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President's Council Minutes,
Jan. - Apr. 1979

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OFFICE OF THE PRESIDENT

President's Council Meeting, January 3, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Broches, Chadenet, de la Renaudiere, Chenery, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Hittmair, Stern, Wapenhans, Weiner, Jennings, Mrs. Boskey

Management Paper on Compensation Policy

Mr. Chadenet introduced the paper. The Bank had come a long way over the last two years. Whereas the U.S. Government had accused the Bank of overpaying the staff by 10%-20%, the Kafka Committee now concluded that the Bank's salary levels were about "right." However, the staff felt threatened and insecure after two years of external attacks. The Kafka report would come out in about two days' time and would also be distributed immediately to the Staff Association. Mr. McNamara asked Mr. Damry to brief him before the end of the day on the outcome of the Fund Board deliberation on whether to distribute the Kafka report immediately after its publication to the Staff Association. The management paper before the PC tried to strike a balance between political expediency and principle-based policy. With regard to the political atmosphere of the Kafka Committee, he said that the Kafka report was accepted by all members with three qualifications: (i) the outside consultants deplored the "deal" made between Kafka and the U.S.; while they were in agreement with the conclusion, they were not convinced by the reasoning leading from the facts to the conclusions; (ii) the continental EC directors would present a semi-dissenting letter stating that, in light of present recruitment problems in Europe, the Kafka Committee did not offer enough; and (iii) the U.S. would then probably follow suit with a symmetric letter arguing again that salaries were too high. It was the objective of the continental Europeans not to become captives of the Kafka Committee report during the ensuing Board decision meetings.

Mr. McNamara invited comments on the draft management paper on compensation policies. Mr. Husain disagreed with the choice of U.S.-only comparators. He could accept this choice on expediency grounds but not as an abiding principle. The Bank was an international institution. Over the next three years, i.e., before the next major survey, a determined advance effort should be undertaken to develop an international basket with appropriate adjustment and weighting procedures. In light of the statement that present salary scales were about right, he questioned the small but still significant lowering of mid-points contained in the draft. He also questioned the rationale for rejecting general expatriation allowances. The disassociation of expatriates from their home markets and the psychic costs incurred by them would justify such an unspecific expatriation allowance. The repatriation allowance proposed by Kafka should therefore not be opposed by the Bank. Country-specific expatriation allowances for high-income countries would be divisive and create three categories of staff: (U.S. nationals, nationals of high-income countries, and nationals of lower-income countries. In his view, the Bank should adopt either no expatriation allowance at all or a general expatriation allowance for all non-U.S. nationals. With regard to pensions, the Bank's thoughts were not yet clear. The impression should be avoided that there would be a reduction in the pension base. Mr. McNamara said that staff had to be assured that there would be no reduction of the pension base of existing employees. This had to be stated. Finally, Mr. Husain questioned the justification for a ten-year transition period from the present to the proposed tax reimbursement formula for U.S. nationals.

Mr. Benjenk commented that the paper basically represented a political compromise. This was a fact of life and had to be made palatable for staff. As a point of principle, the Bank as an international organization should have international comparators. He questioned whether the Kafka proposal of a generous repatriation allowance should be rejected by the Bank. Such an allowance was important for the staff members 41 years and older, who presently represented the most disgruntled group. As to future reviews, he argued strongly in favor of automatic mini-surveys. He considered the management draft was not a particularly good paper; it had a number of obscurities and was diffuse; some of the statements were outright provocative. He pointed to a number of paragraphs which needed redrafting. With regard to the proposed merit increase formula, Mr. Benjenk said that the more one went down on the income scale, the more automatic the cost-of-living adjustment had to become. Mr. Husain suggested drawing the line on automatic full cost-of-living increases at Level N. Mr. McNamara said that he had disagreed with the proposed approach but that the majority of the Compensation Steering Group had favored merging the cost-of-living and merit increase formulae. It was a very important point to note that the formula meant that in an inflationary period merit increases would be both positive and negative. Mr. Stern said that the comparator surveys would yield one composite figure which would include cost-of-living adjustments, productivity increases, and merit increases. It would be very difficult to separate these components. Mr. McNamara asked Mr. Chadenet to put the issue of the cost-of-living and merit increase formula on the agenda for next Tuesday's Compensation Steering Group meeting. Management was probably too precise on this issue in the paper; the options should be held open.

Mr. Baum commented that he had reviewed the paper from two different points of view: (i) as a result of two years of political relationships between the U.S., Europeans and others, and (ii) as to whether it represented an acceptable package from a policy point of view. The document was weak in terms of making a case for the proposed new structure of compensation. He had two major problems with the paper: (i) the foundation for the choice of U.S.-only comparators was not tenable; the Bank had to move to an international system--the sooner the better; and (ii) the case for the proposed tax reimbursement formula--which resulted in a considerable salary cut for U.S. staff--was not made convincingly. The issue of whether internal equity or external competitiveness were more important had to be addressed more carefully. Mr. Stern replied that all the new formula did was to make the system more logical by grossing up as it netted down. The issue of internal equity versus external competitiveness fell along the wayside. Mr. McNamara agreed. With regard to the proposed grade structure, Mr. Baum said that more merit had to be introduced into the system. The present structure was too compressed.

Mr. Wapenhans questioned the justification for breaking away from a comparator-based grade structure at Level N. He also questioned the justification for a ten-year transition period to the new tax reimbursement formula. This resulted in windfalls to U.S. staff being continued, whereas the losses suffered by expatriates because of the lack of an expatriation allowance would continue. Mr. McNamara stated that--although he believed in localized expatriation allowances if specific allowances proved not to be sufficient--it had to be made clear to expatriates that they received expatriation benefits in the amount of the difference between tax reimbursements to U.S. nationals under the UN formula and reimbursements under the proposed deductions formula. It had to be understood that the Bank would pay U.S. citizens less than they were paid in the UN and that the Bank would pay U.S. citizens less than it paid expatriates. Mr. Wapenhans replied that there was no evidence that outside income was substantial for non-U.S. nationals. Mr. McNamara said that the simple fact was that there was a substantial benefit accorded to expatriates which U.S. staff did not enjoy. Mr. Wapenhans* said that he was driven to the

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* Mr. Wapenhans made the following points at a meeting with Messrs. McNamara, Chadenet and Damry following the PC meeting.

undesirable expedient of accepting localized expatriation allowances. Further, he would favor a less-compressed grade structure for management levels. The distances had to be larger and the differential should continue beyond 138%. Finally, it was important that a statement of intention be made, committing management to the maintenance-of-value of pensions for Europeans. Mr. McNamara agreed with the point on maintenance-of-value of pensions and reiterated that he was willing to consider localized expatriation allowances if necessary.

It was agreed that management would have to make an effort of communicating with the staff on these compensation proposals through Division Chiefs rather than the Staff Association.

CKW
January 8, 1979

OFFICE OF THE PRESIDENT

822/5/2

President's Council Meeting, January 8, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Hopper, Husain, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Vergin, Merriam

Mid-Year Budget Review

The meeting reviewed the draft memorandum to the Board on the Mid-Year Budget Review. Mr. McNamara in response to several comments, argued that management was on record to deal formally with the issue of whether to cut the FY79 IBRD program because of lack of progress in securing the general Capital Increase. The argument had to be made that, if the Bank cut its IBRD program at this point in time, this would constitute the wrong signal to the world which would among others affect the FY80 program.

As to disbursements, the meeting agreed on Mr. Stern's substitute drafting of paragraph 15, which pointed to the connection between the growth of commitments and disbursement performance. Mr. McNamara said that he was concerned about the low level of India's disbursements. He said that he was still not comfortable with management's understanding of the disbursement problem.

PARTAC

The meeting reviewed the proposed Terms of Reference for the Participation Advisory Committee (PARTAC), prepared by the Staff Association's Quality of Working Life Group and dated December 27, 1978.

Mr. McNamara asked Mr. Chadenet to work with the Staff Association on these proposals. Management should take an active interest in the subject. The feasibility of increased staff participation in problem-solving and decision-making was not clear to him, but this reflected the fact that he was not aware of the experience of other organizations in this field, except in blue collar work. Management should first attempt to become better educated as to what others were doing.

Mr. Stern commented that the terms of reference had to be considered an indictment of Bank management; management should have initiated work in this field rather than leaving the lead to the Staff Association. Some of the issues listed in the appendix to the Terms of Reference represented very important problems close to the essence of decision-making. At present, the Bank did not have the capacity to implement new policies such as the ones proposed under the PARTAC Terms of Reference. The Personnel function had to be strengthened. Mr. Chenery commented that there were two ways to find out about participation issues; on the one hand, fact-finding papers could be prepared by management and the Staff Association; on the other hand, managers could participate in the proposed advisory committee. Staff had suggested that two Vice Presidents participate in the work of the group. Mr. Baum considered the proposed work to be a useful exercise.

In response to a few examples of styles of management in the Bank given by Mr. Chadenet, Mr. McNamara said that there were two different problems: (i) management had to ensure that sensible administrative procedures were followed by all levels of management; there was evidence of poor management at all levels; and (ii) new forms of relationships between staff and supervisors had to be explored. He concluded that, for the time being, Vice Presidents should not participate in the work of the advisory committee but that Personnel should start work with the group promptly. Further discussions of staff participation issues should then be scheduled for the PC.

People's Republic of China

Mr. McNamara stated that the Bank's relationship with the People's Republic of China constituted a most delicate matter. He urged that PC members bring all China-related matters to Mr. Stern's and his immediate attention.

CKW
January 15, 1979

822/5/3

OFFICE OF THE PRESIDENT

President's Council Meeting, January 15, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Hopper, Please, Parmar, Rotberg, Stern, Wapenhans, Weiner, RClarke, Jennings, Babson, Gordon, Jaycox, Lethbridge, Merriam

Staff Career Development

The meeting discussed the paper on Career Planning and Management at the World Bank, prepared by Personnel Department.

Mr. Baum made the following points: (i) with respect to stopping grade creep, the Bank might have overachieved; (ii) because of the decline of upward mobility, lateral movements became more important and a clear policy on reassignment of staff was required; the present system worked most unsatisfactorily; and (iii) the institution needed more movement in its senior positions; because of a generation gap, the next generation of PC members could well remain in their positions for 10-20 years. This was an unhealthy development and could be avoided by (a) "sideways" reassignment at age 60 a la Ford Foundation, (b) limits on how long a senior staff member could stay in his position (say, 10 years); and/or (c) reconsideration of the pension system in order to eliminate the penalty built into the system for early retirement.

Mr. McNamara said that the lack of opportunity for upward mobility should not be exaggerated. The institution still experienced a significant expansion rate and net recruitment amounted to some 200 persons per year. He asked Mr. Gabriel to examine the present pension policy as to the issue of disincentives for early retirement.

Mr. Hopper commented that the paper put excessive emphasis on management level issues. It did not address the points raised by Mr. Bell in his letter regarding the question of how to avoid depleting and how to renew professional skills of staff members. He recommended digging deeper into the issue of "decapitalization" of staff. The Bank had made its reputation on the extraordinarily fine professional work of its staff. He was concerned about the drawdown of this quality. Management should review the grade structure and ceilings for professionals; at present there was no access to upper salaries unless a person moved into the management stream. He suggested considering an extended M (T) grade for non-managerial senior professionals.

Mr. Benjenk said that he was delighted that Personnel had looked at the experience in other organizations. He agreed with Mr. Baum that the issue of "burnt-out managers" would increasingly become a problem; however, firing was not the right reward. Perhaps an executive advisory service should be instituted and staffed with those former managers. At present, the operational departments were not equipped to deal with personnel matters. The Regions had advisors for everything except personnel issues. He suggested introducing such an advisor to the Regional Vice Presidents. In general, more professionalism was needed in Personnel. Finally, he expressed his concern about early statistics indicating an increasing number of terminations for FY79. Mr. McNamara said that, as a first step, a professional capacity had to be built in the Personnel Department. A second step would be to decentralize some Personnel management functions to the Regions.

Mr. Stern commented that there seemed to be agreement with the objectives and principles laid out in the paper. However, the paper should have placed more emphasis on development of professionals at the non-managerial levels, in order to take care of David Bell's point. At present, the Personnel Department was not properly staffed and needed strengthening. As a next step, an implementation plan had to be developed, translating the broad principles laid out in the paper into an action program. The suggested April 1 deadline seemed to be too short. There should be no task force for developing such an implementation plan; rather it should be done by Personnel. Mr. McNamara agreed with Mr. Stern that, before setting up a task group, more work had to be done on an implementation plan by Personnel.

Mr. Chenery commented on Mr. Bell's letter and Mr. Hopper's statement on maintaining professional standards. He recommended (i) modifying the job description of economists and having them report to "somebody more sympathetic," (ii) doing more inhouse training in order to transfer inhouse skills to staff members (in lieu of sabbaticals), and (iii) attributing more importance to overseas assignments and facilitating re-entry.

Mr. Chaufournier agreed with the points made by Messrs. Hopper and Baum; personnel management should be a high priority for all managers in the Bank.

Mr. McNamara said that the Bank's very diverse and advanced country economic work offered broad opportunities for professional enrichment of staff. The universities came to the Bank to become enriched. In a way the Bank was the greatest library on development available in the world. He concluded that the paper constituted an excellent general statement which now had to be translated into a concrete implementation program. The necessary staffing for this task should be undertaken by Personnel.

SSEs

The meeting discussed a memorandum by Mr. Jaycox on "Role of Bank-Financed Credit Institutions in the Development of SSEs and Labor-Intensive Activities", dated December 21, 1978.

Mr. Stern commented that this was an excellent paper which advanced the Bank's thinking. More work was needed on the role of commercial banks.

Mr. McNamara said that (i) with regard to page 3 para 10, more work had to be done on transaction costs and loss ratios in SSE operations, in order to be able to judge what margins for the DFC are appropriate; the Bank's knowledge on this was insufficient; and (ii) as to page 5 para 16, the future program for SSE lending was still very small compared to traditional non-SSE lending levels; the Bank had to set its sights higher on SSE lending, which should go up to at least 50% of total DFC lending. He asked CPS to analyze (a) what optimum level of SSE lending should be established, and (b) how to achieve that level prudently.

