrowers and that we therefore should go short in our borrowing. Mr. McNamara emphasized that, when we were talking about short borrowing, we should think only in terms of, say, five-year average maturities instead of ten. It was agreed that the maturity subject should not be discussed in the Board paper but that we should stand ready to answer questions from EDs on the subject.

792/2/218

Informal Meeting with EDs at 3.00 p.m. in Mr. McNamara's
Conference Room

December 14, 1976

List of Attendants attached.

Subject: Chile-type problems

RSMN: Bank faced with a very serious problem; press and manifestations weaken the Bank; relationship between developing and developed countries deteriorating; IDA Replenishment and general capital increase are at stake.

In what manner the Bank should deal with "Chile-type" problems is not seeking a decision but advice:

- 1) should we start developing new standards on "non-economic" grounds to reduce controversies;
- 2) should we start to react to Press by stating the Bank's position;
- 3) should we take active actions with governments (i.e. lobbying).

Franco: most unfortunate to have a meeting of this sort. 1) no change but follow the Articles of Agreement.

Drake: good to have an informal meeting not only on the issues of "Chile-type". There are not too many Chile-type problems. 1) stick to our present standards; 2) no action with the Press; 3) no action with governments.

-- may be desirable to have off the record briefings to particular groups of important journalists by Directors, attended and assisted by staff. Such briefings are useful particularly if line has to be drawn between political and economic factors.

4) avoid formal votes; alien to this institution.

Janssen: 1) Articles of Agreement are sufficient; Board should not start to define standards of "human rights". Creditworthiness should be the main criteria; maintain the Bank as a non-political institution. 2) No uniform statement will have the same effect in all countries; his office already conducts private public relations - no action press campaign.

Popovic: 1) principal guideline, economic grounds, in the Articles of Agreement. Bank is not the body to judge political factors; it is up to the UN; Bank may consider UN's position. 2) in favor of attempt to explain to Press Bank's unique position. 4) Board should not be asked to vote on other than on economic grounds.

12/14

Magnussen: we are deeply into the political scene; income distribution. Scandinavians tried to stay on economic view, but government enters into political view.

Razafindrabe: shares Popovic's view. 1) economic grounds only; Bank makes loans to countries and people not to regimes; regimes change but countries and people remain and people receive the benefits.

de Groote: 1) the question is what is ideally feasible and what is possible; his 3 out of 4 countries are influenced heavily on non-economic factors; difficult and dangerous to base our criteria on Articles of Agreement alone. Last Chile discussion was a warning to postpone such loans; should not elaborate on non-economic factors but political factors must be kept in mind. Therefore, may be helpful to delay loans to Chile until public opinion is more favorable; for instance, two Belgium labor unions opposed loans to Chile. 2) Press briefing should be done by specialist but individual EDs could help. 4) votes should be taken in the Board.

Thahane: welcomes more informal meetings on any subjects pertinent to the Bank's future. 1) follow Articles of Agreement; economic grounds only; 2) review of Bank's public information system needed; routine Press release is not an answer. Countries suffer from lack of adequate briefing; staff and EDs should take more active role in this area. 4) formal voting is dangerous; would undermine the Bank and developing countries.

Reynolds: (personal view) welcomes more frequent informal meetings. 1) the Bank charter, Articles of Agreement on economic and financial grounds are certainly not meaningless; Management and the Board should continue to try to live up to this obligation; compromise should be avoided for political and sensitivity reasons. 2) some useful facts ought to be brought to the public. 3) some action with the US Congress may be a good idea; when Congress discusses the Bank selective capital increase amendment (IADB) imposing condition on loans will be certainly taken up.

El-Naggar: 1) three issues - (a) principal - Articles of Agreement: should judge projects on merit grounds and not the regime. Political aspects should only come into consideration when it has a direct impact on the projects; (b) practice and reality: the records of the Bank are not consistent in the case of Egypt at an early stage; (c) image: the importance is what the Bank does and not what the Bank says, i.e. if a project is not brought to the Board because of a political reason, the Bank's image is at stake.

RSMN: no case where project was withheld or not brought on political grounds.

Pesqueira: shares Popovic's view in general. 1) economic grounds should be the overriding factor while political issues should remain as individual countries or EDs opinion; Bank not a political forum like UN. 2) less publicity is advisable.

Rota: the question of the image of the Bank outside is the main issue. 2) more information on what the Bank does may be needed; the real understanding of the Bank must come from outside. 4) does not favor formal voting.

In favor of more informal meetings through which information on the projects not presented to the Board could be discussed.

Deare: 3) in an ideal world this problem would not exist but it exists. The question of "civil rights" is a serious feeling in the UK Parliament. There is a certain lack of perception of the Bank, i.e. Bank's standards, the problem of Chile. Therefore, some sort of lobbying may be useful in his country particularly to educate people at the high political seats. 4) country's position should be clearly recorded in some form but not necessarily through formal votes.

RSMN: IBRD in past action in Chile - unfortunately linked with the CIA activities to overthrow Allende.

Magnussen: Allende-IBRD link is believed in Nordic countries and the image of the Bank harmed. The recent demonstrations in Sweden proves that the political reality is there.

Sen: in favor of more informal meetings. 1) principle is clear but if the practice appears to divert from principle, image of the Bank is at stake; timing of the Bank's lending is important; while supported Chile lending in the past, the timing and the country's political situation presented him with problems. Coupling of projects which benefit poor people may be good.

RSMN: Bank has been lending to radical countries, except North Vietnam where the Bank's action is actively progressing.

Matsunaga: (personal view) 1) economic grounds should be the criteria for final decision but political grounds also have implications on economic issues; unsure whether "violation of human rights" is political or economic. 2) Press and demonstrations are increasing and we cannot ignore, but we should not react to Press emotionally. May be public relations should take carefully and conservatively planned action. 4) attempt should be made to reach a consensus without vote with some exceptions.

