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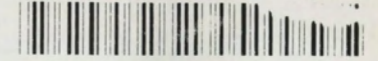
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McNamara Papers

Memoranda for record  
1970

The World Bank Group  
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President's papers - Robert S. McNamara Memoranda for the Record - Memoranda 03

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792/1/53

December 2, 1970

MEMORANDUM FOR THE RECORD

Harold Stassen requested a meeting with me at which he discussed the attached proposal. I told him I was not sure whether or in what form we could participate. I suggested to him that if he wished to determine Bank interest in the project he should ask the "major U.S. company" and/or the Venezuelan Government to discuss it with us. He said he would do so.

Robert S. McNamara

cc: Mr. Gaud

# STASSEN AND KEPHART

HAROLD E. STASSEN  
FREDERICK D. SARKIS  
THEODORE M. KOSTOS  
ROGER A. JOHNSEN  
JAMES EVANS RIELY  
JOHN J. SPEESE  
JOSEPH N. BONGIOVANNI, JR.  
LOUIS V. SCHIAVO  
BURTON SPEAR  
JOHN W. KEPHART, JR.  
ROBERT M. SEBASTIAN  
DONALD F. COPELAND  
ADELBERT S. SCHROEDER  
RONALD J. BROCKINGTON  
A. S. HARZENSTEIN  
CHARLES B. E. FREEMAN \*  
HAROLD R. TAWRESEY  
SAMUEL H. SAGETT  
JOSEPH N. BONGIOVANNI, III

JOHN W. KEPHART  
1895-1944  
ROBERT E. SCULLIN  
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CABLE ADDRESS: STADELPHIA

COUNSEL

MILTON BERGER

WASHINGTON OFFICE \*

STASSEN, KEPHART, SARKIS & KOSTOS

December 1, 1970

## INFORMAL NOTES

1. A major Geothermal (natural steam field) electric power development in Venezuela - State of Sucre.
  - A. With related development potential in
    - a. Sulphur
    - b. Desalinization
    - c. Heavy Water
2. The explorer, discoverer, and initial developer  
Venezuela Sulphur Company  
Subsidiary of Chemical Natural Resources Inc.
3. Experts participating connected with successful geothermal power installations in California, New Zealand, Italy, and Japan.
4. Expropriated in 1959.
5. Projected 1971 Agreement for Development
  - 50% Venezuelan Government  
25% and Management  
Major U. S. Company such as  
Bechtel or Westinghouse
  - 25% Venezuela Sulphur Company  
(original discoverer)
6. World Bank Financing to be applied for with usual Venezuelan Government Guarantees.

792/1/52

MEMORANDUM FOR THE RECORD

December 1, 1970

Meeting in Mr. McNamara's Office, November 25, 1970

Present: Messrs. McNamara, Knapp, Aldewereld, Chenery, Adler, Willoughby

Mr. McNamara commended the proposed work program for Mr. Willoughby's Unit. It was agreed that:

- (a) Mr. Willoughby would each month prepare a progress report which would be reviewed monthly by the same group (for about 15 minutes).
- (b) Mr. Willoughby would need to increase his staff. Mr. Ripman should be asked to recruit such staff and Mr. Chenery should explore how much support the Economic staff could give to Mr. Willoughby's Unit.
- (c) In view of the ambitious scope of the proposed work program, a complementary program of much narrower focus should be undertaken and completed within the next six months. (It was proposed that power projects, not more than 10, be examined in this manner.)
- (d) Mr. Adler should, through Mr. Stern of AID, request copies of supervision reports prepared by the Rand Corporation on AID projects in Colombia.

LEC

President has seen

*My Rm in Bank UAR*

October 6, 1970

*702/1/51*

MEMORANDUM FOR THE RECORD

Today I discussed with Joe Sisco our relations with the UAR and told him of my conversation with Zaki in Copenhagen. I told him that I thought that he, Sisco was the only man who could now act in a way that would permit resumption of Bank operations in the UAR and hoped that he would do so. He replied that he would make every effort to do so.

RMcN

792/1/50

August 11, 1970

MEMORANDUM OF CONVERSATION WITH MESSRS. DAVID KENNEDY, VOELCKER AND WIECZOROWSKI

1. I stated we were reorganizing the work on the debt problem and we hoped to be in a position to start information talks on this subject with U.S. representatives by November 1. I added we hoped to receive from Treasury a memo listing the issues in which they were most interested -- they promised to send it soon.

2. In response to Voelcker's statement that he thought we understood from a meeting several months ago with Friedman and others that Treasury believed we should limit our two-year Central Bank issues to a total of \$700 million, I replied I was not aware of the earlier conversation but would arrange to raise the issue again two or three months before the next refunding.

3. I reported we were planning to add to our internal audit program and our project supervision program a review of project performance following completion of disbursements. In this connection I emphasized again our policy of "full disclosure" -- all information in the Bank is available to appropriate representatives of member governments.

RMcN

August 7, 1970

792/1/49

MEMORANDUM FOR THE RECORD

Subject: Mr. Kandle's allegation that the Bank Group perhaps is biased against U.S. consulting firms

I spoke to Messrs. Ballantine and Hultin about Mr. Kandle whom they know from several earlier meetings in the Bank. He was anxious to obtain a contract for either a pre-investment study in education or a consulting contract to help implement one of our projects. Mr. Hultin had explained to Mr. Kandle that the Bank very seldom employs consulting services directly since, in most cases, selection of a consulting firm is done by the borrower, based on a list of World Bank-approved consulting firms. Perhaps, with respect to pre-investment studies, there may be a possibility for direct World Bank contracts, although so far only two contracts have been made by the Bank: one with the Ford Foundation and the other with a consortium of firms organized by the U.S. Council on Education. Generally speaking, the Bank always approached Unesco first to see if they could undertake such tasks. Only if Unesco were unable to do so would the Bank hire consulting firms directly.