Energy

Mr. McNamara said that he hoped to conclude at tomorrow's Board Meeting on energy lending that the Bank would proceed with its program for the next 12 months as proposed. The oil lobby seemed to be split; a number of companies had voiced their support, others had taken a position against the Bank's proposal.

Staff Compensation

Mr. McNamara said that he did not expect a final Board decision on compensation before early April. Work on the March 1 general salary adjustment had to proceed simultaneously, and the Board could possibly decide on both proposals at the same meeting.

Mexico

Mr. McNamara said that he would leave for Mexico tomorrow and that Mr. Cargill would be in charge during his absence.

CKW
February 1, 1979

OFFICE OF THE PRESIDENT

822/5/4

President's Council Meeting, January 22, 1979

Present: Messrs. McNamara, Cargill, van de Meer, Baum, Benjenk, Broches, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Vergin, Picciotto, Please, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Mrs. Hughes

Statistical Work of the Bank

The meeting discussed the DPS Status Report on Statistical Work at the World Bank, dated November 22, 1978.

Mr. Stern commented that (i) although the Bank could not have a single data system, guidelines on quality control of decentralized data and on what data to use when were clearly required; decentralized data should not be used for long time series; (ii) the Bank's data systems were not sufficiently tied into the data systems of other international organizations, such as ILO, UN, and UNESCO; a more effective connection with those systems should be aimed at, as well as the joint development of additional information; and (iii) in the social field, the Bank needed to do more than be the recipient generator; the Bank needed an increased capacity to define the lack of social data and to work with countries on a more widespread collection of data on income distribution, quality of life, etc. Finally, rather than or in addition to instituting a standing advisory committee, an attempt should be made to lay out more clearly in these areas how to centralize quality control in EPD under an individual.

Mr. McNamara said that at minimum a clear concept of a world system of development information was required. In order to provide a focal point in the Bank for the Bank's role, a "Mr. Statistics" or "Statistical Czar" should be appointed in EPD whose functions would be to (i) help conceptualize such a world system, (ii) define the Bank's role in such a system, and (iii) take specific actions in the Bank, such as quality control. He agreed with Mr. Stern that, as a first step, and instead of establishing a standing committee, the statistical czar should be appointed for conceiving of and directing the system. Cooperation with the IMF should be stressed and duplication of data generation avoided. He asked Mr. Karaosmanoglu to bring this subject back to the PC for further consideration in six months' time.

Kafka Report

Mr. McNamara reported that, because of the absence of three EDs who had been members of the Kafka Committee, preliminary Board discussion of the report had to be deferred from January 29 to February 6.

Mexico

Mr. McNamara reported on his visit to Mexico, in particular the progress made under the PIDER rural development projects, the sophisticated operations of PEMEX, the difficult task of managing oil funds for the purpose of development, progress made on controlling fertility rates, the Mexican Government's strong desire for continued Bank support with emphasis on technical assistance, the graduation issue as it affected the Bank-Mexico relationship, and the Government's willingness to consider a contribution to IDA VI.

CKW
February 5, 1979

OFFICE OF THE PRESIDENT

822/5/5

President's Council Meeting, January 29, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Nurick, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Please, Kearns, Qureshi, Rotberg, Stern, Adler, Kanagaratnam, Scott

Berelson Population Review

The meeting discussed the Berelson/Freedman "Review of the Implementation of the Recommendations of the External Advisory Panel on Population," dated December 1978.

Mr. Damry said that Mr. Looijen had asked for a progress report on population activities which had been promised by Mr. McNamara. It was agreed that such a report should possibly be submitted to the Board in conjunction with the Board discussion of the health policy paper which would probably take place in late April.

Mr. Karaosmanoglu commented that DPS was planning a workshop with AID in May on the issue of measuring the population impact of social sector projects (recommendation 3(d)). However, he was skeptical about the feasibility of such measurement. Further, he pointed to the increased special requests from the Regions for DPS assistance for the preparation of the population sector sections of economic reports. Mr. Barletta said that country-specific population sector studies were a good avenue but often did not receive the required staff support. Further, the seminars organized by population projects to create awareness of staff had proven useful but should be held at places closer to Washington in order to ensure maximum participation. Finally, in the case of Latin America, integration of population activities with health-type projects would help in gaining acceptance by governments; multisector projects, including population components, put a heavy management burden on weak institutions. Mr. Chaufournier commented that, in the case of West Africa, only 3-4 years had passed since the population issue had ceased to be tabu. Better demographic studies were required. The dialogue with the staff on population matters had to be improved, staff perceived management as placing emphasis only on projects and not on more general work in this area. Mr. Hopper commented that, according to recent Population Council estimates, less than $3 million per year went into population research everywhere. Instead of working on problems such as the impact of development on demographic variables, researchers had moved into abstract modeling and away from policy-oriented research. Bank projects, for example, would provide ideal natural experiments for such policy-oriented investigation. At present, intellectual leadership in this field was clearly missing and more research funds were required.

ent, intellectual leadership in this field was clearly missing and more research funds were required.

Mr. McNamara observed that the world did not know nearly enough about the complex relationships between population and development. The case of Mexico where crude birthrates had dropped from 45 to 37 in about ten years' time was a good example. In commenting on the paper, he made the following points:

(i) he agreed with the statement made on page 7, namely, that a major effort to understand what combinations of development efforts had specific demographic effects should have high priority in the Bank, as in the field in general; he asked the Research Committee to consider action on this matter and he asked DPS to report back to the PC;

(ii) he agreed with recommendation 3(d); namely, that the Bank should selectively measure the population impact of social sector projects;

(iii) he asked Mr. Stern to work on recommendation 4; i.e., that the Bank should include population considerations on a substantial and consistent basis in its country economic reports; at times he had sensed a lack of interest on the part of many country economists which partly reflected the views of the governments they dealt with; he also asked DPS to work on the proposed manual for country economists;

(iv) he asked CPS and DPS to work on recommendations 5-11; Indonesia would be a good possibility for involvement in important research issues arising in countries where the Bank had population projects; and

(v) with respect to a statement in the paper that large segments of the professional staff continued to be indifferent or even hostile towards population work, he asked Mr. Stern to consider how to stimulate further interest among Bank staff.

Legal Rights of Staff

Mr. Chadenet reported on the status of work on legal rights of staff. The Management/Staff Association Task Force had agreed on terms of reference and recruited consultants for analyzing the legal rights situation in a few private MNCs and other international institutions. The Task Force would (a) list Bank staff rights and obligations and compare them with situations in other institutions, and (b) consider whether Bank staff was inadequately covered and whether the institution of a tribunal should be recommended. It would report by March 31. There was unanimity among the Task Force members that the Bank had to move towards a tribunal; however, it would be premature for Mr. McNamara to agree to such a step at this point in time. Among others, the Board would first have to be consulted. Three basic issues had been identified: (i) the contractual value of personnel documents and whether they should be changed towards UN-type rules and regulations which had a contractual value; (ii) institution and jurisdiction of a tribunal and whether it should be the Bank's own or the UN tribunal; and (iii) the concept of acquired rights.

Mr. McNamara commented that he anticipated a development where staff would argue that none of the recommendations of the Kafka Committee could be acted upon until the acquired rights issue had been settled. He asked Mr. Chadenet to keep the PC informed about progress of the work.

African Contact Group

Mr. Chaufournier reported on Mr. McNamara's meeting with Minister Marcel-Yondo and other members of the African Contact Group which had been planned as a follow-up to the discussion at the Annual Meeting. The following issues had been dealt with: (a) replenishment of IDA; (b) IBRD Capital Increase; (c) allocation of Bank lending to Africa, and (d) African participation on Bank staff. Mr. McNamara said that it had been a very constructive meeting and that the African Governors intended to lend their strong support to the IDA replenishment and IBRD Capital Increase. Mr. Chadenet reported that the study group on allegations of racial discrimination in the Bank had been instituted; Mr. Chatenay was the chairman.

Mr. Chadenet's Succession

Mr. McNamara said that Mr. Chadenet had for some time talked to him about his retirement date. Mr. Chadenet said that his main objective had been to ensure a smooth transition which would enable his successor to deal effectively with the issues of the post-Kafka era, such as career development and office technology. On April 1, Mr. Paijmans would succeed him as Vice President, Administration, Organization, Personnel Management. He himself would remain as Vice President and deal with a long list of issues suggested by Messrs. McNamara and Stern. In a way, he would be the first and only officer of the executive corps which Mr. Baum had suggested at a recent PC meeting. He concluded that he was happy with the solution which was in the interest of the institution. Mr. McNamara said that he was grateful for Mr. Chadenet's willingness to stay on and to take on a number of important special assignments.

Cabinet Changes in India

Mr. Hopper reported that the replacement of Finance Minister Patel by Mr. Charan Singh could have serious implications for India's economic policies. It constituted a very major victory for the north Indian Janata group. Singh was known for his Gandhian village-oriented development concepts. He was also a source of uncertainty vis-a-vis industrial policy and seemed to be in favor of dismantling large industries. Former Health Minister Narain was a close ally of Singh which could lead to problems in the population field. Singh had also become Deputy Prime Minister. At age 82 Moraji Desai had been pressured to step down; Messrs. Ram and Singh were the prime contenders for succession. Because of these ambitions, Mr. Singh's attention might only be partly focused on finance. Manmohan Singh might be forced out.

CKW
February 5, 1979

822/5/6

OFFICE OF THE PRESIDENT

President's Council Meeting, February 5, 1979

Present: Messrs. McNamara, Cargill, van der Meer, Baum, Benjenk, Nurick, Chadenet, de la Renaudiere, Karaosmanoglu, Clark, Damry, Gabriel, Picciotto, Husain, Kearns, Camacho, Rotberg, Gue, RClarke

Kafka Report

Mr. Chadenet reported that preliminary views on the Kafka Report would be obtained from the Board at tomorrow's meeting in Executive Session. The Report would then be sent to Division Chiefs and staff, in order to begin systematic consultation with staff through line managers, with the Staff Association and with the IMF. Mr. McNamara emphasized that every staff member could have a copy. Mr. Chadenet said that management aimed at presenting its formal recommendations to the Board by mid-March, so that a Board decision could be reached by April 17. The Bank was presently also collecting data for the March 1 adjustment, including organizations in Germany, France and Brazil. The IMF's present thinking was developing in the direction of disassociating the March 1 adjustment from action on the Kafka Report. Emotions at the Fund were running high; staff argued that the Report was a non-professional document. The Fund strategy was, on the one hand, to slow down action on the Kafka Report, and, on the other hand, to present three options to its Board as to the March 1 adjustment: (i) a cost-of-living formula as in the past; (ii) an approach based on the Kafka recommendations; or (iii) an adjustment based on an analysis of real salary adjustments undertaken over the last year by three institutions of the U.S., Germany and France. In other words, the Fund paper would not contain any management recommendation; it would be distributed to the Fund's Board on March 8 for discussion on March 16.

In response to a question, Mr. McNamara said that the time schedule outlined by Mr. Chadenet was subject to this week's preliminary Board discussions at the Bank and the Fund. There had been no opportunity yet for formal consultation with the members of the Staff Association. Negotiations with the Fund were hampered by the fact that they had not yet produced any paper. It was sad how views on the respective roles of the Bank and the Fund were swinging. About nine months ago, the Kafka Committee had been outraged by the Bank's behavior; namely, the Bank's insistence on professional standards of examination. At that point, the Bank (and particularly Messrs. Chadenet, RClarke and he himself) was "the devil." Opinion had now completely switched around and staff argued that the Bank had backed the U.S. It had to be understood that the U.S. still very much disagreed with the Kafka Report but would hopefully remain silent. He warned that, if the Kafka Report were discarded, no basis would be left for a rational decision and the institutions would fall back into a situation of political arm-twisting. He emphasized that the Kafka Report was a professional job and had reached the major conclusions that salary levels were about right and that the Bank staff should share in the productivity growth of society.

CKW
February 6, 1979

OFFICE OF THE PRESIDENT

822/5/7

President's Council Meeting, February 12, 1979

Present: Messrs. McNamara, Cargill, Lari, Baum, Benjenk, Nurick, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Rotberg, Stern, Gue

Kafka Report

Mr. Chadenet reported on the preliminary Board discussions of the Kafka Report at the Bank and the Fund. The discussion at the Bank Board had been conducted in a relaxed atmosphere and in a professional way. Mr. Ryrie had delivered the keynote speech. Messrs. Kurth, Mentre and Looijen had urged that general expatriation benefits be introduced and Mr. de Groote had suggested granting 50% of a likely cost-of-living increase. Mr. McNamara had mentioned that Hewitt had been asked to gather data for the March 1 adjustment. At the Fund, the meeting lasted for almost the entire day. Mr. de Larosiere had made a neutral initial statement and Mr. Kafka had made a long introductory speech. According to Mr. Dale, the continental Europeans had argued in strong terms that salaries were generally too low; they had been supported by the New Zealand speaker. There had been strong support for the tax reimbursement formula proposed by the Kafka Report.

German Salary Supplements

Mr. Chadenet reported that the German Government had passed a law to supplement the salaries of all German staff employed by international organizations. According to Mr. Kurth, the reasons were that (a) the salaries of these international institutions were considered generally too low, (b) in the case of the Bank, the political cost of getting the U.S. to agree to expatriation allowances was excessively high, and (c) the U.S. had in the past expressed support for such supplements paid by Governments to their nationals. The formula was to relate Bank staff salaries to those received by corresponding employees of the German Embassy in Washington and to pay 80% of that difference. Mr. Chadenet deplored this development which would be very divisive and could create dual allegiencies of the German Staff.