Wahl: 1) Bretton Woods institutions are technical bodies; economic adequacy is the criteria to be followed but political sensitivity exists, particularly on human rights. 2) avoid publicity by avoiding cause. The present Chile case is too late to avoid and is difficult to cure; should prepare some documents on the consistency of the Bank after cooling down. 4) main objective is to keep the institution operating smoothly and raise needed funds. His main duty is to protect the government and help the government to raise the appropriation even if it violates the principles.

Drake: addressed to Nordic ED - would any of the 3 possibilities help? (a) postponement of project, (b) Bank stick to UNDP projects, (c) coupling of projects.

Magnussen: doubtful; the opinion of the Nordics is that the World Bank did not lend when warranted and is lending now when not warranted.

Deare: none of the suggestions would work for the UK.

RSMN: a) A majority feels no change in standards; the primary condition of the World Bank is for development and creditworthiness. Chile is creditworthy. b) The majority feels more Press action would be useful; governments would not want the World Bank to publicize. c) Assuming a small percentage of our loans were wrong but right on a majority, this record can be used as a background paper. We are penalizing the people of Chile rather than the regime. d) Some lobbying, particularly in UK and US, may be useful.

PRESENT:

Reynolds
de Groot
Drake
El-Naggar
Franco-Holguin
Green
Gutierrez
Matsunaga
Janssen
Thavil Khutrakul
Popovic
Magnussen
Pesqueira
Razafindrabe
Rota
Deare
Sen
Thahane
Wahl

Ms. Han
12/17-76

Third Meeting to Discuss "The Role of the Bank" Study, December 8, 1976

Present: Messrs. McNamara, Knapp, Chenery, Stern, Goodman, Adler, Wood

Mr. McNamara said that we should avoid getting into an argument over numbers in the Board paper on the general capital increase. He felt that a reasonable outline for the paper would be to discuss the internal and external resource mobilization required for adequate growth in the LDCs, showing that the amount required was larger than the amount available. The recent reluctance of commercial banks to increase substantially their lending to LDCs would make the role of IBRD even more important. A reference should be made to the prospects paper which reaches the same conclusion. Some discussion of the influence of the recent changes in OECD growth, LDC exports and the size of official capital flows should be included, leading to the basic conclusion that there was still a clear requirement for continued and substantial flows of resources from IBRD. It was agreed to proceed with the preparation of the Board paper along these lines. Mr. Knapp suggested that some comment should be included on the size of net transfers. Mr. McNamara agreed. Mr. Chenery enquired whether we should still include an illustrative projection of balance of payments deficit for LDCs. Mr. McNamara said that he did not wish to decide that at this moment but he was inclined to use orders of magnitude instead of a single projection. However, he asked Mr. Chenery to revise the tables on pages 11 and 17 of the Address to the Governors in Manila, showing the effect of the recent changes in OECD growth, export outlook and flow of official assistance on capital requirements.

The following technical notes were discussed:

1. Import Efficiency and Export Optimism--no further comments.
2. Impact of Alternative Assumptions Regarding Inflation--Mr. McNamara said that the Board paper should include a table of the disbursement and commitment deflators and of the IBRD lending program as forecast before the increase in inflation in 1973, compared with actual lending levels and present forecast. The paper should include two inflation assumptions: (a) a continued increase of 6% in the disbursement deflator; and (b) a 6% increase until some specific year followed by a return to pre-1973 levels of inflation, say 3%. Mr. Knapp said that the paper should state that we wanted a capital increase to support a real increase in IBRD lending. Overestimating the effects of inflation would only mean that we could postpone the next capital increase. Mr. McNamara agreed.
3. Administrative Implications of the Growth of the Bank--Mr. Stern found this a disappointing paper. The mechanical projections of increases in operations and staff did not address the real concerns of many Board members, such as, the difficulty of administering a larger Bank, the multiplicity of objectives in our lending, the balance between the Regions and CPS, and the growing bureaucratization. Mr. Stern did not support the validity of these notions but they were real concerns and should be dealt with. Mr. McNamara felt that the note was useful but acknowledged that some reference would have to be made to management problems in the Board paper. Personally he felt that expansion would lead to decrease in unit costs and make it possible for us to reach the critical mass for work in the new sectors. The discussion of a general capital increase would not influence the budget for FY78. A plan for lending operations and manpower requirements in FY78 and FY79 was required.

Mr. Wood said that he would have the technical notes on commercial bank lending ready some time next week for discussion.

SB

December 9, 1976

MEMORANDUM FOR THE RECORD

792/2/216

Second Meeting to Discuss Future Work on Development, December 1, 1976

Present: Messrs. McNamara, Chenery, Clark, Stern

The meeting discussed Mr. Chenery's memorandum of November 19, 1976, on Bank leadership in development policy and his agenda for the meeting dated December 1, 1976.

Mr. Stern agreed with Mr. Chenery's view on our influence on donor policies as outlined on page 7 of the memorandum of November 19. He said that donor policies could be influenced through the Development Committee and that we should make use of this forum. With respect to strategies for development, a presentation of what the long-term future looks like in view of the Leontif study, the ILO declaration on basic needs, and other UN declarations showing differences between the view of the declarations and the Bank could be very useful. Appropriate fora for such a presentation could be the Board, the Development Committee or the Annual Meeting. As concerns the international framework, we should stay out of the specifics debated in the CIEC or in relation to the new international economic order. Basic and quite specific work on trade was, however, required.

Mr. Clark agreed with Mr. Stern on the need for a study of the long-term future. Such a study might be passed through the Board to the Development Committee and then to the public. He felt that it was important that we be persuasive in our development work rather than overly analytical.