With respect to Mr. Kandle's firm, the fact that it is a U.S. organization had no bearing on his possibilities to obtain a Bank contract. His firm is rather inexperienced and has never worked in a developing country. It is also rather specialized in the field of technical education. The Project Department has already met with Mr. Kandle as late as August 4 to tell him that he will be contacted within a few weeks' time as to whether they then might be in a position to envisage any future projects which he may have a possibility of handling.

Mr. Kandle can be expected to get a "fair shake", and there appears to be little substance to the allegation that the Bank has bias against U.S. firms in this respect.

LEC

President has seen



792/1/68

MEMORANDUM FOR THE RECORD

August 5, 1970

Meeting on Bank Cooperation with the Coffee Diversification Fund, July 30, 1970

Present: Messrs. McNamara, Cope, Bruce McKenzie, Alexandre Beltrao, Rene Montes and Hernan Uribe

Mr. McNamara expressed the Bank Group's interest in cooperating closely with the Coffee Diversification Fund. Regretfully, Mr. Cope would not be in a position to spend any time in London to help CDF organize its staffing and operational functions. However, the Bank would provide a lawyer to assist it in drawing up the legal framework for its lending operations.

Mr. Beltrao explained that CDF would be interested in joint financing with international financial institutions, but also had to be prepared to lend funds on the basis of its own appraisals, particularly in the case of smaller projects, and from the local currency funds provided by coffee producing countries. Several members had already submitted specific project proposals. For example, Brazil wished CDF to finance a scheme to fight a coffee tree disease.

Mr. Beltrao agreed to provide the Bank with information on the volume of resources available to CDF, how much of these would be in the form of local currency, and also on CDF's lending program. He wished to point out that the size of each project was not necessarily determined by the funds available to CDF alone, since many governments supplemented substantial amounts of their own funds.

Mr. Beltrao emphasized that he wished to keep the Fund's staff as small as possible, since hopefully the countries concerned would soon, perhaps after 1973, take over most of the appraisal work of these operations.

It was further agreed that:

- (a) Although the Bank would not, due to manpower restraints, be able to appraise projects for CDF, it would be prepared to provide occasional help on supervision of projects.
- (b) The Bank would participate in CDF's working party in August. Mr. Cope would ensure that the Bank was suitably represented.
- (c) In the case of the usual Bank/IDA lending operations, CDF would be willing to express an opinion on any coffee diversification project presented to the Bank or IDA for financing.

LEC

President has seen

July 31, 1970

Mr. Alexandre F. Beltrao  
Executive Director  
International Coffee Organization  
22 Berners Street  
London, W.1  
England

Dear Mr. Beltrao:

I am writing in response to your letter to Mr. McNamara dated July 8, 1970, and to the matters you and your associates discussed with him yesterday.

In accordance with our subsequent discussion in my office, we are arranging for Mr. C. Stewart Mason to spend about three weeks with you, starting August 7, 1970, to advise you on the organization, procedures and staffing of the Coffee Diversification Fund. We are further arranging for Mr. John C. Leeming to assist Mr. Mason from time to time, as needed, and as Mr. Leeming's other duties permit. Mr. Mason will telephone you on the morning of August 7 to make the necessary arrangements. We can also arrange for Mr. Ellsworth E. Clark, whom I think you know, to spend about a week with you to advise on the form of your loan contracts and other legal matters. I would suggest that the most useful time for Mr. Clark's visit would be from August 17 through August 22, i.e. after Messrs. Mason and Leeming have familiarized themselves with your organization and its objectives, but before they reach the stage of making recommendations. Will you please let me know by cable whether this would be acceptable to you, so that Mr. Clark can make his travel arrangements in time? Since Mr. Clark's stay has to be short because of other commitments, I think it would make his visit more productive if you could put on paper your ideas about the form of loan contracts, preparing tentative drafts of standard contracts to the extent possible. If we could have these in Washington before Mr. Clark leaves, it would be very desirable. It would greatly facilitate the work of these gentlemen in London if you could provide an office and the services of a secretary.

As promised, I am sending under separate cover the loan documents relating to two Bank loans and two IDA credits. I believe you have already a copy of "General Conditions".

It was a great pleasure for us to see you and your associates yesterday morning. I am glad that we can respond to your request

Mr. Alexandre F. Beltrao

-2-

July 31, 1970

at least in some measure, and we shall do all we can to make these visits fruitful.

Yours sincerely,



S. R. Cope

Enclosures (under separate cover)

SR Cope:mmr

cc: Mr. G. Stewart Mason  
Mr. John C. Leeming

Mr. Ellsworth E. Clark  
Mr. James E. Twining, Jr.  
Miss Nora Reade, London Office

*m a m. Hamerck*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Andrew M. Kamarck *AMK*

SUBJECT: Recent Coffee Information

DATE: July 29, 1970

I understand from Mr. Cope that you are seeing the  
Coffee Diversification Fund delegates ~~this~~ <sup>*Information*</sup> ~~afternoon.~~ You  
may find the attached "last minute news" on coffee useful.

U.S. participation in the International Coffee  
Agreement is, of course, vital.

Attachment  
cc: Mr. Cope

## OFFICE MEMORANDUM

TO: Mr. A. J. Macone

DATE: July 29, 1970

FROM: Flora White *F.W.*SUBJECT: Recent Coffee InformationU.S. Participation in the International Coffee Agreement

1. On April 8, 1970 the U.S. Administration introduced a bill in Congress to extend the enabling legislation making possible United States participation in the International Coffee Agreement for a further three years (from October 1, 1970, when the existing legislation expires, to September 30, 1973).