Mr. McNamara asked Mr. Chadenet to (i) get a copy of the German proposal and to find out whether it had already become law; (ii) check on Bank and Fund procedures in order to establish from a legal point of view whether staff could be allowed to accept such payments; (iii) investigate whether the Japanese Government, as widely believed, already pays such supplements; (iv) check on the U.S. law providing for payments to U.S. Government personnel returning from service in international organizations and (v) check on Mr. Cargill's statement that a German regulation provided for Germans receiving 75% of their pension tax free. He said that he would have to inform the Board about the German law before taking any position.

Currency Allocation to Borrowers

Mr. Gabriel reported on last week's Board meeting on Distribution of Exchange Risks Among Borrowers. He concluded that Controller's and Computing Activities were now specifying the system which could be introduced at the earliest by July 1980. Mr. McNamara asked Messrs. Cargill, Gabriel, Hattori and Muller to get together and develop a detailed implementation plan. The system would have to be run for at least 2-3 months on a dual basis. In response to a question, Mr. Gabriel said that the Board had been promised a paper on the procedures to be followed under the new system in the case of DFCs within a few weeks.

Office Space Planning

Mr. McNamara reported that a problem had developed as to the purchase or lease of the 801-19th Street building. Some years ago he had suggested buying that property because of its good location, favorable price and the uncertainty surrounding the GW location at that time; however, one of the owners did not want to sell for personal tax reasons. There had been ample time for negotiations because the owners had agreed to an extension of the present lease for another year from March 31, 1979. In refusing to honor that promise, the owners now presented the Bank with the following alternatives: (a) to abandon the building, (b) to lease for another six years at unfavorable terms, or (c) to purchase the building at a high price above fair market value. They obviously realized that they have the Bank over a barrel. He was not willing to tolerate the situation of being taken advantage of by unscrupulous behavior.

IBRD Capital Increase

Mr. McNamara reported that the Board discussion on the paid-in portion of the capital increase had been deferred because there was at present no unity in the Board on this issue. The discussion was now scheduled for February 27. The paper on voting rights and Board representation would be distributed to the Directors today for discussion on March 1. Three separate memos would be sent to the Board this week on selective increases for Yugoslavia and Japan and increases for 11 countries corresponding to their seventh quota increases at the Fund. Japan had linked an increase in its IDA VI contribution to a satisfactory increase in its voting rights at the Bank, i.e., an increase to approximately the German level. Finally, a Board discussion of a formal capital increase resolution to the Governors had been scheduled for April 10.

Maintenance-of-Value

Mr. McNamara said that Board discussion of IBRD capital valuation would be scheduled for late April. The meeting would not come to a final agreement but would have to agree on how to handle this issue with respect to the capital increase.

Review of Lending Rate Formula

Mr. McNamara reported that a paper on this issue would be distributed to the Board by mid-June for review in mid-July; however, a preliminary Board discussion on the lending rate for the fourth quarter would have to take place on April 3 because under the present formula the lending rate was expected to be increased substantially for the fourth quarter without any real justification.

Graduation Policy

Mr. McNamara said that an exhaustive analysis was under way on the Bank's lending criteria with respect to higher-income developing countries. A paper would be distributed to the Board around mid-April for discussion in May.

Mr. McNamara said that, in the case of all these papers, the scheduling would allow for ample discussion in the PC.

Absence Next Week

Mr. McNamara said that he planned to be away from Tuesday-Friday next week (February 20-23).

CKW
February 13, 1979

OFFICE OF THE PRESIDENT

822/5/8

President's Council Meeting, February 26, 1979

Present: Messrs. McNamara, Cargill, Lari, Baum, Benjenk, Nurick, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Parmar, Rotberg, Stern, Wapenhans, Weiner, RClarke

Publication of Quarterly Survey of Economic Trends

The meeting discussed Mr. Karaosmanoglu's memorandum, dated February 6, on whether to publish DPS' Quarterly Survey of Economic Trends by including it with the World Economic and Social Indicators in a revised format on the lines of the Morgan Guaranty World Financial Markets.

Mr. McNamara said that he agreed in principle with publication of the Survey on a quarterly basis but that a two-step approach was required:

(i) the January issue of the Survey and of the World Economic and Social Indicators should be marked up specifically for publication; also, other publications now available, including IMF documents, should be examined in order to establish which data were covered elsewhere; DPS should mark up those data of the Survey, presently an internal document, which would have to be omitted because of confidentiality; this would probably lead to an internal and a published edition; further, a distribution list for the publication should be produced; distribution would probably be free; and, finally, the budgetary implications should be laid out; and

(ii) the publication should be test-marketed with governments through PC and Board members. He doubted that PC members presently made use of the document.

Mr. Chenery said that, given the Bank's budget limitations, publication of the Survey was not of high priority. On the benefit side, there was the problem of confidentiality of data. Mr. McNamara disagreed. Cost was not the issue if substantial benefits could be identified. A periodic thoughtful definitive statement on economic trends was very useful for the public.

IBRD Capital Increase--Voting Power

Mr. McNamara reported that Board consideration of the paper on voting shares had already been postponed from March 1 to March 5. Mr. Johnston had now requested further postponement. He was inclined to propose further postponement to March 13 and to postpone his trip to Thailand and Indonesia. Such a postponement was also required because of serious problems with the proposed special increase for Japan which in turn was tied to a satisfactory agreement on IDA burden-sharing. Finally, there was also no agreement yet between the U.S. and Germany on the paid-in portion under the general capital increase. Mr. Stern added that the Board would know by today that the French were opposing the Japanese increase. Mr. McNamara said that postponement of the Board meeting on voting power would buy time for settling the Japanese issue. He asked Mr. Damry to ask the Board for postponement of the voting power meeting to March 13.

Mr. McNamara asked Mr. Cargill to check with Mr. Fried why the U.S. opposed the allocation of membership votes. Apparently Mr. Fried objected to the provision of maintaining the voting power of LDCs by giving 250 shares to all members. Further, he also objected to the addition of this 250 allocation to the doubling of capital. Mr. Damry added that Mr. Magnussen was also opposed to the proposal of the allocation of the 250 shares to all members being additional to doubling. Mr. McNamara asked Mr. Cargill to ensure that P&B kept an analysis of the economic factors determing voting shares of members.

Mr. McNamara asked Mr. Cargill to check with Mr. Fried as to whether he would support a 5% paid-in portion at tomorrow's Board meeting. If he did, the Germans would have to be brought around. If Mr. Fried had no authority yet, the meeting should be deferred to Thursday of this week.

Informal Board Meeting on Kafka Report

Mr. McNamara asked Messrs. Chadenet and Damry for their views on whether a further informal Board meeting on the Kafka Report was desirable. They replied that, particularly in view of the fact that the Fund had already had three Board meetings on the subject, they would recommend that such a meeting be convened this week. It was agreed that an informal meeting would be held.

FY80 Budget Estimates

Mr. Gabriel reported that P&B had not yet received the budget requests from all units; however, the requests received were running at very high levels, i.e., about twice what P&B had considered to be a maximum. As far as the Regions were concerned, these high levels reflected mainly increases in certain work co-efficients. He warned that management would have to make some painful decisions.

Compensation--Tax Reimbursement

Mr. Clarke reported that the Staff Association's Delegate Assembly had passed a resolution last Friday which rejected both the Kafka Report and management's preliminary position as unacceptable, particularly on the grounds that the proposals for A-I staff were totally inadequate, that there was a serious impact of the proposed tax reimbursement formula on lower-level staff, and that the procedure under the proposed salary adjustment formula was not clear and could lead to reduction of real salaries. The Delegate Assembly had asked the Executive Committee to enter into consultations with management, if such consultations were genuine. In order to undertake the necessary steps to preserve the integrity of the institution, the Delegate Assembly had asked the Executive Committee to come up with a program of action if management presented unacceptable recommendations to the Board. As to the IMF, he said that management planned to have a paper to the Board around March 20. In response to a suggestion, Mr. McNamara said that the Bank should join the Fund in conducting a thorough study of the problems of staff from high-income countries.

Mr. McNamara said that there were very substantial differences in reimbursement amounts between the UN system and the proposed average deduction system for tax reimbursements to U.S. nationals. The cost to the Bank of the present standard deduction system and the UN system were about the same (about $10 million) but showed very different incidence; the cost to the Bank of the proposed average deduction system would be $6.4 million; however, this was not the important criterion; rather equity for individuals and appropriateness in the public sense should be the criteria.

Mr. Stern said that the Staff Association paper on tax reimbursement raised the technical issues of (i) what the calculations should be for the Washington area, and (ii) how to grandfather it. Mr. Baum said that, as a matter of principle, the issue of treatment of other income would have to be considered, i.e., whether to treat spouse or other income first or last or whether to introduce a pro rata system or a ceiling on income treated as first. With regard to the calculation of average deductions for the Washington area, Mr. Clarke said that Arthur Anderson adjusted national averages for state taxes and housing costs in the Washington area. As to grandfathering, Mr. Stern said that three options were possible: (a) to grandfather everybody presently on the Bank staff; this of course would be undesirable; (b) the proposed ten-year transition; and (c) an option on transition, namely, the ten-year formula or submittance of actual tax forms, in order to make sure that the Bank reimbursed the actual amounts paid for taxes. Mr. McNamara asked Mr. Clarke to use Arthur Anderson to look into this proposal of individual treatment designed for low-deduction individuals to avoid under-reimbursement.

Mr. Nurick said that the proposed change to the average deduction system would be a change of the By-Laws. Mr. McNamara asked Mr. Nurick to get outside counsel on this issue, i.e., whether the Bank could legally do what Kafka recommended.

Mr. McNamara said that a committee consisting of Messrs. Clarke, Gabriel and Wood should be instituted to review the Staff Association's tax reimbursement paper and to prepare a technical note for PC consideration.

CKW
March 1, 1979

OFFICE OF THE PRESIDENT

822/5/9

President's Council Meeting, February 28, 1979

Present: Messrs. McNamara, Cargill, Lari, Baum, Benjenk, Chaufournier, Chenery, Clark, Gabriel, Hopper, Husain, Kearns, Parmar, Hittmair, Stern, Wapenhans, Weiner, RClarke, Trott, Sommers

A-I Staff

Mr. McNamara said that the meeting should consider the question of whether to advance a proposal for A-I staff compensation which was different from the Kafka Report recommendation and management's initial position. Kafka had recommended that A-I staff salaries be based on USCS total compensation plus 10% which had been translated into USCS direct pay plus 5% as the equivalent. The issue was whether the Kafka recommendations should be accepted or whether the comparator of A-I staff should be more comparable to the comparators used for professional staff, i.e., adopting a 50/50 U.S. public/private comparator mix plus 10% quality premium.

Mr. Clarke said that matches for A-I staff were only available at four levels for three Washington-based private sector organizations, namely, COMSAT, API and Arthur Anderson. The alternatives were either to use the four local comparators (USCS as public comparator and the three above-mentioned private comparators) on a 50/50 public/private basis, or to go to all 20 private comparators used for the professional staff matches which would require about two months. His strong suspicion was that the latter would yield a much lower base than either the USCS plus 5% in direct pay or the 50/50 public/private comparator mix based on Washington firms; e.g., New York pay levels for support staff were lower than in Washington.

Mr. Benjenk said that two purposes had to be served by the formula to be developed, namely, (a) to give support staff the best possible benefits and (b) to come as close as possible to the formula used for professional staff. Principles loomed as important in people's minds as figures. Direct pay was more important to support staff than total compensation because of higher turnover among support staff than professionals. Mr. Chaufournier said that there was great dissatisfaction among staff about the matching exercises, particularly because of differences between the matches established by Hewitt and the levels from which the Bank was actually recruiting. He suggested taking another year in order to do a more profound study.

Mr. McNamara argued that it was professionally feasible to do such an analysis in a reasonable period of time because these matches were not as complicated as for professionals. He wondered whether API, COMSAT and Arthur Anderson were typical of the Washington market. Hewitt's judgment on this issue had to be obtained. People tended to stand on principle as long as it was in their interest. He was therefore worried that switching to a 50/50 formula might result in a lower base than USCS. In response to a question from Mr. Chaufournier, he said that many other factors, rather than only compensation, led to the Bank experiencing recruiting problems. He had agreed that Personnel would begin international recruiting of support staff, initially on a limited trial basis.

Mr. McNamara asked how many PC members would favor making the following statement to the IMF during the forthcoming consultations: there was a serious morale problem with A-I staff because of the use of comparators which were different from the ones used for professional staff. Management was ready to consider using the same comparators (i.e., the 20 firms) and the same application (i.e., 50/50 mix plus 10%) as for professionals. Since there might be a timing problem as to data collection, the use of the available Washington area comparators should be considered as a substitute. If the IMF agreed with this proposal, management could raise it with Mr. Kafka and the Staff Association.

There was a strong majority among PC members for that approach. It was felt that it would help with the present morale crisis.

Mr. McNamara emphasized again that management's objective was not to have a "happy staff" but to carry out its responsibility, i.e., to find the right compensation structure, but hopefully so intelligently that it would also satisfy staff.

IBRD Capital Increase and IDA VI Replenishment

Mr. McNamara said that very serious problems had been encountered which could lead to the total collapse of both the capital increase and the IDA replenishment. The main issue was France's position vis-a-vis the proposed increase in capital stock for Japan. The issue did not have so much to do with money as with power and political influence. If the Finance Ministers were asked to focus on these problems, many other political issues would come in, such as the EMS, the French-German relationship and political security. Tough political negotiations lay ahead. In response to a question by Mr. Baum, he said that the issue of paid-in portion under the capital increase involved only Germany and the U.S. and could probably soon be resolved.

China

Mr. Stern pointed to the newspaper article by the Journal of Commerce reporting on the conclusion of an official Bank mission to China. He emphasized that the Bank staff members who had recently visited China on a purely private capacity had not had any official contact of any kind. They had also no informal role to play. Mr. McNamara asked Mr. Clark to make such clarifying statements to the press on an unofficial basis.