Mr. Chenery said that it was important to decide what the audience for the work would be. As an illustration he mentioned the prospects paper where large amounts of manpower could have been saved if we had realized the limited absorptive capacity of the Board for economic analysis and had concentrated on the summary which was subsequently sent to the Development Committee instead.

Mr. McNamara said that the first audience for all work on development would be the Bank staff itself. But papers should be written to persuade policy makers rather than strictly for economists. The next audience would be either the Board, the Development Committee or the Annual Meeting. We should ask ourselves what the development community needed to know and then do the work in which we had a comparative advantage. He was impressed and thankful for the diversity of opinion expressed in the memoranda attached to Mr. Chenery's memorandum of November 19, but he said that we should be very careful about the distribution of such papers since outsiders could use them to hurt the Bank. Mr. McNamara disagreed with the view that the Bank obtained its major impact through its project and technical assistance work. Although this work, of course, was essential, it did not influence the population at large in our borrowing countries, nor did it influence donor policies. The development community was influenced by soundly based ideas and it was an essential part of the work of DPS to find such ideas and turn them into strategies for development.

It was agreed that work should proceed in all four areas outlined on page 2 of Mr. Chenery's memorandum of November 19, and that the work should be both "bottom up" and "top down." Mr. Chenery would prepare a work program to this end by Monday, December 13, for discussion by the group on Wednesday, December 15, at an hour to be decided when the revised work program was received.

It was decided that Mr. Chenery would propose the establishment of an advisory panel on development in the research paper scheduled for Board discussion in February 1977.

Finally, Mr. McNamara said that, without attempting to reconcile the inconsistencies within the targets and declarations of the UN system, we should point these inconsistencies out before the ACC meeting in the Spring of 1977, hopefully thereby stimulating the UN system to do things that it was not now doing.

cc: Mr. Chenery
Mr. Clark
Mr. Stern

SB
December 2, 1976

Meeting to Discuss "The Role of the Bank" Study, November 29, 1976

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Stern, Adler, Wood

Mr. McNamara felt that we should get away from being too precise in the Board paper on the general capital increase. Specific details and quantitative consideration of such variables as inflation and lending terms led to astronomical figures for the needed capital increase. A presentation along such lines would make us vulnerable in the Board. Instead we might wish to recommend a range for the capital increase of, say, \$15 billion-\$30 billion, and urge that the Board accept the higher limit. Mr. Knapp generally agreed with this approach. Mr. Stern did not agree with the recommendation for a range for the capital increase. He said there were two political issues, namely, what should be the total capital increase, and that implied one figure and not a range, and what the role of the Bank should be in the future. The more numbers we presented the more debate we would get. Mr. McNamara said we should avoid getting stuck on numbers, specifics and targets.

Mr. McNamara asked Mr. Wood to prepare a note on the effect of varying inflation assumptions on the Bank's capital requirements. He also asked Mr. Wood to review the timetable in paragraph 11 of technical note #21 on the timing of future IBRD capital increases and send copies to all participants.

The following technical notes were discussed:

Allocation of IBRD Commitments to Potential IBRD Borrowers and Review of the 25% Exposure Limit

It was decided that, for his work, Mr. Wood should adopt the present flexible graduation policy which was to lend to countries until they could move into private capital markets and meet their requirements on reasonable terms. The "excess" Bank funds should be allocated to the lower-income countries on the basis of the Regions' estimates of their creditworthiness, to the middle-income countries, allowing some exceptions for the 25% exposure limit, and to the high-income countries assuming that lending to some of them would continue. Mr. McNamara stressed that we still should use the 25% of debt outstanding as the trigger level at which Messrs. McNamara, Knapp and Cargill would have to look into the creditworthiness of the country in question. Mr. McNamara also said that, after the Board paper on the general capital increase had been prepared, he wanted to discuss portfolio analysis and creditworthiness with Messrs. Cargill, Adler and Wood, and he said that this should be placed as an item on the monthly schedule for the Vice President, Finance.

Future Terms of IBRD Lending--Mr. Knapp said it was important to revert to the longer grace period and annuity payments. Maturities were mainly important for psychological reasons. Borrowing countries tended to focus on the annual payments and forgot that their main interest should be the size of the outstanding portfolio with the Bank. Mr. Stern said that we should not underestimate the political reactions in the LDCs to the recent shortening of maturities, although he agreed that the effect was mainly psychological. It was agreed that we should plan on a grace period of 4.25 years, annuity payments and 20 years average maturities.

Proportion of Proposed Capital Increase to be Paid in--It was decided to recommend that 10% of the proposed capital increase be paid in over a 3-year period.

Mr. Wood said that he would talk to Mr. Broches about the note on voting power and that he would revise the time schedule for the remaining technical notes and for the draft Board paper.

cc: Mr. Goodman

SB
November 30, 1976

792/2/214

Meeting to Discuss the Board Paper on IFC's Future Activities, November 29, 1976

Present: Messrs. McNamara, von Hoffmann, Qureshi

Mr. McNamara said that Messrs. Knapp and Cargill would give their comments on the paper to Mr. von Hoffmann by mid-afternoon November 30. He would like to have a line-in line-out copy back from Mr. von Hoffmann by noon December 1.

The following major problems were discussed:

1. Technical Assistance--With reference to paragraph 25, Mr. McNamara said that IFC should not set aside a proportion of its annual profits for selected technical assistance grants. Rather these should be considered on a case-by-case basis and we should be very selective about including such technical assistance in IFC projects and it should be on a reimbursable basis.
2. IFC Lending to Higher-Income Countries--Mr. McNamara said that as long as IBRD lending was limited IFC should not lend to higher-income countries. He requested that the section on higher-income countries in the draft paper be deleted and, if necessary, a separate paper could be prepared on the issue if the Board should so request.
3. IFC Support of Management Training--Mr. McNamara did not feel that IFC should support management training schemes. IFC's role was to promote private enterprise in developing countries. Generally it was government policies which stood in the way of achieving this objective, not the lack of business graduates.