2. In early July 1970, the Ways and Means Committee Chairman insisted that Brazil raise its export tax on soluble coffee exports to the U.S. from 13 cents to 30 cents per pound if the U.S. is to continue as an active member of the Agreement. The Committee Chairman is opposed to the U.S. imposing a countervailing duty of 17 cents per pound, which was being considered, to bring the total tax to 30 cents.

3. The Brazilian 13 cent tax was adopted in May 1969 after understandings were reached with the U.S. Government following earlier U.S. complaints of unfair competition.

4. When the Seventeenth Session of the International Coffee Organisation takes place in London, August 17 to 28, 1970 it is expected that the soluble coffee issue will be thoroughly discussed. In addition, the U.S. will probably try to persuade producing countries to enlarge their export quotas further in view of the relatively high 1970 coffee prices. The outcome of this Session will probably influence the decision of the U.S. Congress regarding the coffee bill, which at present, has been tabled.

Coffee Rust Disease

5. A meeting, called by the Inter-American Institute of Agricultural Sciences to consider ways to eradicate the coffee tree disease known as coffee rust, was held in Costa Rica at the end of June, and attended by 82 experts from all coffee producing Latin American countries. The Institute will set up three research centres (Costa Rica, Brazil and Portugal) to make a thorough study of the disease. This is to be financed by a levy of one-cent per bag, or about \$300,000 a year.

6. The Brazilian government has authorized the destruction of coffee trees hit by the disease. The area where the disease has been found is a 35-mile-strip through the states of Bahia and Espirito Santo and part of Minas Gerais. This area accounts for about 560 million of Brazil's 2.2 billion coffee trees.

President has seen

Mr. A. J. Macone

- 2 -

July 29, 1970

7. According to a release by the U.S. National Geographic Society, about 12% of Brazilian coffee production has been destroyed by coffee rust. According to the Brazilian trade, the 1969/70 coffee output will amount to 18.2 million bags and the May 1970 estimates for 1970/71 are 9.5 million bags. The USDA June estimates for the same periods are 19.0 million bags and 10.0 million bags, respectively, compared with an average of 27.6 million bags in 1962-66. The July 1969 freeze is the main cause of the sharp contraction in the 1970/71 crop. Up to the end of June 1970 there were no reports of coffee damage from cold or frost so far this year.

FWhite:mb

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 28, 1970

FROM: S. R. Cope

SUBJECT: Coffee Diversification Fund - visit of Mr. Bruce McKenzie

*was  
changed to 8.30*

1. Mr. Bruce McKenzie, the Chairman of the Assembly of the Coffee Diversification Fund (CDF) is to call on you on Thursday, July 30, at 10:00 a.m. He will be accompanied by Mr. Rene Montes, Chairman of the Board of Directors; Mr. Hernan Uribe, the Executive Director of the Colombian National Diversification Fund; and Mr. Alexandre F. Beltrao, Executive Director of the CDF.

2. I attach a background paper in the form of a memorandum from Dr. Kamarck to Mr. Knapp dated July 13, 1970. As Dr. Kamarck says, we have supported the idea of the CDF from the start; we helped them draft their statutes and offered to enter into a management agreement with them under which we would lend funds on CDF's behalf. This was not acceptable to CDF, and we then told them that we would be willing to work out joint operations with them so that they could benefit from our work on project appraisal and management and avoid the need for building up a large staff of their own. This they welcome.

*J. Operations*

3. I met with Mr. Montes and Mr. Beltrao, and some of their colleagues, in London on July 2 and discussed ways in which we could be helpful. At the moment they have practically no staff and the first step, as is indicated on p. 4 of Mr. Beltrao's letter, is to study the minimal organizational framework they need. Since my return, I have been discussing with the Administration Department whether we could second someone from the Bank's staff, or possibly an ex-staff member, but it is difficult to find the right person. There is also the possibility of a management consulting firm such as McKinsey & Co., and in the end this may prove to be the best solution. We are still working on this problem.

*what offer is  
needed  
by central  
fund  
President?  
President?*

4. We also discussed in London what further help the Bank could give. I said that once the CDF had a nucleus of staff, we would be glad to have a few of their key people over here, probably one at a time, so that we could show them how we handle such matters as project appraisal and supervision, disbursements and legal documents.

*bx*

5. By our standards, the whole CDF operation is very small. Contributions from "compulsory participants", i.e. exporting countries, total \$39.2 million, of which the local currency portion of 78% is \$30.6 million, the foreign exchange portion of 20% is \$7.8 million, and the amount reserved for expenses (2%) is \$0.8 million. The local currency portion of \$30.6 million has to be committed within two years, otherwise

**President has seen**

July 28, 1970

it becomes convertible into foreign exchange. In addition, there are "voluntary participants", i.e. importing countries. Contributions from these countries are in varying stages of negotiation: the United States, Norway and Israel have promised to contribute, on soft terms, and there may be others, such as Germany and Denmark. The United States has offered \$15 million with further amounts to match contributions from other voluntary participants.