CKW
March 6, 1979

OFFICE OF THE PRESIDENT

822/5/10

President's Council, March 5, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Broches, Clarke, Thalwitz, Chenery, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Hittmair, Stern, Wapenhans, Weiner, Haq, Lerdau, Mrs. Boskey

Compensation

Mr. Clarke reported on the initial consultations with the Staff Association on the Kafka Report and on management's initial recommendations. The Staff Association wanted a formal assurance in writing that these were genuine consultations as far as management was concerned; this had led to a formal request to Mr. McNamara. Although the word "negotiations" had been avoided, they clearly had joint management/staff recommendations to the Board in mind. Management's reply should be that this was not possible but that the Staff Association could state its case separately to the Board. Formal consultations with the IMF would be started this afternoon. As to A-I staff, the Fund would probably favor USCS plus 10% on direct pay. With respect to last week's informal Bank Board discussion, a number of Directors had expressed their strong surprise about the unprofessional nature of staff reactions to the Report. A number of speakers had been embarrassed by the fact that the staff appeared to believe that improper motives were behind the Kafka Report. They had also pointed to the impairment of staff productivity resulting from the endless rounds of compensation discussions among staff. As to substance, a number of Directors had suggested considering a different A-I approach, and the problem of nationals from higher-income countries; one Director had criticized the proposed 10-year transition period on tax reimbursement. Most Directors had pressed for flexibility in terms of management's reaction. Mr. McNamara confirmed that the EDs' reaction to staff had been fierce, and more so than he had expected. They were embarrassed by the lack of professionalism reflected in staff documents.

Brazil Human Resources Report

Mr. Haq said that this was one of the seven country studies undertaken since last year in the area of basic human needs. There were also five sector studies underway. The idea was to explore how a focus on basic needs could add to the Bank's economic analysis and policy dialogue with governments. This report was the result of collaboration between the Region and DPS staff. Once all basic needs studies were completed, an over-view paper would be prepared in April 1979 which would draw the broad lessons and deal with issues of policy dialogue and lending program implications. Help from outside consultants had been obtained in order to ensure an objective view. As to the Brazil report, the important finding was that, despite high levels of growth, 60% of the population was still living in absolute poverty, measured by nutritional standards. If high growth rates continued to the year 2000, there would still be a large number of absolute poor.

Mr. Barletta said that the report had been well received by Brazilian authorites including Ministers Simonsen and Velloso. Most Brazilian officials wanted it to be published. The report helped in raising the sensitivity of government to these issues and in stimulating policy discussion on how to complement growth policies with poverty programs. However, one had to be aware of the formidable administrative and institutional obstacles to implementation of such poverty programs.

In response to a question by Mr. Husain, Mr. Lerdau said that the conclusions of the report were a bit simplistic, particularly the assumption that some increased spending at the margin would "make it." The example of the Bank's involvement in Northeast Brazil rural development programs demonstrated clearly that formidable institutional and organizational hurdles had to be overcome. Mr. Barletta pointed to the tradition of "consumerism" in Latin America. Perhaps because there was no centuries-old cultural framework in Latin America, these societies tended to jump too fast into modern patterns. Mr. Husain said that the most important problem to be addressed under a basic needs strategy was the structure of production which was geared towards consumer durables such as automobiles. The important issue to be addressed was the degree of flexibility governments had in changing that structure. He therefore had doubts about the solutions proposed by the report. Mr. Qureshi agreed; one did not meet the problem by simply allocating a certain increased percentage of GDP.

Mr. Baum enquired about guidance required by staff, i.e., whether, under the Bank's basic needs work, welfare targets had to be considered as final objectives or whether these targets were only an input into a broader growth strategy. Mr. Chenery said that these issues would be addressed by Mr. Haq's over-view report, but that he hoped that there would be no Bank position on these ethical questions which had to be resolved by every government.

Mr. Cargill observed that the report indicated problems of a magnitude which would make it highly undesirable for the Bank to graduate Brazil in the foreseeable future from Bank lending.

Mr. McNamara said that the Brazil report had struck him as the best effort so far. The report should be published and he asked Mr. Barletta to send him a note in 1-1/2 months' time on where the Bank stood on publication of the study. Also, he asked Mr. Hopper for a note in six weeks' time on whether to publish the Sri Lanka basic needs report.

IBRD Capital Increase

Mr. McNamara reported on the status of the discussion among major shareholders on the paid-in portion and voting shares. He hoped that the present U.S./German disagreement on the paid-in portion could be resolved by their Finance Ministers during the Interim Committee meeting this week.

CKW
March 6, 1979

822/5/11

OFFICE OF THE PRESIDENT

President's Council Meeting, March 12, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Bart, Broches, Thalwitz, Chenery, Clark, Damry, Vergin, Hopper, Husain, Kearns, Qureshi, Rotberg, Stern, Wapenhans, Weiner, RClarke, Paijmans

Compensation

Mr. Clarke reported that consultations with the IMF and the Staff Association were proceeding well. The first meeting with the Staff Association had dealt with support staff; the Staff Association endorsed a 50/50 public/private sector comparator mix with local firms as the private sector comparators. Mr. McNamara said that he was concerned about accepting local firms as the comparators. Messrs. Clarke and Stern said that this had been agreed at an earlier meeting and that the representativeness of these local firms would be checked. With regard to tax reimbursement, Mr. Clarke said that the study of the Joe Wood committee would be available by the end of the month. The data for the March 1 adjustment exercise would be available by the end of the month as far as the U.S. comparators were concerned and by April 10 for the French, German and Brazilian comparators.

Mr. McNamara asked the PC members to summarize the comments received from their staff during their meetings held on compensation. Mr. Husain said that the general environment was bad, including staff at the Division Chief level. Mr. McNamara enquired whether the Vice Presidents met regularly with their middle management without participation of non-management level staff. It was important to have a consistent management approach to the Division Chief level. All Vice Presidents confirmed that they indeed met with their Division Chiefs on a regular basis.

Mr. Husain said that the three areas of greatest concern to staff were: (i) the use of only U.S. comparators; there was unease on the principle and on the resulting dependence on one country only; (ii) the expected future cut of real salaries which was perceived as a result of the new system; and (iii) the support staff formula. There was also apprehension on the merging of the annual adjustment and merit increase in a period of high inflation. Mr. Baum confirmed that staff viewed this merging of annual adjustment and merit increase as a possibility for management to manipulate numbers. Mr. Stern agreed that this suspicion had to be removed. Mr. McNamara said that this issue posed a philosophical and technical problem. The intent had been to allocate a portion of the cost-of-living offset to the discretionary merit increase. Management had to wait for the data presently being collected before making a final decision. He had been opposed to this approach from the beginning but a majority of the Compensation Steering Group had favored such a formula.

Mr. McNamara said that the experience gained from dealing with compensation demonstrated clearly that it was impossible to deal with compensation issues through management and staff only. Management had to start thinking about an alternative salary-setting structure. The Kafka Committee had proved to be a most disagreeable setup. Assistance from consultants was not sufficient. He wondered whether the Bank would not have to move towards a setup similar to the UN system, i.e., an independent outside standing committee on compensation. The same development could be observed at the EC.

Mr. Baum said that, based on his discussions with staff, he would add another issue to the list mentioned by Mr. Husain, namely, tax reimbursement. If a vote were taken, 95% of the staff would favor the UN system. Staff were used to thinking in terms of net salary. They argued that the new formula would lead to a large percentage of staff being reimbursed less than their actual tax payment. Mr. McNamara said that management philosophy had been to get the highest possible net salaries for staff. If reimbursement turned out to be less than actual tax payment, this indicated that the wrong calculation of net salary had been made. Mr. Stern questioned whether the burden of adjustment should fall on one nationality. Mr. Chenery said that the formula treated U.S. nationals correctly but everybody else got a bonus. Mr. McNamara agreed. In a way this bonus compensated expatriates for the psychic costs of expatriation. Admittedly, it was a very poor way of accomplishing that. Staff tended to define expatriation allowance as the difference in pay between U.S. staff and other nationalities. The correct definition was the difference between expatriates' pay at home and at the Bank.

Mr. McNamara said that position papers should be prepared on the following issues:

(i) tax reimbursement--procedures to be followed in determining average deductions;

(ii) tax reimbursement--guarantee of reimbursement equal to taxes paid;

(iii) support staff comparators;

(iv) initiation of fourth-year review as basis for next year's adjustment;

(v) March 1 adjustment; and

(vi) division of general adjustment between merit increase and annual adjustment.

Mr. Wapenhans commented that the comparators and job matches were generally rejected by staff. Staff believed that serious recruitment problems are already leading to recruitment of second-best choices. Staff should not be permitted to argue that this was the case. He did not want to hear that quality in this institution was sacrificed. The Bank would not become a second-class institution. Of course, the Bank did not pay the highest salaries in the world; but compensation in the Bank was not only financial. Bank staff believed in what the institution was doing.

Mr. Stern said that there was a basic uncertainty among staff about the future. The faith in the institution was badly shaken. People did not listen any more, and did not feel part of the team. The dedication coefficient had disappeared.

Mr. Hopper agreed. In his regular meetings with Division Chiefs, deep anger was being expressed. There was a general distrust and lack of confidence in the advice of the President's Council. The PC members could line up the arguments logically and owed it to Mr. McNamara to reflect on the general ambience; however, a much greater participation between the PC and Mr. McNamara was required. Mr. McNamara had to make the ultimate decision. The general ambience in the institution was at issue, not Kafka. These other issues had to be put on the table. Mr. McNamara said that these other issues could be addressed at one of the next PC meetings and that the OVP meetings were also a good forum. Management had to act responsibly in view of its several constituencies.

IBRD Capital Increase

Mr. McNamara reported that excellent progress had been made during the last week. Some loose ends still had to be dealt with this week. Nobody a year ago would have believed that a $40 billion IBRD capital increase and a $12-$13 billion IDA replenishment would be obtained. However, the 15 Directors who were not in on the decisions last week were unhappy about the G-5 resolving the problems among themselves. These hard feelings towards the G-5 resembled those expressed by many countries as to the summit meetings.

CKW
March 15, 1979

OFFICE OF THE PRESIDENT

822/5/12

President's Council and Compensation Steering Group Meeting, March 20, 1979

Present: Messrs. McNamara, Baum, Broches, Chaufournier, Clark, Damry, Gabriel, Husain, McClure, Paijmans, Rotberg, Stern, Weiner, Bart, Karaosmanoglu, Lari, Kearns, Wiehen, RClarke, Trott, Gue, Sommers

Recognition of Merit

There was a strong majority in favor of distributing the entire annual adjustment uniformly across-the-board, i.e., to separate the annual adjustment and merit increase in the present period. Mr. Clarke reported that the Staff Association believed in the need for a general expatriation allowance. Mr. McNamara said that management had to agree on a clear definition of expatriation. In his view, an expatriation allowance should be defined as the differential between salary levels at the Bank for non-U.S. nationals and salaries paid to these nationals in their home countries. Mr. Broches said that a different definition had been adopted by other international institutions, namely, differential between pay of U.S. nationals at the Bank and pay of non-U.S. nationals at the Bank.

Education Benefits

It was decided that, for the time being, the present system would be continued but adjusted (a) for inflation, and (b) to include the five-year olds.

Housing Loan

A clear majority favored liberalizing amounts but charging market rates on the grounds that access to loans was more important than cost.

Home Leave Travel

It was agreed that the frequency of Home Leave travel would be left unchanged.

Settling-In Grant

It was agreed that the Kafka recommendation of a modest liberalization would be followed which might also have recruitment benefits.

Termination Grant

It was decided that this issue would be taken up again at the next Compensation Steering Group meeting.

Initial Value of Pensions and Expenditures in Home Currencies

It was agreed that further study of these issues was required.

Home Leave Allowance

It was decided that this issue would be taken up again at the next Compensation Steering Group meeting.

U.S. House of Representatives Article on IFIs and Jack Anderson Article

Mr. McNamara read his memorandum to the Board in which he announced that Mr. Weiner would conduct a thorough investigation on the accusations contained in the Report. Mr. Clark would communicate this to the press on request. The Board was concerned that the Congressional investigation committee might have misused confidentiality of information. As so often, this Report constituted a hatchet job which was released to reporters only after distortions had been leaked to favorites. The Bank should not create further stories by overreacting. Response to the Report had to come from the Administration and take place on The Hill. One had to be very shrewd because these critics of the Bank were "tough bastards." First, one had to cast discredit on the motives of the authors and then point to all the factual mistakes. This Report could not have come at a worse time; in another 60 days, the Bank would have completed action on the general capital increase and IDA VI replenishment.

CKW
March 30, 1979

OFFICE OF THE PRESIDENT

922/5/13

President's Council Meeting, March 22, 1979

Present: Messrs. McNamara, Barletta, Baum, Broches, Chaufournier, Clark, Damry, Gabriel, Husain, Karaosmanoglu, Kearns, McClure, Paijmans, Rotberg, Stern, Weiner, Bart, Gue, Wiehen

Lending Rate

Mr. McNamara said that, under the present lending rate formula, the use of a costly proxy for U.S. borrowing would lead to a substantial increase in the rate for the fourth quarter of FY79. He had told the Board repeatedly that a new formula would have to be developed; however, this was difficult to accomplish before July 1979. The alternatives for action now were (i) to apply the present formula which would lead to a lending rate of 7.9% for the fourth quarter; (ii) to continue applying the present third quarter rate of 7%; or (iii) to set a rate in between which would reflect the lending rate anticipated for the end of the year. Under the new formula to be developed, the Bank should revert to the old procedure, based on the objective of lending at lowest cost, i.e., at the minimum profits level ensuring minimum cost of borrowing, and should move from one judgment to the other by only gradually adjusting the lending rate up and down. Under next year's borrowing program, the Bank would probably borrow in the U.S. long-term which would require the lending rate to go up slowly to about 8%-8.5% at the end of the year. The Bank could not keep out of the U.S. market completely because it thereby shrank that market. If borrowing requirements in the U.S. would amount to $3 billion in FY81, some borrowing had to be done in FY80.