SB
November 30, 1976

792/2/213

Meeting to Discuss the Implementation of the Recommendations of the Report of the External Panel on Population, November 24, 1976

Present: Messrs. McNamara, Knapp, Chenery, Baum

The following recommendations were discussed:

1. Introduction of Population Problems into Bank Economic Work--Mr. Chenery said that the next functional review of economic reports would be on population. This would be reflected in the next quarterly review of economic reports. He also said that a "kit" would be prepared to help economists introduce population considerations in economic reports. We should concentrate our work but not necessarily in the 17 key countries selected by the panel mainly on size considerations. Both Messrs. Knapp and Baum felt that all basic economic reports should have a systematic coverage of demographic problems. Mr. McNamara felt that we might be scattering our shots too much by such an approach and suggested instead that we selected one pilot case within each region for later review. He asked Messrs. Baum and Chenery to prepare a report on how to introduce population concepts into our economic work, including guidelines for the regions, the number of countries and a time schedule. He asked Mr. Chenery to inform the President's office when such a report could be ready.
2. Introduction of Population Components into Projects in Other Sectors--Mr. Knapp said that this could be very expensive in manpower. Mr. McNamara said he was skeptical of increasing the percentage of complex projects in our program. Mr. Baum said that complexity was often needed to obtain objectives. He said that it would probably be easiest to combine education and population projects. Mr. McNamara said that we should experiment in "important places." He asked Mr. Baum to prepare a plan by January 1, 1977, of which countries and which projects should have population components introduced.
3. Population Research--Mr. Chenery said that this could be done either in-house by the Human Resources and Population Division in DPS or by outside institutions and consultants. He felt that use of the latter was probably the right approach. Mr. McNamara said that this was not what the panel had recommended but that he agreed that we could probably not greatly expand our own research efforts. Mr. McNamara asked Mr. Chenery to prepare a plan for population research by January 1, 1977.
4. Population Projects--Mr. Baum said that our population program was getting stronger. The panel's report had increased the interest in the regions. All-in-all he felt that a dialogue on population problems with our member countries was more important than projects. Mr. McNamara agreed and asked Mr. Baum to prepare a population project program by January 1, 1977, showing countries by fiscal year in which we would introduce population projects.
5. Senior Officer for Population--Mr. Baum did not feel that we needed an additional senior officer for our population work. Mr. McNamara agreed but said that the participants in the present meeting should carefully watch our efforts in population and Messrs. Kanagaratnam and T. King should probably join the next meeting.
6. Review--It was agreed that members of the panel, in particular Mr. Berelson and possibly Mr. Ohlin, should review our progress in implementation of the panel's recommendations at a later stage.

cc: Messrs. Baum, Chenery

SB
November 29, 1976

MEMORANDUM FOR THE RECORD

792/2/212

Meeting to Discuss Staff Reactions to the Bank's Programming System, November 23, 1976

Present: Messrs. McNamara, Knapp, Baum, Stern, Blaxall, Wiehen, Paijmans, Kearns, Bell, Chadenet, Wiese, Gue

Mr. Knapp said that many staff members perceived deadlines as distasteful to their professional concept of their work. The quality of their work was not necessarily declining but it was not improving either.

Mr. Bell said that particularly younger staff seemed oppressed by our planning system but other staff members said that the targets and deadlines did not lead to a decline in quality. To the contrary, the expanding program was in their opinion leading to higher quality of our projects. All agreed, however, that P&B asked for too much information, that the programs were changed too often and that the language used in P&B memoranda often was too harsh, and implied failure of the operating departments to fulfill their plans.

Mr. Wiehen said that many staff members felt that they were living in an over-constrained environment. Examples of such constraints were the targets for the fiscal year, the limits on IDA availability, the influence of creditworthiness on lending, the increasing complexity of our operations, and the lack of staff expansion to deal with these constraints. Some of these constraints could not be avoided but it was felt that some of them were man-made. Demands were increasing and some staff felt pushed to the limit. One particular irritant was the too frequent timetables demanded by P&B.

Mr. McNamara said that excessive monitoring should be avoided. In our management we should be guided by the following three principles: (1) no information was needed at the top which was not needed at the bottom; (2) our planning should reflect the views of the individual who was responsible for meeting the plan--sometimes a supervisor would have to overrule an individual but he should be made clearly aware that he was overruled and should accept the decision; and (3) when staff disagreed on principles (1) and (2) the supervisor had the obligation to talk it out with the staff member. Mr. Kearns added that Division Chiefs carried a particular responsibility in this regard.

Mr. Paijmans said that the scope of all lending was wider and deeper than ever before. So was the quality. No major concessions had been made. But the perception of the staff was not good. Projects people often felt that they were the last line of defense on quality of our lending. Too many guidelines simply added to overregulation. We demanded that our staff should be of the highest quality and able to talk to ministers in the field. We should avoid irritating this professional staff by cutting at the fringes of their privileges such as offices, secretaries, newspapers, hotels in which they could stay, etc. These things were mainly atmospheric but they were still seen by staff as important. Mr. McNamara asked Mr. Chadenet to look into these matters. Mr. Paijmans also said that our program lacked flexibility and that several operating departments used double bookkeeping to achieve such flexibility. Mr. McNamara agreed on the lack of flexibility and asked Mr. Paijmans to convey his views in detail to Mr. Blaxall.

Mr. Wiese said that individual management units often erroneously felt that budgetary resources were allocated on the basis of the number of projects in the next fiscal year and that their performance was measured on the number of Board presentations. Mr. McNamara asked Mr. Wiese to talk to Mr. Blaxall about how to handle such misconceptions.