Attachment

SRCoPe:mmr

cc: Dr. A. M. Kamarck

Mr. J. E. Twining



*Mr. Coffee*

## OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: July 13, 1970

FROM: Andrew M. Kamarck *AK*SUBJECT: Status of the Coffee Diversification Fund and the Bank's relationship to itIntroduction

1. The Brazilian-U.S. proposal for a coffee diversification fund, first put forward in 1965, finally culminated in the approval of the "Statutes of the Diversification Fund of the International Coffee Organization" by the Council of the Organization on December 19, 1968.
2. The original Brazilian-U.S. proposals were linked to the attempts of the Coffee Council to reach agreement on "production goals" for each producing country, as a means to securing a long-term balance between world supply and demand. Although such agreement was required by the 1962 International Coffee Agreement, it never was achieved during the lifetime of the 1962 Agreement (July 1, 1963 to September 30, 1968). However, the upshot was that provision for a coffee diversification fund was negotiated into the successor to the 1962 Agreement, i.e., the International Coffee Agreement of 1968 (effective October 1, 1968 to September 30, 1973) as Article 54. The 1968 Agreement also contains a strengthened provision for setting agreed production goals (Article 48) and a provision, although a very weak one, for establishing a Coffee Council policy on coffee stocks in producing countries (Article 49). The Statutes of the Coffee Diversification Fund (hereafter called CDF) state that its purpose is "to further the objectives laid down in Articles 48 and 49 of the Agreement of limiting the production of coffee in order to bring supply into reasonable balance with world demand and to maintain such balance." Attachment I contains the texts of all three Articles.

Membership and non-participants

3. Membership is compulsory for all exporting member countries of the Coffee Agreement which have an export entitlement of over 100,000 bags.<sup>1/</sup> The 29 "Compulsory Participants" covered by this provision are listed in Attachment II. Member exporting countries with quotas of 100,000 bags or less can join voluntarily, but none have done so. Importing countries can also join voluntarily, but so far none have done so. These will be covered below.

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<sup>1/</sup> This refers to the formal "basic export quotas" shown in Annex A of the Agreement, which total about 55.7 million bags and are meant primarily to fix market shares. In most recent years total quota exports have been set at between 46 and 49 million bags, although they have been set at 51.8 million bags during the current season.

Assessments and resources

4. Attachment II also shows the assessments for each compulsory participant in the CDF for the period October 1, 1968, when the CDF became effective, to March 31, 1970. Assessments are based on a levy of U.S. \$0.60 per bag of coffee actually exported to quota markets. (In 1968/69 quota exports were 48 million bags; non-quota exports 3.4 million bags). Assessments are adjusted quarterly (as are the quotas) and are payable in quarterly installments, subject to final adjustment later.
5. The original Brazilian-U.S. proposal for a coffee diversification fund contemplated a levy of one cent per pound and was estimated to bring in \$60 million a year. Later the proposed figure became \$1 per bag (132 pounds) and was estimated to bring in \$40-45 million a year. Article 6 of the Statutes sets the rate at 60 cents a bag but also provides that after each annual review of its resources and needs the CDF may decide to raise the rate up to a maximum of \$1 per bag.
6. Of the contribution, 78 percent or "Portion A" of the total contribution is payable in local currency. Twenty percent or "Portion C" is payable in U.S. dollars. "Portion B" (not shown in Attachment II) is 2 percent payable in dollars for administrative expenses. Including the 2 percent portion, total assessments to March 31, 1970 amounted to \$39.25 million.
7. The compulsory participants are obligated to make their contributions in each of the five years of the life of the CDF (coterminous with the present Coffee Agreement). The CDF staff accordingly has made an estimate of the expected compulsory resources that will become available under Portions A and C during the five-year life of the CDF and these are shown in Attachment III. These long-term resource estimates, however, are based on the quota exports allowed in the 1968/69 season, when they totalled 47.8 million bags, and are therefore likely to be conservative. Quota exports fluctuate from year to year but in the long run should grow at an average of 2-2½ percent per year. Moreover, for the season 1969/70 the export quotas assigned to compulsory participants presently total approximately 51 million bags. Brazil, which will be experiencing short crops during the next few years as a result of the frost damage in 1969, is nevertheless expected to fill its export quotas by drawing on its stocks.
8. The resources shown in Attachment III can be augmented either by raising the levy, which seems rather unlikely, or from borrowing. To our present knowledge, so far the publicly declared volunteered loans are from the U.S., the Netherlands, Norway and Denmark. The U.S. has a standing offer to lend the CDF up to \$15 million and to make further loans of up to another \$15 million to match contributions from other consuming countries - all on normal AID terms. The Netherlands last fall formally declared its readiness to lend \$875,000 on soft terms (30-year term, 8 years' grace, 2½ percent interest). The exact nature of the other offers is not known.

July 13, 1970

9. Such voluntary contributions must be governed by contracts between the CDF and the contributor.<sup>1/</sup> At present, the U.S. offer has advanced to the stage of a draft contract now being discussed and the Netherlands offer is at the stage of "discussions". Germany has confidentially notified us that it is considering lending the CDF \$3 million on the same terms as the Netherlands, but would like to impose conditions on the use of the funds so as to require Bank approval and supervision of the projects for which they are used. Indeed, it is clear that the U.S. and the Netherlands also will insist on close Bank association with the CDF. (Attachment IV is an excerpt from a report of the Bank observer to the Coffee Council meetings, that gives further details on these matters. The German offer is covered in Attachment VI, which deals with the question, elaborated on below, of Bank relations with the CDF up to the present.)

#### Use of resources

10. Article 25 of the Statutes states that the CDF's resources shall be used "directly to finance, co-finance or guarantee the financing of programmes or projects which contribute to further the objectives of the Fund in the territories of exporting participants." However, to receive assistance the participant must be in good standing and particularly be in compliance with the provisions of Articles 48 and 49, which presently in effect means that it must have the approval of the CDF Board and Assembly<sup>2/</sup> of a coffee sector plan with acceptable production goals.