Mr. Rotberg said that next year's $5 billion borrowing program would require two issues in the U.S. in FY80 which would result in an over-all borrowing cost of about 8% for FY80. If only one U.S. issue were undertaken, the over-all borrowing cost for FY80 would be 7.5%. Adding 50 basis points and aiming at a gradual increase of the lending rate, the rate should now be set at 7.5%.

Mr. Stern said that the proposal for deviating from the present lending formula for the fourth quarter came very late and was not based on prior consultations with the Board. Some Board members would object to such a move, arguing that this represented a substantial change in policy. On tactical grounds, it was legitimate to stay at the 7% level for the fourth quarter; the rate could be raised in July to 7.5%, in September to 7.75%, and in December to 8%. Cost to the Bank should not be a major consideration because income was running well above the target for this year. He would be inclined to say that the Board should freeze the rate at 7% for the fourth quarter and discuss the proposal for a new formula shortly after June 30.

Mr. McNamara disagreed. Present loans made by the Bank were underpriced because a large portion of their future disbursements would be in U.S. dollars at a cost of over 7.5% plus 50 basis points. Management could express its reluctancy at proposing as large an increase as .9% but could, on the other hand, argue that the cost of present loans would far exceed 7% and that it therefore proposed 7.5%.

Mr. Stern disagreed. He was concerned about the tactical argument with the Board. It was difficult at this point in time to state what the right level should be.

Mr. Gabriel said that, based on his argumentation, Mr. Stern could as well conclude that the fourth quarter rate should be fixed at 7.9%, i.e., that one should let the formula work its way. As to the future lending rate formula, he emphasized the attraction of the automaticity of the present formula. Mr. McNamara replied that he was opposed to such a formula; experience showed clearly that it could not catch all variables.

Mr. Husain agreed with Mr. Stern. As to Mr. McNamara's argument of underpricing of present loans, this also applied to past loans. The formula should not be changed too frequently.

Mr. Baum said that he advocated either 7.9% or 7%. The formula could not be changed, i.e., the rate could not be fixed at 7.5% without a full Board discussion.

Mr. McNamara said that, if there were a strong view that the formula should be adhered to, the formula should be let to work its way and the lending rate for the fourth quarter should be set at 7.9%. Fixing the lending rate at 7% would be irresponsible.

Mr. Rotberg advocated a lower rate than 7.9%. Mr. McNamara replied that, for the first time in 11 years, Mr. Rotberg had argued in favor of lower pofits than he himself proposed.

It was decided that the fourth quarter FY79 lending rate should be set at 7.9%.

CKW
March 30, 1979

OFFICE OF THE PRESIDENT

922/5/14

President's Council Meeting, March 26, 1979

Present: Messrs. McNamara, Barletta, van der Tak, Benjenk, Broches, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Wiehen, Husain, Paijmans, Kearns, McClure, Hittmaier, Stern, Wapenhans, Weiner, RClarke, Trott

IMF Management Paper on Compensation

Mr. Clarke reported that agreement had been reached with the Fund on bringing forward the next major review to the fall of this year. No extensive consultation on the other major issues had yet been carried out with the Fund. The main differences between the positions of the managements of the Fund and the Bank were the following:

1. With respect to support staff, the Bank proposed a mixed public/private sector basket, whereas the Fund's preference was for USCS only; both supported the 10% premium. Also, taking advantage of the fact that matches for secretaries had been found by Hewitt in several USCS grades, the Fund had eliminated the bottom ones.

2. As to professional staff, the Fund favored private sector East Coast comparators only, excluding consulting firms; also the Fund argued that there were no insurmountable technical problems in setting salaries by using an international basket.

3. With regard to tax reimbursement, the Fund would accept the average deductions system only with reluctance.

4. As to salary administration, the Fund rejected the Kafka view that merit increases and annual adjustments should not exceed the average salary movements in the comparators.

5. As to future procedures, the Fund argued that its annual comparisons should open job matches and comparators.

6. The Fund rejected the recommendation of a joint committee of the two Boards on compensation and reacted negatively to the concept of parallelism.

Mr. McNamara said that the most worrisome general thesis of the Fund paper was that parallelism was not justified.

Meeting with President Sadat

In response to a question, Mr. McNamara said that he and Mr. Benjenk would meet with President Sadat tomorrow at 1:00 p.m. The President would probably wish to discuss extended Bank assistance to Egypt; also, he would probably raise the possibility of Bank technical assistance through the establishment of a Bank office in Cairo.

Borrowers' Perceptions of the Bank

Mr. Weiner said that a number of the critical views of the Bank expressed by the recent U.S. House of Representatives Appropriations Committee Report on the

International Financial Institutions had also been expressed to him in his contacts with Bank borrowers. However, these critical views had been expressed by borrowers in the general context of great appreciation of the Bank's financial and technical role. This was not the case in the Congress Report. In reporting on borrowers' perceptions of the Bank, he would like to depart from the following general question: Why do some borrowers see the Bank as inward-looking, overbearing and not responsive? He then tried to phrase his answers in a series of questions addressed to the Operational Vice Presidents:

1. Are you satisfied that Bank missions explain their purpose and findings adequately to the borrowers? Borrowers' perceptions of course derive from their contact with staff. In his view, based on comments received on Bank projects and economic work, Bank staff did not perform adequately their communicative and diplomatic function.

2. Should the Bank not be concerned about the high cost to countries of oversophisticated analysis?

3. Do your staff work under overtight schedules which are not the borrowers' schedules?

4. Are you satisfied that borrowers receive an adequate feedback? He had frequently received complaints that, for example, feedback on appraisal and supervision missions were received very late if at all.

5. Are you satisfied that the early stages of the project cycle were managed in a way to give the borrower a sense of identity so that he was not alienated from the project? The Congressional Report had also picked up on this issue.

Mr. Benjenk commented that these problems as reported by Mr. Weiner occurred more frequently with technical ministries than with the core ministries of planning, finance and economy. The latter spoke the same language as Bank missions and communicated with Bank staff more regularly. The Bank was certainly at times excessively inward-oriented; however, the Bank was not unresponsive.

Mr. Chaufournier said that Bank missions were frequently carried out by younger staff who had to face the difficulty of not being easily accepted by senior officials in LDCs. The Bank frequently missed opportunities to communicate, to convey a sense of identity and to participate. As to the problem of overtight schedules and internal processes in the Bank, staff had to understand that these were their own procedures.

Mr. Broches said that at loan negotiations Bank staff frequently referred to "our" project rather than "their" project. Mr. Damry said that Mr. Weiner's comments were expressed in even greater force by borrowers to the EDs. Mr. Chadenet said that staff needed to be sensitized and made aware of the perversion of the money-transfer process which easily led to staff arrogance and to borrowers being less than candid.

Mr. Husain said that the Bank was working at the frontiers of absorptive capacity and feasibility. Although staff had to be better sensitized, interactions between Bank staff and borrowers would continue to be a frictional process. Mr. Barletta said that both in his former and in his present capacity he had frequently noticed that Bank missions were not sufficiently aware of the political constraints under which Bank borrowers had to operate. Emphasis had to be placed on solutions which were both politically acceptable and technically sound.

Mr. Stern said that management had to be clear about what level of perfection could be achieved with a staff of 2,500. A certain extent of friction was unavoidable and was also introduced by the borrowers; it was never pleasant to borrow money. The Bank should not expect all borrowers to love us. Also, many borrowers had alternative sources of finance. The Bank should be outwardlooking and look at the bottom line.

Mr. McNamara said that, with respect to the criticism of overbearing of staff, this happened less now than in the past. Staff should feel responsible for what the borrowers' perception was. The Bank was in a very weak position if staff perceived projects to be "our" rather than "their" projects. Bank staff could be more sensitive, he himself included. He asked Mr. Weiner to report periodically, i.e., every three or six months on these issues. Mr. Weiner said that, in addition to his reporting to the PC, the Regional Vice Presidents should reproduce this discussion at the lower levels of the staff. Mr. McNamara agreed.

Scheduling of PC Meetings

Mr. McNamara said that, in view of the importance of regular President's Council/Compensation Steering Group meetings over the next 4-6 weeks, the Monday morning PC should during that period of time take place on Tuesday afternoon at 2:00 p.m., in conjunction with the Compensation Steering Group meeting.

Reaction to the Congressional Report

Mr. McNamara reported that hearings would start tomorrow on The Hill on the House Appropriations Committee Report on the IFIs. Messrs. Bergsten, Fried and Dixon were working hard to reply to the accusations contained in the Report. The Report contained a number of good statements on the Bank's work; however, as always, these good statements got pushed aside by the bad statements.

CKW
March 30, 1979

OFFICE OF THE PRESIDENT

822/5/05

President's Council and Steering Group Meeting, March 27, 1979

Present: Messrs. McNamara, Barletta, Benjenk, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hittmaier, Husain, Nurick, Paijmans, McClure, Stern, Wapenhans, Weiner, RClarke, Kearns, van der Tak, Wiehen, Trott, Sommers

Scheduling of Compensation Steering Group and PC Meetings

Mr. McNamara said that, for the next 4-6 weeks, regular Compensation Steering Group meetings should be held at 9:30 a.m. on Mondays in conjunction with the regular PC meetings.

IMF

Mr. McNamara reported on his telephone conversation with Mr. de Larosiere. The Managing Director had not yet focused on the Fund management paper on compensation; however, the paper had already gone to the Staff Association and Department Heads. Mr. de Larosiere had stated that he agreed with the recommendations contained in the Kafka Report except for (a) the unsatisfactory job matches for Fund economists, and (b) the only 5% pay differential for support staff.

Procedure

Mr. Chaufournier asked whether the results of the Compensation Steering Group meetings should be communicated to staff through Mr. Clarke and the Staff Association or through the line managers. Mr. McNamara said that the PC members should not talk to staff about too much detail; however, the important results should be communicated to staff through both the line managers and the Personnel Department. At the end of each meeting, the members of the Compensation Steering Group should agree on the results to be communicated to staff.

Support Staff

It was agreed to accept the draft management paper proposing for support staff a 50-50 public/private sector comparator mix and a 10% premium over direct pay.

With regard to the grade structure, it was agreed that the fact that pay levels for Grades A and B were substantially above pay levels of comparators should be justified by arguing that the Board had stated in the past that the lowest levels should not be paid according to the market. In view of the not sufficiently strongly based Hewitt results on level E, it was agreed to accept the present grading but to state in the text that this had to be considered provisional.

As to the extended range of the Fund, it was decided that the Bank's structure would not be changed at this time, i.e., not to adopt the Fund's extended range.

Repatriation Grant

Mr. Sommers commented that the effect on staff would be devastating if introduction of such a repatriation grant were not made retroactive. He agreed with the Fund position on this point. Mr. Clarke suggested combining repatriation and home leave allowances, i.e., allowing staff to draw down the accrued repatriation grant entitlements for home leave purposes. Mr. Wapenhans argued that, if the Bank considered measures to protect against exchange rate losses, a home leave allowance would not be necessary. He favored the repatriation grant in order to allow for increased costs in home currencies. Mr. Husain said that he feared a division between U.S. and non-U.S. staff on these proposals. In view of all these specific proposals for expatriates, it would be simpler to introduce a general expatriation allowance, and do away with all the special allowances. The Bank should not create a third category of staff by granting home leave allowances only for high-income countries. He said that he would be opposed to a repatriation allowance but would favor adoption of home leave allowances. Mr. Chaufournier said that he would also favor a general expatriation allowance but, under present circumstances, and keeping the objective of recruiting and maintaining expatriates in mind, he would favor a home leave allowance rather than a repatriation allowance. Mr. Chadenet said that the home leave allowance would be very divisive and that he favored a retroactive repatriation allowance. Mr. Benjenk said that he was in favor of the repatriation allowance rather than home leave allowances. Mr. Wiehen favored the retroactive repatriation grant.

Mr. McNamara said that he also favored a repatriation allowance. Also, there was a clear majority that, if the repatriation allowance were introduced, retroactivity should be ensured. It was agreed to raise the minimum length of stay for entitlement from 3-5 years and to set a maximum of 26 weeks' payment accrued over 13 years. Mr. McNamara asked Mr. Clarke to calculate the cost of this formula, particularly the full retroactivity for all expatriate staff, as compared to the cost of the Kafka proposal. It was decided that a home leave allowance would not be introduced.

CKW
March 30, 1979

OFFICE OF THE PRESIDENT

822/5/16

President's Council and Compensation Steering Group Meeting, April 3, 1979

Present: Messrs. McNamara, Cargill, Lerdau, van der Tak, Benjenk, Nurick, Chaufournier, Chenery, Damry, Gabriel, Wiehen, Kirmani, Paijmans, McClure, Rotberg, Stern, Wapenhans, Weiner, Kearns, RClarke, Trott, Sommers

Timing

Mr. Clarke reported that the IMF management planned to distribute their management paper on compensation to the Board on April 9 and to distribute a paper on the Gutowski formula on April 23. The Board paper would not include a proposal on education benefits and would not deal with anomalies under the proposed average deduction formula for tax reimbursement. The Bank was behind in the process because there had been considerably more involvement of senior managers than in the Fund and because it had carried out far more consultations with the Staff Association; however, by Friday night of this week, the bulk of the paper would be ready and management's paper could be distributed to the Board by Friday, April 13. The Staff Association had asked for an opportunity to communicate its final views to the PC in writing before management's final paper was distributed to the Board. Mr. McNamara said that, although the management paper should not be given to the Staff Association before distribution to the Board, Mr. Clarke should give them the substance by extracting the recommendations from the paper. This should be done promptly. In response to a question, Mr. McNamara said that there had been poor communication on the Kafka Report between the Bank and the Fund and that he hoped to reach agreement on the remaining major differences between the Fund's and the Bank's recommendations during his meeting with Mr. de Larosiere on Thursday this week.

It was agreed that next week's Compensation Steering Group should be convened on Tuesday, April 10, at 2:00 p.m., for final discussion of management's paper to the Board. Board discussion should be scheduled for May 3.