Mr. Gue said that the CPP program and the sector program were not integrated into a regional program. It would be better to start by establishing a regional program and keep it stable for two years. Mr. McNamara said that, in his opinion, the CPP and sectoral programs were reconciled and that it would be impossible to keep programs stable for two years. He agreed, however, that adequate provision for slippage was lacking and he urged Mr. Gue to talk further to Mr. Blaxall.

In conclusion Mr. McNamara urged the participants to talk to their staff members and come back to Mr. Knapp and himself if they had problems which they could not resolve. He subsequently agreed to a proposal by Mr. Chadenet to establish a task force of lower-level managers to look into staff complaints about our planning process.

cc: Mr. Chadenet

SB
November 29, 1976

MEMORANDUM FOR THE RECORD

792/2/211

Meeting to Discuss the Wall Street Journal Article of November 22, 1976, Based on Mr. Hori's Farewell Statement in the Board, November 22, 1976

Present: Messrs. McNamara, Knapp, Chadenet, Broches, Cargill, Clark, Stern, Kearns

Mr. McNamara said that EDs should not use their departures to relieve themselves of their frustrations. Furthermore, staff members should be careful about discussing operations with EDs; in addition we should not allow staff members to become Board members.

Mr. Chadenet said that the worst part of the article was the implication that the quality of Bank lending was declining. This was the only part that merited an answer. Mr. Knapp agreed but said that a public reply would not work. Rather the matter should be discussed with the Board.

A lengthy discussion of staff attitudes towards our lending policies ensued. Mr. Clark said that many staff members felt that "we were shoveling out money faster than it was demanded by our borrowers." Mr. Broches said that some of his staff had the feeling that "we beg countries to take our loans. The countries don't feel that they are their loans but ours." Mr. Stern said that the growing diversity of our objectives led to more preparation work by Bank staff than before and, hence, more pressure on the staff. Mr. Knapp said that the staff perceived a tension between our lending targets and the quality of our lending. The staff also felt that we were pressing governments and that the consequence was lack of government commitments to the projects which again increased the risk of being able to implement the projects successfully. Mr. McNamara said that he would speak to Messrs. Knapp, Baum, Chadenet, Kearns, Blaxall and the RVPs about the staff view of our programming process.

Mr. Cargill said that he would call Mrs. Atsumi in Tokyo and ask her to contact Mr. Matsikawa in the Ministry of Finance about the article and urge Mr. Matsikawa to stress to the press, if asked, that the views expressed were Mr. Hori's personal comments. Mr. Clark said that he would answer press questions on the matter by saying that Mr. Hori's statement was a personal one and that the statement, as presented in the Board, had started on a much more positive note than was reflected in the Wall Street Journal. Mr. McNamara agreed to these two approaches.

SB
November 23, 1976

Meeting to Discuss "Role of the Bank" Studies, November 19, 1976

Present: Messrs. McNamara, Knapp, Cargill, Chenery, Stern, Adler, Wood, Mrs. Hardy

The following six technical notes were discussed:

1. Timing of Future IBRD Capital Increases--Mr. Knapp said that he would accept 12% nominal growth rate for IBRD but that he wished to restore the terms of lending to those prevailing in FY76 as soon as possible. He found that a ten-year cycle for future capital increases was too long and suggested parallelism with the IMF which would lead to a six-year cycle. He did not feel that a change in the Articles of Agreement was warranted. He felt that at least some influential Board members would interpret a nondisruptive lending program as meaning a flat lending program. There was some discussion of this latter point but it was agreed that Mr. Wood's earlier interpretation that the agreement with the Board at the time of the Selective Capital Increase did not preclude a reduction in the lending program in real terms should stand. Mr. McNamara said that we needed a paper to explain and justify parallelism with the IMF. Mr. Wood said that such a paper was under preparation. Mr. Stern said that a disruptive lending program should not be described in terms of its influence on staff but rather on the effect on our borrowers and on their relationship with the international financial community. Mr. McNamara agreed. Mr. Stern said that a change in the Articles should at least be contemplated since the amounts needed for capital increases to live within the Articles were immense. Mr. McNamara said that we should leave the door open for such a change in the Articles at some future stage.
2. Outlook for the Regional Banks--Mr. Knapp did not feel that we should say anything about the outlook for the regional banks in the paper dealing with a capital increase for IBRD. Mr. McNamara agreed and said that we should assume that the lending program of the regional banks would be carried out as planned by the banks themselves. However, he did want to know what the effect would be on the regional banks if they adopted the present World Bank lending policy. He concluded that the technical note could be used as a backup note but should not be included in the Board paper.
3. Current account Balance of Non-Oil Developing Countries--Comparison of Estimates for 1976--Mr. McNamara said that a methodology should be adopted which would allow direct comparison among IBRD, IMF and private bank estimates.
4. Official Development Assistance--Mr. Stern said that the argument in paragraph 29 for including technical assistance in the projection of financial flows was strange. Mr. McNamara asked Mr. Wood to re-examine this point.
5. Role of the IMF--Mr. McNamara said that we should avoid getting into an argument with the IMF on the size of its lending. We should show a note to appropriate officials in the IMF on what we thought would be the amounts of IMF lending in the coming years and ask for their comments.
6. Private Direct Foreign Investment--Mr. Wood said that the figures were more unreliable than usual for this note so he had made a very low projection for the size of private direct foreign investment. Mr. McNamara said that we should use our best judgment and include a footnote in the note stating that the figures were only rough estimates.

Mr. McNamara said that it might be useful to inform the transition team of the Carter Administration about our ideas with respect to the future role of the Bank. He asked Mr. Stern to handle this.

It was decided to meet again on Monday, November 29, at 3:00 p.m. to discuss the technical notes which Mr. Wood would circulate the following week.