11. As of May 6, 1970, all participants save five (Central African Republic, Ecuador, El Salvador, Guinea and Haiti) had submitted plans. Eleven of the plans had been analyzed by the staff and had been submitted to the Board of Directors (comprised of 15 participants, elected annually by the Assembly, who hold the votes of all the participants and perform certain functions delegated by the Assembly). As of the end of May, the Board had approved nine of the plans, i.e., those of Kenya, Indonesia, Ethiopia, Colombia, Portugal, Mexico, Brazil, Nicaragua and Guatemala, and was asking for further information on two: those of Ivory Coast and Costa Rica.

12. So far only Article 30 (c) loans have been made. These are loans to finance studies and technical assistance to assist a country in the preparation of its plans, programs or projects. They can be made up

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<sup>1/</sup> If the voluntary contribution is in the form of a loan, the votes assigned to such contributor will be determined by negotiation. In any case all voluntary participations based on loans cannot be given more than a total of 200 votes (out of 1,000) or more than 3 seats on the Board of Directors (out of 15). No single participant can have over 400 votes.

<sup>2/</sup> The Assembly is the top legislative body, consisting of all members.

July 13, 1970

to a total of either \$100,000 or the equivalent of a country's payment of Portion A in the first quarter of the first year of its participation, whichever is larger. So far Article 30 (c) loans have been made to the Congo (D.R.) (\$20,000 to prepare its Coffee Plan); India (\$100,000 for same); Nicaragua (\$20,000 for same); Indonesia (\$40,000 for same and updating statistics); Ivory Coast (\$35,971.22 for pre-investment study of diversification in coffee zone).

13. The Executive Director of the CDF is now considering with the countries concerned what specific projects or programs should be prepared for approval by the CDF. Projects that require financing by other institutions will need to be discussed with them first. Any project or program finally recommended by the Executive Director to the Board will be considered approved unless it is rejected or amended by a two-thirds majority of the Board.

14. It should be noted that as of now only Portion A funds (local currency) are available for use. The Portion C dollar funds are not yet available. The voluntary contributions still remain to be negotiated. Under Article 31 the Assembly must propose to the Coffee Council by March 1, 1971, an amendment to the Statutes to regulate the use of Portion C contributions. An important minority of the Coffee Council has felt that a participant should have a priority claim on the use of its own Portion C contribution, provided its project or program justified such use. Other ICO members opposed such a priority clause since it would severely limit or eliminate the freely usable resources available to the CDF to conduct international financial operations to implement diversification programs. According to the Executive Director, the national coffee plans analyzed to date indicate that a large number of participants intend to request financing in excess of their Portion A contributions and have made specific reference to Portion C.

*how is fund (local curr; \$) to be distributed by country*

15. It should also be noted that under Article 32, any quarterly installment of a participant's Portion A contribution which has neither been committed for financing projects or programs approved by the CDF within two years nor is under consideration for such approval shall thereafter become part of Portion C. However, a participant is exempt if within the first eighteen months of the two-year period it claims force majeure as a reason for not preparing a program or project, and requests technical assistance to do so.

#### Cooperation and involvement of the Bank

16. As you know, the Bank gave general support to the idea of the CDF from the start and later gave advice and technical assistance to it, including assistance in the preparation of the Statutes. As already indicated, many members of the Coffee Council are very eager to have the Bank closely associated with all aspects, and particularly the operations of the CDF. The Executive Director, Mr. Beltrao, is equally eager for collaboration. The basis for cooperation is Article 36 of the Statutes, which reads:

"The Fund may delegate to one or more International Financial Institutions such of its functions and activities as it may deem appropriate. The terms and conditions of such a delegation shall be agreed between the Fund and such International Institutions."

17. The question of specific implementation of this Article has been under discussion recently in the CDF Board and Assembly and Mr. Beltrao has informed the Bank that he plans to come to Washington for a concrete exchange of views (see Attachment IV). In this connection, Mr. Beltrao made a number of references in his Annual Report to the CDF to the question of cooperation with international institutions. These have been excerpted in Attachment V.

18. The principal issues with regard to cooperation in the field of project lending have been, from the point of view of the ICO/CDF: (a) how to link CDF and Bank Group resources so as to secure an "additional" effect for CDF resources and a "multiplier" role for Bank Group resources, (b) how to minimize the administrative burden on the ICO/CDF and (c) how to draw upon Bank experience and know-how so as to avert the CDF's becoming a disastrous farce. From the Bank's point of view the issue has been how to help the CDF realize its aims without becoming intermixed in the bargaining process in the ICO/CDF, or subverting the Bank Group's investment criteria. Views expressed authoritatively by the Bank thus far on these issues are incorporated in your own letter to the Executive Director of the ICO dated February 15, 1967, and in subsequent correspondence with representatives of the Netherlands and Germany. These are included in Attachment VI. The present arrangements on cooperation in the field of planning and analysis are briefly described in my memorandum to files dated October 23, 1969, also included in Attachment VI. Actually this Department has cordial relations with the ICO Secretariat and we are in frequent contact on matters of mutual interest regarding the world coffee economy.

19. One last comment. Last summer Brazil had a very severe frost and there is some threat also of the spread of coffee rust disease there. The result has been a radical transformation of the world coffee economy. The price of coffee (Santos 4, New York), the annual average of which had ranged between 37 and 41 cents per pound in the last four years, has averaged over 50 cents per pound so far in 1970 and is expected to average about that for the next three years or so, i.e., during the present term of the CDF, while world surplus (i.e., Brazilian) stocks are expected to be worked down substantially.

20. This may make the CDF's goal of "limiting the production of coffee ..." seem rather anomalous. In fact, it is far from the case. So far as we know, Brazil has no intention of losing her share of the world coffee market and accordingly is expected to rehabilitate its

July 13, 1970

coffee plantations so as to restore coffee growing capacity to its former level (about 30 million bags) by 1974/75. Meanwhile, other coffee growing countries, enjoying the highest prices in years, are being sorely tempted to let production rise beyond the limits consistent with a balanced global supply-demand situation in the long run. Even with relatively conservative growth assumptions, a re-emergence of surplus production could occur by 1974/75.