With regard to the tax reimbursement formula, Mr. McNamara said that the details would not be ready and that, therefore, only the principles should be put to the Board at this point in time. The same applied to proposals relating to the Gutowski formula. As to the March 1 adjustment, he asked Mr. Clarke to prepare a schedule for further action for next Tuesday's meeting. The Board would have to reach a decision on this matter before May 15.

Remaining Difference With the Fund

Comparator. It was decided that management's recommendation (as agreed upon earlier) would not be changed, i.e., to include in the comparator mix preferably quality under these consulting firms which the Fund plan had to exclude.

Salary Structure. With regard to the proposed revision of differentials at management grades, Mr. McNamara asked Mr. Clarke to give him, before the Thursday meeting, the present and proposed ranges for Levels O, P, and Q.

Support Staff Salary Structure. It was agreed that the existing lower maxima at lower grades would be retained as decided earlier.

Settling-In Grant. It was decided to grant a two-month recruitment bonus for staff (not only expatriates) recruited outside the U.S.

Termination Grant and Home Leave Allowance. Mr. Sommers favored introducing none on the grounds that there would be a general expatriation allowance introduced in the foreseeable future. Mr. McNamara agreed that there would probably be a general expatriation allowance introduced within the next five years; such an allowance would probably be country-specific. Mr. Wapenhans said that, if a termination grant and/or a home leave allowance were now approved, they could in the future easily be subsumed under a general expatriation allowance.

Mr. Stern argued that one had to be clear about the purpose of these proposed allowances. The termination grant should relate closely to the cost of repatriation which should be equivalent to the cost of settling in. He therefore saw no justification for a low settling-in grant and a high termination grant. Home leave allowances should be limited to high-cost countries.

It was decided by clear majority that any home leave allowance should be linked to a Gutowski-type formula, i.e., to make it one component of such a scheme which was presently worked on.

As to the termination allowance, Mr. Paijmans argued for not doing anything if the Fund did the same. However, if the Fund did not agree to forego such an allowance, the Bank would have to do something because this was a very sensitive issue with the staff. Mr. Rotberg argued that the proposed termination grant could not be considered a recruitment inducement.

It was decided by clear majority that no additional termination allowance should be added to the present benefits if the Fund agreed. If the Fund did not agree, the termination grant should be introduced for all staff locating outside the U.S. after leaving the Bank. Such a grant should be made retroactive to cover past service of existing staff. Minimum stay for entitlement should be five years and there should be a maximum accrual of two weeks a year over 13 years.

Housing Loans. Mr. McNamara said that access to housing loans probably constituted a major problem for new staff. Introduction of a substantially liberalized provision of financing at market rates by the Bank would constitute a major recruitment incentive. Mr. Clarke added that, in the early years, new staff members also face a cash-flow problem; interest and amortization payments for the first years should therefore also be financed. Mr. McNamara asked Mr. Clarke to work out a proposal on that basis.

Eligibility for Expatriate Benefits. It was agreed that the IMF approach would be accepted in the interest of parallelism.

Tax Reimbursement. It was decided to propose a 10-year transition period for introduction of the new formula for tax reimbursement for U.S. nationals. Mr. de Larosiere should be asked to join the Bank in proposing such a generous transition period.

Consultation with the Staff Association. Mr. Clarke reported that virtually all aspects had been covered in his consultations with the Staff Association, that they had reached agreement on support staff, had come close to an agreement on professional staff, but were still far apart on expatriation and tax reimbursement. The Staff Association continued to favor the UN system of reimbursing taxes. He warned that the Staff Association might have to face a serious problem of selling these agreements to their members.

Clarence Long Committee. Mr. McNamara reported that Mr. Long had requested that the heads of the IFIs testify before his Committee. He asked Messrs. Cargill, Nurick, Damry and Merriam to examine that request and to draft a reply. In his view, it was absurd to agree to appear either formally or informally before Congressional committees. The proper channel of communication should remain in the U.S. ED's office and the U.S. Treasury.

CKW
April 9, 1979

OFFICE OF THE PRESIDENT

President's Council Meeting, April 9, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Nurick, Chadenet, Alisbah, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Paijmans, Rotberg, Stern, Wapenhans, Weiner, Vergin

Compensation

With respect to the timing of further action, Mr. McNamara said that tomorrow's President's Council/Compensation Steering Group meeting on management's paper to the Board would decide on management's position. The Staff Association's views would then be received by next Monday and management's paper would be put into its final version shortly thereafter for distribution to the Board next week. Board discussion was scheduled to take place on May 3. The Directors should not need more than 2-3 weeks for consideration because they had already received management's initial reaction paper early in the year. Mr. McNamara then reported on his meeting last week with Mr. de Larosiere; the Fund had not yet finalized its position and Mr. de Larosiere had not yet focussed on a number of matters. He now appeared to be leaning towards a 10-year transition period under the new tax reimbursement formula. However, the Fund planned to send its paper to its Board earlier than the Bank, i.e., some time this week.

Mr. Looijen on General Capital Increase

Mr. Cargill reported that Mr. Looijen had asked for an informal meeting of the Directors in order to discuss some amendments he proposed for the resolution of the General Capital Increase. Mr. McNamara agreed that such a meeting would have to be convened.

FY80 Budget

Mr. McNamara said that Messrs. Cargill and Stern and he himself had not yet had sufficient time to focus on next year's budget proposal and that at this meeting he would like to get the general views on the budget from the members of the PC. By Thursday night, the OVPs should then send their requested changes to Mr. Stern, and the other VPs should send their requests to Mr. McNamara. Mr. Gabriel said that P&B's recommendations added up to a very high figure which probably needed to be cut; the total increase of the FY80 budget amounted to 8.2% which was more than double the figure of last year's budget perspective provided to the Board. Reasons for that large increase included (a) the Bank's program on energy which was now projected to involve much higher cost than estimated only three months ago in the presentation to the Board, (b) higher cost of support departments, and (c) cost-push indications in the operating units.

Mr. Husain commented that, in its fundamental thrust, the budget document indicated that the Bank's planned work program turned out to be more costly than projected some time ago, and that building an adequate pipeline proved to be more difficult than expected. He himself had always argued that absorptive capacity in the the borrowing countries was an elastic concept. However, experience now indicated that the pipeline could not be improved by simply adding more staff and financial resources. The reason seemed to be that (a) the Bank's program in many countries and sectors relied heavily on repeater projects which in turn depended on the implementation of previous projects; this led to serious pipeline constraints;

and (b) the organization of the Bank, i.e., its operational work through missions without support by local staff, proved to be an activity of diminishing returns. Higher budget cost would not solve these problems and the Bank faced the dilemma that, if the General Capital Increase and IDA VI went through, there would be no financial constraints but serious limitation of internal organization and absorptive capacity in countries. These fundamental issues had to be analyzed much more carefully.

Mr. McNamara agreed that such an analysis should be carried out between this and the next budget on a country-by-country and project-by-project basis. It was difficult for him to believe that the envisaged increments in lending could not be absorbed by the developing countries, i.e., that LDCs did not have the capacity to accomplish the investment programs (of which the Bank's lending program was only a small percentage) associated with the low projected growth rates.

Mr. Husain proposed considering, in view of these constraints, whether the same amounts could not be lent through fewer projects. Mr. McNamara agreed. There were many reasons for increasing project size. He had discussed this with Mr. Stern and they would like to suggest a modest increase of about 7% in real terms.

Mr. Benjenk said that this was a realistic budget given the present period of strain for the Bank and member countries. According to his experience, the pipeline could be improved in the technical sense; however, it was much harder to get projects "finished up," i.e., to process them through negotiations and Board presentation. Mr. Benjenk said that management should not underestimate the cost of reporting to the Board. He mentioned the recent example of the Yugoslavia sector loan. Mr. McNamara argued that this did not amount to any substantial cost. Mr. Stern warned that it was certainly not de minimis. Mr. Benjenk welcomed the strengthening of the support departments, particularly Personnel and Legal.

Mr. McNamara said that the Bank had in recent years increased very much the complexity of projects and had not fully realized the cost implications of output changes. He had asked P&B to put numbers on those changes which led to increased quality. The increasing complexity of projects clearly indicated that there was no basis for the criticism that the Bank was substituting quantity for quality. The Bank would have to examine how many different components should be introduced into projects, and how much of this should be done how fast. In many cases, the Bank was putting more into projects than it could carry out.

Mr. Baum said that a distinction had to be made between those project components which were essential for the success of the project and other components which were desirable but not essential. He complimented Mr. Stern and P&B for a much improved budget process; this budget was a quantum leap over former budget exercises. At some point, the issue of inter-unit costs needed to be better addressed. There was no mechanism for balancing demand and supply, for example, for Regional support to COPDs and for CPS support to the Regions. Mr. Stern agreed. With regard to these inter-unit relationships, the inputs CPS/Regions and DPS/Regions needed to be defined more exactly.

Mr. McNamara said that, as a result of adding the energy work on top of the other work program, the budget included a duplication of projects work and an element of overprogramming. For next year, the projects substituted by energy work had to be separated out. With respect to the size of the budget, he commented that the Bank would face serious problems on the March 1 salary adjustment because of the difficulties of analyzing the data obtained from the comparators, i.e., of separating out merit increases from productivity increases from price increases. The 8.2% budget increase figure included merit increases expressed in volume terms. He had argued that these increases should be reflected as price increases. This would reduce budget growth by 0.5%. The budget growth figure would be reduced further through the proposed reduction in the number of projects. For the years beyond FY80, P&B projected annual budget increases of 5%-6% in real terms, whereas last year's perspective indicated growth rates of 4%-5%. The presently projected figure had to be brought down.

In response to a question by Mr. Wapenhans, Mr. McNamara said that he was uneasy about capacity of countries to absorb the Bank's economic and sector work. Mr. Chenery commented that the Bank had added many new outputs over the years but, at the same time, was still measuring output along projects lines, i.e., the new outputs were lumped into the overhead. Management should take the total country program and analyze the other outputs. Mr. Stern commented that, with regard to these other outputs, the Bank had great difficulty in "letting go" any ongoing work. He pointed to the examples of Korea and Malaysia. Mr. McNamara agreed with Mr. Chenery that the non-lending contributions of the Bank had expanded dramatically. However, this was a dangerous undertaking because the value of the product and the appropriateness of the cost were controversial. However, he expected the importance of these non-lending activities to increase further over the next ten years.

Mr. Gabriel suggested seeking greater recognition of the Bank's non-lending outputs from other institutions in LDCs and developed countries. Mr. Husain added that the Bank was bearing the cost of the system; for example, in the case of the IGGI, the Bank did all the analyses which then led to extremely important discussions of foreign assistance and country development issues between donors and the Government of Indonesia.

Mr. McNamara emphasized again that he was anxious to increase the Bank's non-lending activities and to get the recognition and acceptance of governments of this work. In the case of research, the Bank should, 3-5 years from now, finance a program of about $30-$50 million per year. These issues had to be addressed as part of management's thinking on the future of the institution; he was a year behind in his work on this which he would now hope to carry out from November 1979 to November 1980. Among others management should consider the possibility of IBRD paying a dividend. If such a dividend were paid at present, the compensation controversy with the U.S. Government would not have come up. Bank management had to open its mind to a profit level of $600 million.

Mr. Stern said that the budget was on the high size and would be difficult to defend in the Board. It was still true that many operating staff saw the introduction of multiple components into their projects as a yardstick of success. Such a multiple sector component unit of projects was in many cases too narrow a translation of Bank objectives. The sector mix of the country lending program also needed to be looked at. He agreed that the number of projects for FY80 had to be reduced by marginally increasing project size.

Mr. Chadenet

Mr. McNamara said that he had asked Mr. Chadenet to focus initially, in his new role as Vice President for Special Assignments, on carrying through the Kafka work and to work as Acting Director of EDI.

CKW
April 11, 1979

OFFICE OF THE PRESIDENT

822/5/18

President's Council and Compensation Steering Group Meeting, April 10, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Alisbah, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Kearns, Clarke, Trott, Sommers

IMF

In commenting on last Thursday's meeting between Mr. McNamara and Mr. de Larosiere, Messrs. McNamara and Clarke said that the only important remaining differences with the IMF were (a) transition period under the new tax reimbursement formula of five or ten years, and (b) the intention of the Fund to introduce a home leave allowance.

The meeting then carried out a page-by-page review of management's draft paper to the Board on compensation. With respect to expatriation (page 22), Mr. McNamara said that he would like to strike the word "general" (from general expatriation) and simply use the word "expatriation" because this gave the Bank more flexibility. At present the issue of whether to introduce a general or particular expatriation allowances should be avoided. In response to a question, he said that the formula of equal pay for equal work was only a slogan. Mr. Wapenhans warned that moving from consideration of a general expatriation allowance to consideration of specific expatriation allowances would mean the acceptance of a competitiveness concept rather than a cost concept of expatriation.

As to subsidies paid or proposed to be paid by certain governments to their nationals on the Bank staff, Mr. McNamara said that the Bank could not take a position now. Therefore, the paper should not deal with this issue.

Legal Rights

It was agreed that there would be a discussion of the legal problems resulting from changing the compensation structure with the Board in Executive Session at the first Board Meeting after distribution of the paper.

Staff Association

Mr. Clarke reported that the Staff Association would continue to push for the UN formula of tax reimbursement in the case of new staff and continuation of the present system for existing staff, for a general expatriation allowance and for a home leave allowance.

In order to ensure parallelism with the Fund, it was decided that the Bank would adopt the Fund's approach on the settling-in grant if the Fund in return agreed to the Bank's approach on the termination allowance.

Timing

Mr. McNamara said that Mr. de Larosiere would distribute his proposal to the Board this week. In the case of the Bank, the Staff Association had asked for one week for review of management's paper and could not give management its views before Monday, April 16. It was decided that a PC meeting would be held to hear the staff's views, preferably on Friday afternoon, April 13, but otherwise at 9:00 a.m. on Monday, April 16. As soon as possible thereafter, the paper would be distributed to the Board for consideration by the Directors on May 3.