SB
November 22, 1976

792/2/209

Second Meeting to Discuss Population Speech, October 28, 1976

Present: Messrs. McNamara, Chenery, Karaosmanoglu and T. King

It was agreed that Mr. King would prepare a first draft of the population speech by the first week of December, 1976, on the basis of his outline of October 26, 1976. However, Mr. McNamara said that the following two points should be stressed and further expanded: (a) problems with the Bucharest notion that per capita income growth would solve the population problem-- other required elements of development, such as education and role of women, should be stressed; and (b) an explanation in popular terms of how, when and at what level world population might be stabilized, and political action required to lower the eventual level of a stable world population. The speech should have a length of approximately 30 double-spaced pages and Mr. King should dedicate himself full-time to the effort after November 12, 1976.

cc: Mr. Karaosmanoglu

SB
October 28, 1976

792/2/208

Meeting to Discuss Future Work on Development, October 22, 1976

Present: Messrs. McNamara, Chenery, Clark, Stern

Mr. McNamara said that we should think of a dramatic change in the intellectual leadership role of the Bank over the next five years. In this context, he asked Mr. Chenery to prepare a work program, including a timetable and assignment of responsibility, for further discussion within the group of the following items:

1. theme for the Governors' speech 1977;
2. extension of the prospects work;
3. "prospects and progress for development in LDCs"--this would be similar to but still different from the prospects paper;
4. work to be undertaken by the Development Committee;
5. approach to the recently established ad hoc group at the ACC--Mr. Chenery or someone designated by him should represent the Bank on the ad hoc group. The ad hoc group would prepare for a discussion at the Spring session of the ACC of the development programs of the UN system and the degree to which they were likely to achieve the established goals, such as the ILO resolution on basic human needs. The work of the ad hoc group should be seen within the framework of the Leontief report;
6. Mr. Haq's work program on follow-up of the Manila speech;
7. the population speech for which Mr. T. King was preparing an outline for discussion with Messrs. McNamara, Chenery and Karaosmanoglu at 10:00 a.m. on Thursday, October 28;
8. approach to the Third Development Decade or possibly an alternative to the Third Development Decade, such as meeting basic human needs or eliminating absolute poverty by the end of the century;
9. a planned series of discussions of prospects for development in the Board;
10. establishment of the Brandt Commission; and
11. establishment of an advisory group on development.

Mr. McNamara said that he wanted Mr. Stern to continue to be responsible for the Development Committee.

Mr. Stern said that the 11 items could be seen under one umbrella, namely what is required to eliminate poverty. We had not done much work related to this and we did not even know whether it was possible or even desirable. The question was how to interrelate the strategies for food, employment, energy, etc. This could be used as the theme for the Governors' speech, for work of the Development Committee and for the Third Development Decade. He felt that it was very important that a working group of two or three senior people be established to carry out the work. Mr. McNamara agreed.

Mr. Chenery said that he would prepare a memorandum on the work program for discussion before October 29.

cc: Messrs. Chenery, Clark, Stern

SB

October 22, 1976

792/2/206

MEMORANDUM FOR THE RECORD

Meeting to Discuss Population Speech, October 20, 1976

Present: Messrs. McNamara, Karaosmanoglu, Timothy King

It was agreed that Mr. King would prepare an outline for the speech by October 26 for discussion with Messrs. McNamara, Chenery and Karaosmanoglu at 10:00 a.m. on Thursday, October 28. The speech would probably be given at MIT in the bicentennial lecture series on World Change and World Security. The key audience would be thoughtful political leaders and editorial commentators who were interested in but not very knowledgeable about population problems. Mr. McNamara said that it might be useful to use the first part of the Manila speech as a basis linking the theme of the quality of opportunity among men to world security and population problems. Reference should be made to Mr. McNamara's first statement on population at Notre Dame University in 1969, and the Berelson report should be used as a foundation for the speech. However, the role of the Bank should only be referred to in a paragraph or two.

cc: Mr. Chenery

SB
October 21, 1976

MEMORANDUM FOR THE RECORD

792/2/207

Meeting to Discuss Follow-up of the Annual Meeting Speech and the Leontief Report,
October 20, 1976

Present: Messrs. McNamara, Karaosmanoglu, Haq

Mr. McNamara said that he leaned towards Mr. Haq's proposal for follow-up work on the Manila speech as outlined in Mr. Haq's memorandum of October 13, 1976, but said that the policy work to be undertaken should be immediately useful and practically oriented. Mr. Haq said that he intended to produce policy memoranda within five to six months and then further refine these after discussion with management. Mr. Karaosmanoglu said that he would include these policy memoranda in the work program for DPS to be discussed in November 1976 with Messrs. McNamara and Chenery. Mr. McNamara agreed to this approach.

Mr. McNamara referred to his meeting with the ACC on October 18 in New York and said that he had proposed that ACC at its Spring session would discuss progress on the Second Development Decade; the ILO resolution on basic human needs; plans for the international financial institutions; food production; and the Third Development Decade, or a plan for development objectives by the end of the century, all in light of the Leontief Report. The ACC had agreed to establish an ad hoc group for this purpose and Mr. McNamara asked Messrs. Chenery, Karaosmanoglu and Haq to work on the Bank's approach to this group and to keep Mr. Clark informed. Mr. McNamara would like to have an interpretation of the Leontief Report as well as an estimate of how much the Report had cost in manpower, time and money. He said he was surprised that he had not been informed earlier that the Leontief study was underway.

cc: Mr. Chenery

SB
October 21, 1976

792/2/205

MEMORANDUM FOR THE RECORD

Meeting to Discuss Follow-up of the Annual Meeting Speech and the Leontief Report,
October 20, 1976

Present: Messrs. McNamara, Karaosmanoglu, Haq

Mr. McNamara said that he leaned towards Mr. Haq's proposal for follow-up work on the Manila speech, but said that the policy work to be undertaken should be immediately useful and practically oriented. Mr. Haq said that he intended to produce policy memoranda within five to six months and then further refine these after discussion with management. Mr. Karaosmanoglu said that he would include these policy memoranda in the work program for DPS to be discussed in November 1976 with Messrs. McNamara and Chenery. Mr. McNamara agreed to this approach.