21. Considered in this light, the need to avoid having an increasing flow of resources go into coffee producing capacity in most countries may still exist.

22. On the part of the ICO/CDF, the current situation has led to a certain amount of re-interpretation of the CDF's role. Currently the concept of diversification has been expanded to imply rationalization and strengthening of the coffee sector. This includes surveys of the coffee sector, building of adequate warehousing facilities, improvement of processing and handling and, as appropriate, even increasing production to help a country meet its agreed production goals. We see no problem with this as an implicit meaning of diversification, so long as the task of assuring a balanced supply-demand situation in the long run is not forgotten.

*meaning  
of fund.  
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likely*

*How will  
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invest.  
between  
IBRD & IDB*

extra copy

Allen  
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Kamarch  
Evans  
Bocher  
Cone

INTERNATIONAL COFFEE ORGANIZATION

22 BERNERS STREET, LONDON, W1P 4DD, ENGLAND.

JUL 13 RECD

792/1/47

ALEXANDRE F. BELTRÃO  
EXECUTIVE DIRECTOR

8th July, 1970.

Mr. Robert S. McNamara,  
President,  
International Bank for Reconstruction  
and Development,  
1818 H Street N.W.  
Washington D.C. 20433,  
United States of America.

Dear Mr. McNamara,

I am writing to confirm the arrangements discussed during the telephone conversation which took place between yourself and Mr. Bruce McKenzie on Monday, the 29th of June last. The party to visit you on Thursday, the 30th of July 1970 will consist of Mr. McKenzie who as I expect you know, is the Chairman of the Assembly of the Diversification Fund; Mr. Rene Montes, who is the Chairman of the Board of Directors of the Diversification Fund; Mr. Herman Uribe, who is the Executive Director of the Colombian National Diversification Fund and myself.

It was felt desirable to seek this meeting with you for a number of reasons. For example, considerable progress has been made during the present coffee year in reaching policy decisions against the background of which it is now possible to tackle the task of constructing the frame work within which the Fund can begin to carry out the operations for which it was created.

Since I had the pleasure of seeing you in October of last year the following principle developments have taken place:-

- (a) Paid up contributions to the Fund now stand at \$41.3 million. Of this sum the equivalent of \$32.2 million represents Portion A contributions and is immediately available for the financing of programmes and projects;

- (b) Of the 29 Compulsory Participants of the Fund, 28 have presented their National Coffee Policy Plans as required by Article 27 of the Statutes;
- (c) So far the Secretariat has been able to appraise 24 of these Plans. The analysis and appraisal of the remaining five should, if all goes well, be completed by the end of the current coffee year, namely by September next;
- (d) Of the 24 Plans which have been appraised by the Secretariat, the Board of Directors of the Diversification Fund has been able to approve eleven. The Participants concerned are, therefore, now in a position to apply for financing of programmes and projects;
- (e) A formal offer has now been received from the United States Agency for International Development for an initial tranche of \$7.5 million from a total loan of \$15 million. The proposed Loan Agreement is under discussion between A.I.D. and the Diversification Fund. As you know the offer of the United States envisages the possibility of increasing the amount of the loan above the level of \$15 million to the extent that other importing Members of the Organization become Voluntary Participants of the Fund. So far offers have been made by the Governments of The Netherlands, Norway and Israel in addition to the United States to contribute to the Diversification Fund as Voluntary Participants;
- (f) The Assembly of the Diversification Fund adopted at its last meeting two Resolutions (copies of which are enclosed herewith for your information) providing for the development of relationships between the Fund and International Institutions with which it might be possible for the Fund to co-operate in the joint financing of programmes and projects as well as their joint supervision and control;
- (g) A study is at present being made of the terms and conditions on which loan contracts can be drawn up for the use of Portion A contributions; and
- (h) Indications have already been given by a number of Compulsory Participants of the nature and scope of possible programmes and projects to be financed by the Diversification Fund.

*What type  
where  
what cost & control  
local currency  
are they the kind  
of the agencies  
would finance -*



It is my hope that it will be possible to complete all the organizational requirements necessary to permit the commencement of financing operations within the next six months. This is not an easy task and is clearly one which will be facilitated if we can have the benefit of both the assistance and the experience of the Bank. Points on which we should be most grateful for your help are the following:-

- (a) The drawing up of operational systems and procedures for the appraisal of programmes and projects to be financed by the Fund and for their subsequent supervision and control; OX
- (b) The drawing up of a practical, standard, system for the release of monies from the Diversification Fund (whatever their source) and for the subsequent control of such monies with particular reference to accounting and auditing procedures; OX
- (c) The drawing up of a standard loan contract and a standard plan of operations, if this is feasible; OX
- (d) The working out of procedures, subject always to your agreement, for the joint financing of programmes and projects by the Bank and the Fund; OX
- (e) The formulation of proposals for an adequate staff structure for the Diversification Fund; and OX
- (f) The preparation of plans whereby Participants may have access to such technical assistance as they may require both to prepare and to execute programmes and projects financed from the resources of the Diversification Fund. OX

So far, one of my guiding principles has been to avoid as far as I possibly can the building up of a large staff. I would much prefer to avoid any duplication of function as between the Fund on the one hand and existing International Institutions on the other. In addition I would also prefer to take the maximum possible advantage of national institutions which exist within the territories of Participants. However the number and the organization of the personnel of the Fund must be adequate to carry out the established policies of the Assembly of the Diversification Fund and the Council of the International Coffee Organization and must be constituted with due regard for the responsibilities imposed on me by the provisions of Articles 48, 49 and 54 of the International Coffee Agreement 1968 as well as those of the Statutes of the Fund.