CKW
April 13, 1979

OFFICE OF THE PRESIDENT

822/5/79

President's Council Meeting, April 16, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Alisbah, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Qureshi, Hittmair, Stern, Wapenhans, Weiner, Kearns, Clarke, Trott, and from the Staff Association Messrs. Voyadzis, Gorjestani, Pepper and Mrs. Wetzel

The meeting was addressed by members of the Executive Committee of the Staff Association on the views of the Staff Association on management's draft compensation paper to the Board.

In his statement, Mr. Voyadzis emphasized the importance attributed by the Staff Association to the issue of the institution of an independent administrative tribunal. The 5,000 staff members could not be denied basic constitutional rights. The Staff Association would appreciate learning about management's position on legal rights. Only prompt management action could avoid individual action by staff members as a result of the implementation of the compensation proposals. In response to a question by Mr. McNamara, Messrs. Voyadzis and Pepper said that, in the view of the Staff Association, the major remaining issues were the need for an international market for J-Q staff (rather than using the U.S. market as a proxy), and further analysis of relevant markets for A-I staff. In response to a further question by Mr. McNamara, Mr. Pepper said that, although there was indication that the private market for A-I staff in Washington paid less than the Government, a conclusion was not possible without analysis of the quality issue, i.e., promotion possibilities and required qualifications. Better job matches had to be established. Mr. Voyadzis added that the reasons for the large number of secretarial vacancies had to be explored further and should not simply be attributed to "social factors." Mr. McNamara commented that he was concerned about relative private/public market pay levels for A-I staff because the use of private comparators might well lead to lower pay levels than the use of the public market only. Mr. Benjenk enquired about the Staff Association's view on how to resolve the issue of potential violation of contractual and acquired rights of staff referred to in paragraph 8 of Mr. Voyadzis' memorandum. Did the Staff Association favor grandfathering of existing staff? Mrs. Wetzel replied that this was one alternative; it was because of these issues that the legal opinions had been distributed. Mr. Gorjestani added that, in addition to the concerns of existing staff, the Staff Association was also concerned about the long-term implications for hiring new staff.

Mr. Baum enquired about the justification of introducing an international market as a comparator (para. 10 of Mr. Voyadzis' memorandum). International firms drew their staff from national markets and only to a very limited extent from each other. Mr. Pepper argued that the opportunity costs for staff in international organizations were pay levels in other international firms and not just in national markets. In response to a follow-up question by Mr. Baum, Mr. Pepper said that the Staff Association had not been able to identify the problem of a ratcheting effect among international institutions. Mr. Voyadzis said that the Bank recruited a large number of its staff from other international organizations which remain competitors. Mr. Paijmans questioned the justification of arguing in favor of an international organization comparator market and at the same time demanding a general expatriation allowance; there was clearly some overlap between the two. Mr. Voyadzis replied that, in European international organizations, expatriation allowances were granted as an extra premium on top of international market pay levels.

In response to a question by Mr. Baum on the matter of symmetry between the formula for netting down for comparators and grossing up for tax reimbursement and pension base calculations, Mr. Pepper said that the Staff Association had not gone into recommendations on specific formulae. He argued that symmetry was not necessarily to be assured.

Mr. Baum enquired about the justification for demanding both a general expatriation allowance and improvements of specific expatriation benefits. Mr. Gorjestani said that a general expatriation allowance was justified in order to compensate staff for general cost elements, resulting, for example, from G(iv) status and different expenditure problems in this country. Specific allowances were called for to compensate for specific costs, such as education.

In response to a question by Mr. Nurick, Mrs. Wetzel said that staff members had accepted employment in the Bank on the basis of specific conditions of employment. For example, some U.S. staff members might well have joined the Bank because of the tax windfall. On the other hand, grandfathering of existing staff would be highly divisive. Mr. Nurick, in pointing to the fact that para 8(d) of Mr. Voyadzis' memorandum stated that any change in comparators which at present would have no negative impact on salaries but may in the future have such an effect would also violate the contractual and acquired rights of staff, emphasized that the use of comparators might of course lead not only to positive but also negative effects.

Mr. Gabriel enquired whether the introduction of a termination grant would be considered by staff to lead immediately to the addition of an acquired right which could not be withdrawn once it had been introduced. Mrs. Wetzel said that it would be difficult to withdraw such a grant once it had been introduced.

Mr. McNamara thanked the Staff Association for their statement which would be considered carefully by the President's Council.

At this point, the members of the Staff Association left the room.

Mr. McNamara said that management's paper should be distributed to the Board as promptly as possible. The Fund paper had been distributed to the Fund Board on Friday morning of last week. As to the issue of legal rights, he was planning to make an oral statement to the Board to the effect that this was being studied and that it was of serious concern to the staff. Management had to be careful about what it put in writing because these statements might later be used in the courts. Management was not in a position to state its position at this point in time. Two separate issues had to be addressed: (i) what is the law on acquired rights, and (ii) what remedy does staff have?

Mr. Nurick said that the Bank had employed a law firm and was seeking outside counsel. The answer to Mr. McNamara's first question, i.e., concerning the law on acquired rights, was dependent on the answer to the second, i.e., the jurisdiction of courts. In his view, the major legal rights issue would result from the tax problem. In the view of staff, even the UN system would violate acquired rights.

Mr. McNamara said that the joint management/staff legal rights conference had not produced a single piece of paper addressed to senior management in its ten months of existence. He concluded that, on highly controversial issues, joint staff/management groups were not desirable. He asked Messrs. Paijmans and Nurick to focus on that matter. They should assess (a) the equity aspects, i.e., what is right, and (b) whether this led to law suits. In response to a question by Mr. Benjenk, he said that a joint Bank/Fund committee on compensation matters was required. Experience had shown that management was not in a position to determine salary levels.

Mr. Nurick said that he now proceeded independently of the staff/management legal rights conference. He had asked the lawyer to come up with a recommendation. Probably the Bank should have a tribunal. Mr. McNamara said that this would probably also be his conclusion. However, the Fund should join the Bank in such an undertaking.

In response to a question by Mr. McNamara, Mr. Clarke reported that the data on the March 1 adjustment would be available by the end of the week. Mr. McNamara enquired whether Hewitt data on the comparators would include all merit increases. Mr. Clarke said that the data would yield one figure, including merit increases. Mr. McNamara asked Mr. Paijmans to start work on the issue of merit versus general adjustment as of March 1. Steady states in comparators and in the Bank had to be compared. The main issue seemed to be whether the 1% merit increase for the Bank was justified; it had to be clearly understood that there was a 2.7% merit increase for persons receiving such an increase but that the over-all merit cost increase to the institution was only 1% per year.

CKW
April 23, 1979

822/5/20

OFFICE OF THE PRESIDENT

President's Council Meeting, April 23, 1979

Present: Messrs. McNamara, Cargill, Lari, Baum, Benjenk, Chadenet, Chaufournier, Clark, Damry, Gabriel, Picciotto, Husain, Nurick, Twining, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Wright, Kearns, van der Tak, Haq, JLee, Golladay

Health Paper

Mr. Baum said that the paper had been reviewed by the OVPs and by an external panel of experts; their comments were reflected in the version before the PC.

Mr. Chadenet commented that the paper dealt somewhat superficially with the issue of relationship with WHO. He suggested that, for Board discussion purposes, a statement be introduced giving the justification for the Bank entering this field and laying out the relative future responsibilities of the WHO and the Bank. Mr. Stern responded that Mr. Mahler had seen this paper and had been satisfied. Mr. Baum conceded that it might be possible to elaborate further on that point. Mr. McNamara said that the Bank had to be sure that WHO agreed with the proposed policy. He asked Mr. Baum to introduce today's comments into the paper and then send the final version, over Mr. McNamara's signature, to WHO in order to get their final reactions. He disagreed with Mr. Chadenet's point of the Board paper spelling out in detail the relationship with WHO.

Mr. Clark said that, although Mr. Mahler was very interested in greater Bank involvement in the health sector because of his commitment to the end-product, the WHO machinery might create problems. Mr. McNamara said that, at this point, he was interested only in the reaction of the head of the agency; he was quite aware of the impossible situation at WHO bureau levels.

Mr. Gabriel pointed to the paper's conclusion that there was presently considerable fragmentation of health related activities in the Bank. He enquired about the organizational implications of the new policy. Mr. Stern replied that the necessary organizational setup was presently under discussion.

Mr. Cargill said that, at the time of the Board discussion of the Health Sector paper in 1974, a decision had been made not to become involved in the health sector. He enquired about the changes which had taken place since then and now justified a different conclusion. Mr. Baum said that the paper gave the reasons; the Bank was in fact already lending large amounts for health under its Population Projects, as evidenced, for example, by the recent population project in The Philippines. Mr. McNamara agreed; however, the Bank was lending without the existence of an adequate health plan in countries. Mr. Stern said that, in recent years, the enthusiasm for multiple sector projects had somewhat waned and that the Bank had increasingly realized that health components in projects did not lead to a long-term health sector impact in countries. These were the major new developments justifying a change in policy. Components work would continue and, as Mr. Baum had pointed out, lending for health was presently carried out through Population Projects. The only new feature of the proposed policy was the badly needed, systematic strengthening of health planning and sector work capacity in countries.

Mr. McNamara said that the Bank would have to face the problem of a balanced approach to health versus health care. Health was a function not only of health care but also of many other development activities. In response to a question by Mr. Damry, he said that the Bank would also have to deal, but not in this paper, with the relationship of health to nutrition and water supply. For example, if potable water were not available, primary health care activities would probably not make sense. In its work on primary health care programs with governments, the Bank had to ensure the existence of complementary potable water programs. Mr. Baum commented that in many countries rural water supply programs would take 20-30 years to implement.

Mr. Chaufournier said that the organization of village activities was the key issue. A part of productivity increases at the village level could then be used for the development of primary health care and other social services.

Mr. Weiner commented that the Bank should view its health involvement as being self-corrective and experimental in nature; in initiating its health program it could learn from its inexperience in education. Mr. McNamara said that the Bank would be more than experimental in its health activities. Mr. Baum pointed to the fact that the health program would be undertaken on a very modest scale.

Mr. Lari said that the Bank's role in changing policy attitudes and institution-building would be more important than the provision of financial resources to the health sector; therefore the quality of the Bank's health staff would be crucial. Also, the paper should deal more adequately with the lessons of experience drawn from its health work in recent years. Mr. Baum replied that, in his view, the paper was strong on drawing lessons of experience; however, the paper's conclusions and the lessons of experience gained over several years of operational work could be brought out more clearly.

Mr. Baum said that, with regard to the relationship between health and population, the impression had been created among Bank staff and external observers that the Bank's increased involvement in the health sector would weaken its involvement in population. Management had to assure that this would not happen. Mr. McNamara agreed. This was clearly not management's intention; rather it was a number of LDC governments who were relaxing their population support.

Mr. McNamara concluded that the paper should be distributed to the Board before the end of May. As to the paper's section on the budgetary implications, he asked Mr. Baum to take out the manpower figures and to replace them by dollar figures.

Visit to France

Mr. McNamara reported on his meetings last week with President Giscard d'Estaing and his ministers and aides. The nature of the meeting had not been a pressure-type discussion comparable to the one conducted recently in Germany. He had not tried to negotiate IDA VI but was assured that they would take up their share of a high figure. They did not acknowledge any link between the recent increase in their share of IBRD capital and the IDA replenishment. He believed that it would be possible to raise France's IDA share from 5.38% to 6%. Also, he had not discussed the issue of Bank borrowing in the French capital market; the Bank had just turned down the French Government's invitation to borrow because of the high rates in that market.

Bellagio Meeting

Mr. McNamara reported briefly on the Bellagio meeting on health and population. Excellent background papers had been prepared and a very good group had been convened. The need for community action on health had been stressed repeatedly. He had been impressed with several LDC representatives, particularly Mrs. Sulianti from Indonesia.

Compensation

Mr. Clarke reported that preliminary data collected by Hewitt for the March 1 adjustment had revealed serious miscalculations. He had therefore sent Mr. Trott to Chicago to sort out these problems. The data should become available by the end of this week. He reported that the Staff Association had formally asked for release of the Board paper on compensation to the staff. In response to a question by Mr. McNamara, Mr. Clarke said that it had been agreed with the Board that consideration of salary adjustment documents would be confidential. However, the Fund had in the past distributed these papers to their Staff Association and the Bank had followed suit. In the case of the Board paper on Compensation, the Fund had now distributed a limited number of copies to Staff Association officers and to its line managers.

Mr. McNamara decided to inform the Board tomorrow of management's intention to distribute the paper to its line managers and Staff Association officers, following the IMF example. The paper should be distributed only after Board approval had been obtained and the Staff Association should be informed of this procedure.

Legal Rights

Mr. Nurick reported that the Bank had employed a leading Washington law firm on this issue and that yesterday he had received their preliminary opinion. They did not agree with the view expressed by the lawyer employed by the Staff Association, namely that the proposed use of comparators and cost-of-living adjustment procedure would constitute a breach of legal rights. With regard to the new tax reimbursement formula, their opinion was that the Bank could adopt a different system but had to assure that net salaries were not reduced below their current level, or, in other words, that under a changed tax reimbursement formula the amount of taxes reimbursed would not be less than actual taxes paid. They had not yet given any opinion on the issues of Social Security and pensions which were still under study. Their final opinion would be available before the Board meeting on May 3 and should be distributed to all staff. On Thursday of this week, he would be able to summarize their preliminary opinion and his own opinion to the Directors.

Mr. Chaufournier questioned the credibility of any position on legal rights in an international organization with different countries, different lawyers and different opinions. Mr. Benjenk said that management should avoid court action on the issue of legal rights. Mr. Nurick observed that in a way the Bank was already in the courts on the issue of jurisdiction. The possibility of an administrative tribunal, possibly with retroactive jurisdiction, would have to be considered.

Mr. McNamara said that, as a first step, the best legal opinion should be obtained. Management would then have to decide what was right for the institution and carry it out.