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cc: Mr. Chenery

SB
October 21, 1976

MEMORANDUM FOR THE RECORD

792 k/204

Meeting to Discuss Dissent on the Bank's Rural Development Policies, October 11, 1976

Present: Messrs. McNamara, Yudelman, Christoffersen

Mr. McNamara said that he had been very concerned about the Wall Street Journal article of October 5, 1976, in which a World Bank official was quoted as having severe doubts about our rural development work. He asked Mr. Yudelman to consider whether this was a widespread dissent among agricultural project staff. Mr. Yudelman did not believe so but said that he would meet with agricultural assistant project directors and division chiefs to discuss the matter and flush out the issues. He said that many staff members were worried about the unit costs in our rural development work and that we were only creating opportunities and not necessarily making farmers take these opportunities; but these were legitimate issues for discussion.

Mr. McNamara said that he would like to be informed quarterly of status and problems of our rural development work and discuss these problems with Messrs. Knapp, Baum, Yudelman and Christoffersen.

SB
October 12, 1976

MEMORANDUM FOR THE RECORD

792/2/203

Meeting to Discuss Mr. Adler's Memorandum, dated September 21, 1976, on FY77 Lending Program, September 21, 1976

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

Mr. McNamara said that he was deeply concerned about the weak FY77 program, since a shortfall in FY77 could influence the possibility of refinancing IBRD and IDA. He disagreed strongly with paragraph 4 of the memorandum and said there was plenty of time to remedy a possible shortfall in FY77 through sound management and judgment. It was simply a question of getting ourselves organized.

Mr. Knapp said that cofinancing often caused delays and also decreased the amounts of IBRD and IDA lending. Mr. McNamara said that we should abandon unrealistic cofinancing and asked Mr. Knapp to analyze our cofinancing further.

Mr. McNamara said that the IDA program for FY77 should be 67 projects and \$1260 million.

Mr. McNamara had a feeling that unit costs for project processing were increasing and asked Mr. Adler to analyze this.

Mr. McNamara asked Mr. Knapp to work further on the problems of the FY77 lending program during the forthcoming week.

SB
September 23, 1976

792/2/202

MEMORANDUM FOR THE RECORD

Meeting to Discuss the Future Role of the Bank, September 10, 1976

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

The meeting discussed Mr. Wood's memorandum to Mr. Cargill, dated September 2, 1976, on 'Role of the Bank Studies: A Proposed Approach'.

It was decided that a technical note on voting power should be added to the list and prepared by December 1, 1976. Mr. Broches would be responsible for preparing the note and would head a working group which might consist of himself and Messrs. Damry and Goodman. Mr. Cargill would send Mr. Broches a suggested outline for the note before the Annual Meeting.

A Board memorandum on a general capital increase should be sent to the Board by February 1, 1977. An outline of the paper and a timetable for its preparation should be established by October 10, 1976. It might be necessary to add other technical notes to the September 2 list, such as the proportion of capital which would have to be paid in.

SB
September 13, 1976

792/2/201

Policy Review of World Bank's Approach to Interest Rate and Credit Allocation Issues, July 15, 1976

Present: Messrs. McNamara, Knapp, Goodman, Chenery, Kuczynski, Alter, Baum, Chadenet, Bell, Chaufournier, Krieger, Please, Stern, Bart, Hyde, Jacob, Karaosmanoglu, ~~vander~~ Tak,

Mr. Knapp said that it would be difficult to translate the recommendations of the paper into operational guidelines. It was difficult because we dealt with different economies and within an economy with widely different levels, such as characterized by DFC versus agricultural credit lending. He felt that the paper was too hesitant on the importance of interest rates for mobilization of savings and allocation of resources. He was wary of low interest rates since pricing credit below the market rate would often lead to corruption in the allocation of scarce credit. The philosophy lying behind the analysis which led to the recommendation of specific interest rates was all right but not the interest rates themselves.

Mr. Chenery compared the paper with the one on urban employment. The two papers dealt with interest rate and wages respectively and, in both cases, it was a question of "getting the prices right." The neoclassical theory led to well-known and not very exciting results. The real question was whether the neoclassical analysis was important and whether the "right" interest rates could be obtained through applying it.

Mr. Baum said that the paper reminded him of the agricultural credit paper. Our experience in agricultural credit had been disappointing. A coordinated approach at the country level, between our attitude towards macroeconomic policies and projects was necessary.

Mr. Goodman said that the cost of real savings, such as crops, compared with monetary savings should be studied. He also felt that the foreign exchange aspects of a country's rate policy should be further developed. Dual monetary markets were not adequately treated.

Mr. Please said that there was a lack of conviction among many staff members on the importance of interest rates for mobilization of savings compared with other policy matters. He suggested that we work on specific countries, such as Korea and the Philippines, where the interest policy could be very important. We should not let project negotiations break down because of differences of opinion on interest rate policy.

Mr. Stern did not find the recommendations very useful. We could not project inflation so it would be a loss of time to dedicate staff to such a purpose. Stabilization policies should be dealt with by the IMF as at present. Interest policy could not be tackled at the projects level. There was no need for a single unit within the Bank to coordinate our work on the financial sector. He felt that the emphasis on positive interest rates and having interest rates approach the opportunity cost of capital dated from an efficiency point of view and abstracted from distribution. The controversy was about the weight to be given to these two different objectives.

Mr. Kuczynski said that a better interest rate policy did not necessarily lead to a better income distribution. If any indexation should take place, it should be based on a moving average and it should be applied to industry rather than agriculture.

Mr. Krieger said that it would be important to publish the paper since there was little awareness among young economists in developing countries of the importance of savings and investment.