With the foregoing considerations in mind, it struck me that there might be an advantage in setting up a Working Group to study the whole organizational frame work for the Fund and to make appropriate recommendations. It would be my hope that this Group could commence its work early in August next and that it could be composed of a senior officer from this Organization together with, among others, two representatives of the Bank, one an expert on matters of financial organization, the other an expert in legal and contractual matters. I envisage that it should be possible for such a Working Group to complete its task within two to three months.

*Stewart Mason  
(with help)  
Zemurray*

*shouldn't  
"in fact"  
one bit  
enough with  
Raymond  
Johnson  
James Lee  
OK*

In this general connection the recent discussions which I was able to have with Mr. Cope were most helpful and I would like to express the hope that exchanges of view of this nature could continue to take place from time to time.

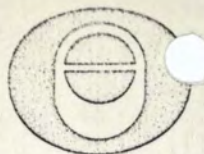
I am looking forward very much indeed to seeing you again on the 30th of July and am confident that your interest in the general concept of diversification as well as in the wider field of agricultural development will ensure that our discussions will lead to the arrangement of procedures for fruitful collaboration between the Bank and the International Coffee Organization in relation to the operations of the Diversification Fund.

It may well be that there are points which you would wish to raise with us. If this is so, I would be most grateful to have an indication of such points before our arrival on the 30th of July.

Yours sincerely,

*Alexandre F. Beltrão*

Alexandre F. Beltrão



792/1/46

	INTERNATIONAL	COFFEE	ORGANIZATION
ORGANIZACION	INTERNACIONAL	DEL	CAFE
ORGANIZAÇÃO	INTERNACIONAL	DO	CAFÉ
ORGANISATION	INTERNATIONALE	DU	CAFE

Fourth Session  
26 June 1970  
London, England

DF A - Resolution No. 4 (E)  
26 June 1970  
Original: English

RESOLUTION NUMBER 4

(Approved at the Plenary Meeting on 26 June 1970)

INTERPRETATION OF ARTICLES 13 AND 36 OF THE  
STATUTES OF THE DIVERSIFICATION FUND

WHEREAS:

It is deemed desirable for the proper functioning of the Diversification Fund to encourage the maximum possible cooperation between the Fund and International Financial Institutions experienced in the field of economic development;

It is necessary to clarify the meaning of the provisions of Articles 13 and 36 of the Statutes of the Diversification Fund, which govern the relationship between the Fund and other bodies, in order to permit the Fund to enter, with the maximum possible flexibility, into formal arrangements for cooperation with International Financial Institutions in matters related to the financing of programmes or projects; and

Under the provisions of sub-paragraph 6 of paragraph (b) of Article 15 of the Statutes the power of interpretation of the Statutes is reserved to the Assembly,

THE ASSEMBLY

RESOLVES:

To consider as "services" for the purposes of Article. 13 of the Statutes and not as "functions and activities" for the purposes of Article 36 thereof whatever the Fund may accept from, or contract with, an International Financial Institution in respect of:

- (a) the appraisal in technical and economic terms of programmes and projects submitted for financing from the resources of the Fund;
- (b) the technical and financial supervision of the execution of programmes or projects approved by the Fund and the necessary progress reports thereon;
- (c) banking services; and
- (d) the liquidation of loans made by the Fund for programmes or projects.



INTERNATIONAL COFFEE ORGANIZATION  
ORGANIZACION INTERNACIONAL DEL CAFE  
ORGANIZAÇÃO INTERNACIONAL DO CAFE  
ORGANISATION INTERNATIONALE DU CAFE

Fourth Session  
26 June 1970  
London, England

DF A - Resolution No. 5 (E)  
26 June 1970  
Original: English

RESOLUTION NUMBER 5

(Approved at the Plenary Meeting on 26 June 1970)

GENERAL CONDITIONS FOR THE JOINT FINANCING OF PROGRAMMES AND PROJECTS  
BETWEEN THE FUND AND INTERNATIONAL FINANCIAL INSTITUTIONS

WHEREAS:

It is necessary to supplement the finances of the Diversification Fund in order that the objectives of Articles 48 and 54 of the Agreement can be fully obtained;

Participants should be encouraged to obtain such additional funds as may be required from all available sources; and

The joint financing of certain programmes or projects by the Fund and International Financial Institutions would permit such additional funds to be obtained and would have advantages of an administrative and technical nature for the Fund,

THE ASSEMBLY

RESOLVES THAT:

1. A compulsory Participant may submit to an International Financial Institution loan applications in respect of programmes or projects to be

financed jointly from the resources of the Fund and those of the International Institutions provided that:

- (i) the National Coffee Policy Plan of such Participant has been approved in accordance with the provisions of Article 27 of the Statutes of the Fund; and
- (ii) the Participant has fulfilled the requirements of paragraphs 3 and 4 of the Rules for the Preparation, Presentation, Appraisal and Approval of Programmes and Projects contained in document DF-BOARD 15/69 Rev. 2.

2. A loan application to an International Financial Institution may also serve as the application to the Fund provided that three copies are made available and that it permits the Executive Director to apply the provisions of paragraph 9 of document DF-BOARD 15/69 Rev. 2.

3. The recommendation of the Executive Director on a loan application submitted under the provisions of this Resolution shall be presented to the Board as soon as possible and shall be drawn up in accordance with the provisions of Article 29 of the Statutes as well as with those of paragraphs 8 to 14 of document DF-BOARD 15/69 Rev. 2.