Mr. Stern enquired whether legal opinions from outside this country should also be obtained. Mr. McNamara said that this might possibly become necessary. Mr. Nurick said that some EDs might want to consult with their governments on the issue.

Mr. McNamara concluded that the problem of legal rights would be considered further as soon as the law firm's opinion was received. Mr. Nurick would also formulate his recommendation as to the institution of an administrative tribunal.

CKW
April 25, 1979

OFFICE OF THE PRESIDENT

822/5/21

President's Council Meeting, April 30, 1979

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Picciotto, Kirmani, Nurick, Twining, Qureshi, Rotberg, Wapenhans, Weiner, Kearns, van der Tak, Mrs. G. Scott

Women in Development

The meeting reviewed the CPS paper on World Bank Projects and Women.

In his introductory statement, Mr. Baum emphasized that this was not a policy paper but simply a paper for information which could be considered a conscience raising exercise. It pulled together the experience gained through the preparation of a number of basic needs papers; namely, that the role of women invariably surfaced as the key issue.

Mr. McNamara asked the meeting to focus on two questions:

(a) What to do with the paper; and

(b) What to do about the problem.

With regard to the former, he suggested sending the paper to the Board as well as publishing it.

Mr. Chaufournier commented that this was a good paper; it showed that more could be done in terms of focusing on the role of the Bank in this field. In the view of his staff, a more thorough discussion of the issue was needed. In the context of its operations, the Bank could do more to create awareness through sector work and its dialogue with governments. Education projects had to be evaluated more fully with regard to women issues.

Mr. McNamara said that he, too, was happier with the paper than with the Bank's action; however, this was not an easy subject and not enough thinking had been done on how to translate this consciousness-raising effort into action.

Mr. Picciotto commented that there were two separate issues both of which were very complex: (i) how did development affect women, and (ii) how to design and carry out project components dealing with women; such components were extremely difficult for Bank staff to supervise. Mr. McNamara agreed. As to components work, he was concerned about the increasing complexity of Bank projects.

Mr. Benjenk said that there was tremendous scope for Bank work on the role of women in the field of extension work. Mr. Wapenhans said that this was a fascinating paper, particularly because it compared experience across regions. It raised more questions than it provided answers. In response to a question by Mr. Wapenhans, Mrs. Scott said that there were opportunities for joint project activities with NGOs and the bilateral aid programs. Mr. Qureshi commented that the possibility of women-oriented projects should be considered. At present, such projects were only carried out in population.

Mr. Clark said that, by publishing this paper, the Bank should give the public a view of what was done internally. It should not be seen as propaganda; therefore, Mr. McNamara should in a foreword point to the problems and complexities in this field.

Mr. McNamara concluded that Messrs. Baum and Clark should consider how the paper should be published; Messrs. Stern and Baum should examine how to work with the Regions on translating ideas contained in the paper into action and to discuss the matter in the OVP meeting.

Legal Rights

Mr. Nurick summarized the statement he had made last week to an informal meeting of EDs.

The Bank had obtained the services of Wilmer, Cutler & Pickering a few weeks ago. Their opinion and his own opinion would be distributed to the Board. The Staff Association had argued that both the Kafka recommendations as a package and the main components of that package were illegal: (a) the change of comparators was illegal and the Bank would have to continue using international comparators; (b) the change of the cost-of-living adjustment formula was illegal because the past formula constituted an acquired right; (c) change of the tax reimbursement formula was also illegal because it was a breach of an acquired right. The Social Security and pension issues were still under study.

As to the issue of what law applied, Mr. Nurick said that he had come to the conclusion that it should be the internal law of the Bank as specified by the Articles, the letter of appointment, and Personnel rules. This was also the case in other international institutions. The law of specific member countries or of an administrative tribunal did not apply. The letter of appointment stated that conditions of employment were subject to change. However, even in applying the doctrine of acquired rights, he did not come to the Staff Association's conclusions. Analysis of the ruling of tribunals showed very little agreement of what acquired rights should be; the ILO and UN Tribunal did not agree on such a doctrine. In his view, a doctrine of acquired rights would mean that benefits could not be taken away retroactively.

As to the change in comparators, Mr. Nurick said that the Bank had always used all kinds of comparators. On the cost-of-living increase, the Bank had not always coincided with the CPI in Washington; other considerations such as tapering had always played some role and had been acknowledged by the Kafka Committee.

In his view, the real question related to the proposed tax reimbursement formula. The letter of appointment stated that employment would be on the basis of a net-of-tax salary. According to the By-Laws, Bank income was considered the only income and reimbursement of taxes was on the basis of taxes actually paid. In fact, the Bank had not always conformed to the By-Laws. The proposed average deduction system had to be reconciled with the letter of appointment. He concluded that staff members were not entitled to the present tax reimbursement system which was certainly wrong; but, on the other hand, staff had to be assured of a net-of-tax salary, i.e., taxes reimbursed should not be less than taxes actually paid, with some limited room in the system for considerations of administrative convenience.

At the informal meeting of EDs, some Directors had enquired about the institution of an administrative tribunal. This issue would have to be considered carefully, e.g., the problem of retroactivity of jurisdiction of such a tribunal and whether the Bank should hook onto the ILO or UN Tribunal or form its own tribunal, possibly together with the Fund, IDB and ADB. He had assured the EDs, who had felt threatened by the Staff Association circular, that only the Bank could be sued and not the EDs individually.

In commenting on the Novak case, Mr. Nurick said that the Bank had filed a letter to the effect that the local court had no jurisdiction. The Staff Association had obtained outside counsel to the contrary, and argued that otherwise staff had no legal recourse.

The IMF's Staff Association was less militant on the issue of legal rights than the Bank's staff. Of course the Fund could not be sued whereas the Bank, because of its bondholders, could be sued.

Mr. McNamara said that both the outside opinion and Mr. Nurick's opinion would be distributed as soon as they became available.

Mr. Qureshi commented that he understood that there was only a very weak case for not reimbursing taxes actually paid. Mr. Nurick agreed; however, for administrative purposes, there could be a certain limited flexibility.

In response to a question by Mr. Chaufournier, he confirmed that a certain arbitrariness was the right of management because the Bank was like government. Mr. Rotberg argued that managers, during the process of hiring staff, had gone over with them their net salaries and the expected over-reimbursement of taxes. Mr. Nurick agreed that this could become a point in court if court action were sought by staff members.

In response to a question, Mr. McNamara asked Messrs. Nurick, Damry and Chadenet to consider whether management's opinions should be distributed to staff directly or through the Staff Association.

Weiner Report

Mr. Benjenk said that he had attended last week's Executive Session and had read Mr. Bergsten's testimony on The Hill. Both dealt extensively with the issue of EDs' access to information. Mr. Bergsten had described the role of the ED as quite different from what it was now; the degree of involvement at all stages as portrayed by Mr. Bergsten was quite shocking.

Mr. McNamara said that he had not read Bergsten's testimony. One had to distinguish between the political process in the U.S. and the general governing of the Bank; these were totally different issues. The political process in the U.S. was a problem between the U.S. Administration and the U.S. Congress. If it were argued that Congressional objectives were forced upon the Bank through the ED, reference should be made to the record which showed clearly that the governing of the Bank had not been influenced by such attempts. For example, Congressional action on human rights had no influence on Bank policy. Many staff members believed that he directed the Bank under the influence of the U.S. Government and that he had sold its staff down the river. He deeply resented that. He had fought the U.S. for 11 years and he was the only one in this room who had almost been fired by the U.S. at some point. If there were any doubts about this, the PC should talk it out right now. It was of fundamental importance that the PC reach agreement on this issue and then defend that position outside this room. It was important because the next 6-12 months would be the roughest during his tenure. Many controversial issues, such as Valuation of Capital, Budget, Graduation, Compensation, and Capital Increase, had to be resolved.

Naturally the U.S. took credit for holding salaries down, changing the travel policy, etc.; that was the political process. The extent of U.S. influence was very simple to determine: they had about 22% of the votes and, therefore, no power to dominate the institution; a veto occasion occurred only very rarely. If management failed to influence the U.S. position, it mobilized the other 77% of the vote. Fortunately, the U.S. was not very shrewd in political maneuver; John Connally had been the only one who had learned quickly and who would have constituted a real threat to the Bank.

Mr. Gabriel said that, although the U.S. controlled only 22% of the vote, it had repeatedly gone directly to the other shareholders to gain their support. He also argued that the PC was responsible for misconceptions in the staff. Mr. McNamara replied that Secretary Simon's arm-twisting had been applied to other governments but not through management. Also, this approach had been too brutal and crude to be successful.

Mr. Chaufournier stated that he did believe that Mr. McNamara had stood in defense of the independence of the institution; however, the manner in which senior management handled its affairs was important in terms of staff perceptions. Mr. McNamara agreed.

With respect to the role of the EDs, Mr. McNamara commented that their uneasiness about their functions showed in two-year cycles. At the beginning of their terms, particularly bright young EDs were very frustrated. The recent Congressional report on IFIs had strengthened their feelings. It was important to understand that (a) the final power in the Bank rested with the Board, and (b) the institution could not remain effective if it were run by the EDs rather than by a strong management under constitutional rule. It was an extremely difficult task to govern this institution with 20 sovereign governments on the Board. As to criticism of staff expressed by the EDs, it was sometimes wiser not to respond if this criticism were voiced only by a minority on the Board, although he was oftentimes tempted to react fiercely.

Mr. Baum said that he faced a real dilemma in trying to counter erroneous perceptions of staff as to Mr. McNamara's role vis-a-vis the U.S.: it was difficult to convince staff if PC members were under injunction not to communicate to staff what was talked about in this room. Mr. McNamara replied that PC members had to use their own judgment. Management faced the difficult situation of dealing with 40 EDs and 5,000 staff and would always have to operate with a certain ambiguity. Mr. Chaufournier said that it was very helpful for PC members to become a bit more privy to Mr. McNamara's strategies as had been done lately. This made discussions with staff easier. Mr. McNamara said that misinterpretations had to be avoided. There were various lines of communication and staff did gossip with the EDs.

Mr. Barletta suggested devising ways for Mr. McNamara to have more contacts with the staff at this difficult time. It had to be handled in a subtle way. Mr. McNamara confirmed that he was willing to meet with staff at any time if this were requested by the Vice Presidents.

Mr. Wapenhans said that staff members were mad about U.S. criticism of the Bank which in their view had not been countered sufficiently by management. Rather than controlling the Bank, the U.S. was in his view reacting to the fact that they had gradually lost control over the last ten years. The U.S. frequently associated itself with the Bank in a manner detrimental to the institution.

Mr. McNamara said that it constituted a real tragedy that Messrs. Carter, Blumenthal, Bergsten and Fried all believed in development but that, because of the circumstances, Bank management was talking about them as if they were the enemy. He emphasized again that the year ahead would be the most difficult in the Bank's history.

With regard to EDs' access to information, Mr. McNamara asked Mr. Chaufournier to convey to Mr. Stern that this should be raised in an OVP meeting. In response to a suggestion by Mr. Chaufournier, he agreed that he would attend such a meeting and proposed holding it before he left for Manila next week.

Mr. Kirmani commented that staff in his Region resented very much U.S. interventions. This was the top item on a list of dissatisfactions put together by the participants in a recent Harper's Ferry management seminar. Frank meetings between Mr. McNamara and staff would help.

Mr. Rotberg said that, outside the Bank, the view was that the U.S. had very little influence and was constantly outvoted. He enquired about the reasons for this apparent dichotomy between the outside and the inside world. Two separate themes had to be reconciled: (a) keep the institution independent, fair and objective, and (b) increase its lending in order to fulfill its development role. In his view, in facing this independent Bank versus growth issue, staff members did not show the same degree of commitment to development as Mr. McNamara did. Mr. McNamara said that there had never been a situation in the past where such a trade-off between independence of the institution and growth of lending had occurred. The reason for his referring to the next year as the most difficult in the Bank's history was exactly that the Bank might have to face such a trade-off for the first time. The Bank might be forced to penalize the institution in order to obtain financing.

Mr. Chenery said that in his view it was rather a quality versus growth issue which plagued staff. Mr. McNamara said that undoubtedly the LDCs needed capital. In his view, there had never been a quality versus money trade-off. To the contrary, Bank growth had improved the quality of its work. He suggested scheduling a discussion of the quality issue if this were desired by the PC.

Mr. Chaufournier said that there was a growing lack of consensus on the fundamental objective of the institution. Mr. McNamara should discuss directly with staff some of these basic issues.

Mr. Benjenk said that this was an extremely important discussion. Everybody in the Bank knew that Mr. McNamara was "the toughest guy in world affairs" who did not take orders from anybody, but, at the same time, he was viewed as the overambitious leader, doing development at all cost. This was the central trade-off issue: the perception that Mr. McNamara did development at the cost of an independent international institution. Implementation of Mr. Bergsten's views would mean the end of the Bank as a truly independent and international institution.

Emphasizing again that the Bank might in the near future face a serious trade-off between independence and growth, Mr. McNamara gave the example of the U.S. not voting on the Capital Increase in June. The Bank would then have to face the issue of whether it should go ahead without the U.S. One of the questions to be explored would be how that would affect Bank bond buying. Without a capital increase, the program would have to be cut from $7.6 billion to $6 billion and this would possibly also require a reduction in staff. Mr. Rotberg said that, in such a serious situation, one would expect the staff to pull together versus the outside world; however, staff reacted the other way around. Again, the reason was that they were not as committed to development as Mr. McNamara.

Mr. Barletta commented that the staff's concern about quality was based on two arguments: (a) the institution was growing too fast and would soon get to a point where the quality of its work at the level of the individual project would be sacrificed, and (b) the work pressures on staff led to depletion of its human capital stock because there was no time for retooling. Mr. McNamara replied that Mr. Paijmans and others would have to deal with the issue of depletion of the Bank's human capital. As to staff perception of quality of projects, he argued that staff --like engineers--always wanted perfection. It was the role of managers to strike the right balance between perfection of product design and action.

CKW
May 3, 1979