Mr. Bell said that, being precise on the level of interest rates did not necessarily make us more persuasive. We should have a sound basis for whether we wanted to be general or precise in such a policy matter.

Mr. Alter said that interest rate policy was controversial but that we had to discuss it with our member countries, both at the macroeconomic policy and projects level, whether we had an internal consensus or not.

Mr. McNamara did not sense any agreement among the PRC, so only limited action was possible at this stage. Personally, he felt that, insisting on a specific interest rate policy at the projects level was uncalled for if the project had adequate economic rate of return, was socially beneficial for the society, and did not lead to private profiteering. It was decided that each Region would examine its basic and other economic missions for the coming 12 months and, in agreement with Messrs. Baum, Chenery and Alter, decide whether a special study of the financial sector was called for. The list of missions which would include a study of the financial sector should be sent to Messrs. McNamara and Knapp. Interest rate policy should be discussed again by the PRC a year from now. A PRC discussion of the indexation of financial contracts paper should be scheduled.

SB
July 16, 1976

792/2/200

Policy Review of Urban Poverty and Employment Paper, July 14, 1976

Present: Messrs. McNamara, Knapp, Goodman, Chenery, Baum, Chadenet, Bell, Krieger, Stern, Bart, Please, Leisserson, Hyde, Gulhati, Jaycox, Karaosmanoglu, van der Tak, Hofmeister, Merat

Mr. Knapp said that the paper was interesting but that there was not much to react to. He hoped that the paper on Small-Scale Enterprises would be more operationally relevant. The suggested clearing center for intermediate technology should be a UNIDO responsibility, and more attention should be paid to administration of municipal budgets.

Mr. Chenery said that it had been frustrating to work on the paper. It was impossible to be as specific in the urban sector as we had been with the "Small Farmer" in the rural sector. The most important concrete suggestion was that we should be getting prices right but this was not very new nor very exciting.

Mr. Baum said that it would be difficult to move governments along the lines suggested in the paper. The suggestions for adult education should be seen within a balanced strategy and could better be treated by the external panel that we were about to establish for education.

Mr. Stern said that the paper had several dubious propositions which were not backed by analysis, on such matters as the production of machines with appropriate technologies, the employment effect of small-scale enterprises, and the effect of incentives.

Mr. Bart said that economic policies were more important than a project approach and that any analysis of urban employment should also cover rural employment.

Mr. McNamara said that the paper left him frustrated and floating. The intermediate technology center was not justified. It was difficult to find anything concrete in the paper so it should not be distributed to the Board. The small-scale enterprise paper would hopefully be the proper occasion to rediscuss urban poverty and employment. There were gaps in the assistance of financial intermediaries to small-scale businesses and we should be able to finance more. He suggested that a pilot country be selected in each Region to gain more experience on how to shift macroeconomic policies to achieve job creation. Appropriate monitoring devices should be established. Production of machines could be important to individual machine factories but could not solve the urban employment problem.

SB
July 15, 1976

792/2/199

MEMORANDUM FOR THE RECORD

Financial Policy Lunch Discussion, June 30, 1976

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

IDA Transfer--Mr. McNamara asked to have a draft of the paper by July 12.

FY77 IDA Commitment--Mr. McNamara asked to have a paper by July 12.

Governors' Speech--Mr. McNamara asked for Mr. Cargill's comments by July 12.

Future of the Bank--Mr. McNamara said that two lists of issues should be prepared: one directly related to future lending and a second listing issues which were not directly connected with future lending. The first was the most important and he would like to have an outline by July 12, including such issues as the needs of the developing countries; the Bank's access to capital markets; the relationship between the Bank and other financial institutions such as private commercial banks, the IMF and regional banks; projections for inflation; forecasting of countries graduating from IDA and IBRD eligibility; and a discussion of the "bridge" needed to go from a lending program of \$5.8 billion to something like a steady real growth rate.

SB
July 1, 1976

792 / 2 / 198

MEMORANDUM FOR THE RECORD

Meeting to Discuss Governors' Speech, June 30, 1976

Present: Messrs. McNamara, Chenery, Clark, Haq

Mr. McNamara said that the first six sections in his June 26 draft had to be shortened and sharpened. He asked Mr. Haq to do this and said that he would ask Messrs. Knapp and Cargill to comment on the Bank section of the speech over the next two weeks.

Mr. Chenery said that Messrs. Keesing and Little had read the draft and had both felt that we over-generalized the difference between poor and middle-income countries. Mr. McNamara felt that the distinction should be maintained. Mr. Haq said that we were already doing this in operational terms, since 92% of our IDA lending went to the poorest countries. Mr. McNamara asked for copies of Messrs. Keesing's and Little's comments.

Mr. Haq said that the speech still needed a good introduction, more description of the global compact, condensation of the sections on debt and absolute poverty, and a description of the historic analogy between the compact and, say, the trade union movement. Mr. McNamara asked Mr. Haq to work along these lines and submit a new draft by Tuesday, July 13.

SB
July 1, 1976

792 / 2 / 197

Meeting to Discuss Bank Lending to Venezuela, June 30, 1976

Present: Messrs. McNamara, Knapp, Cargill, Krieger, Lerda, Gonzalez-Cofino

Mr. Knapp said that the question was whether the Bank was willing to transfer any "real money" to Venezuela when, under present conditions, it was known that this would mean that somebody else's allocation would have to be reduced. He felt that some kind of an umbrella arrangement might be appropriate to help Venezuela obtain funds in private capital markets. Mr. McNamara suggested that we could lend up to \$50 million to Venezuela if they would let us borrow \$200 million out of which \$150 million would be in usual bonds and \$50 million would be bought by Venezuela out of the Bank's portfolio. He asked the Region to think along such lines and work out a suitable package.

SB
July 1, 1976