4. Matters related to the supervision of programmes or projects to be financed jointly under the provisions of this Resolution, progress reports thereon and questions related to banking services and to the liquidation of the loan shall be included in the terms of the relevant contract.

792/1/44

July 29, 1970

Meeting on FY71 Program, July 28, 1970

Present: Messrs. McNamara, Aldewereld, Adler, Baum, Cope, Willoughby

1. It was agreed that table 4(b) (Bank/IDA Lending Program for FY71) would be reissued by Friday, July 31.

2. It would incorporate the following additions:

- India (new country program--see separate minutes from July 27 meeting)
- Somalia Education \$ 3.0 million
- Somalia Highways 7.0 "
- Congo (K) Highways 10.0 "
- Singapore Engr. University 5.0 "
- New Zealand Railways--increase from \$5.0 million to \$15.0 million
- Colombia Railways 8.0 million
- Venezuela Airport 30.0 "
- Peru Transportation 30.0 "
- Israel Highways 30.0 "

3. Mr. Baum will review the possibility of including the following projects in the FY71 program:

- Ethiopia Coffee 8.0 million
- Zambia Livestock 5.0 "
- Philippines Highways 25.0 "
- Thailand Nan River Irr. 15.0 "
- Thailand Power 25.0 "
- Chile Irrigation 15.0 "
- Colombia Bogota Water Supply 50.0 "

4. The following project proposals would be excluded from the FY71 Program:

- Thailand Pioneer Irrigation
- Brazil DFC
- Colombia Medium Cities
- Ireland Education
- Tunisia Fisheries
- Lesotho Oxbow

5. Mr. McNamara would review plans for further projects in Peru, after Mr. Knapp returns to the Bank on August 3.

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President has seen

July 31, 1970

792/1/45

Second Meeting on FY71 Program, July 29, 1970

Present: Messrs. McNamara, Aldewereld, Adler, Baum, Cope, Evans, Willoughby

1. Mr. Cope reported that he had decided that the Nangal fertilizer project should be taken out of the FY71 program, but that the Cochin, Tata and Debottle-necking projects should be included. Mr. McNamara added that in light of this decision sufficient manpower should be allocated to these three projects to ensure that they would be carried through in time; if necessary the Bank should locate additional staff in Delhi to monitor these projects on a continuing basis.

2. In regard to the Turkey program, it was decided that another meeting should be held when Messrs. Knapp and Benjenk had returned to the Bank. For the time being the program should be maintained in its present form, except that the tourism and the water supply projects should be excluded.

3. Reviewing agricultural projects generally, it was decided to:

- Exclude: Dahomey--cotton  
Liberia--rubber (subsequently Messrs. Evans and  
Chaufournier agreed to maintain in program)  
Panama--fisheries  
Uruguay--livestock (subsequently Projects Department  
concluded it is a strong candidate but no priority  
over Zambia)  
Peru--Agricultural Development Bank  
(Thailand--Nan River irrigation subsequently removed)
- Include: Senegal--rice development  
Ivory Coast--cocoa nut  
Zambia--livestock  
Dominican Republic--livestock  
Venezuela--livestock  
Ethiopia--cotton  
Indonesia--tea development  
Irrigation project, possibly two, can be done in either  
Pakistan, Iran or Cyprus.
- Uncertain: Chile--irrigation
- Low probability: Spain--agricultural research  
Morocco--agricultural credit  
Iran--agricultural credit  
Chad--livestock

4. In respect to other projects it was agreed to:

- Exclude: Jordan--education (subsequently Mr. Ballantine believes  
it can be done)  
Guyana--Litton pulp
- Include: Guyana--power  
Trinidad--port  
Guatemala--roads  
Iran--aromatics (subject to Area confirmation)  
Thailand--power

President has seen



Low probability: Morocco--education

Leave to August  
revision of

Table 4(b):

Colombia--Bogota water supply

Philippines--highways

Ghana--education

Central America--development bank

5. Mr. McNamara asked that the Delhi office check on the Indian Government's position with respect to taxation on tractors, in view of the importance of this issue for agricultural credit projects in India.

LEChristoffersen

cc: Mr. Willoughby

*John Zin*  
792/1/43

Files

July 17, 1970

Bernard Zinman

PERU - Proposed Earthquake Reconstruction Loan

1. On July 10 a meeting was held in Mr. McNamara's office to consider the proposals in Mr. Alter's memorandum of July 9, 1970, concerning alternative approaches to the proposed road reconstruction loan to Peru. The meeting was attended by Messrs. McNamara, Knapp, Alter, Baum, Knox, van Helden and Zinman.
2. Mr. McNamara asked Mr. Knapp to summarize the issues raised in Mr. Alter's memorandum so that decisions could be made to permit a prompt response to the Peruvian Government's request for Bank assistance. Mr. Knapp indicated that the basic issue was whether the operation should be divided into two phases, i.e., whether it should be (a) a loan for a feasibility study, engineering and technical assistance to be followed by a second loan to assist in the financing of the resulting road reconstruction project as recommended in Mr. van Helden's back-to-office report, or (b) a one-phase operation in which a commitment would be made for both of the components mentioned above. Mr. Knapp favored the one-phase approach. Mr. Baum felt that the two-phase approach would have the advantage of establishing more clearly the estimated total cost of the project and hence provide a better basis for the amount of the loan required. He also thought that with the two-phase approach there would be an assurance that the proposed loan would be attached to an economically justifiable road project. Mr. Knapp responded that it should be possible to develop an operation in such a way as to ensure attaching our loan to a justifiable road project. If necessary, to assure this, we could consider a supplementary loan.
3. Mr. McNamara said he agreed that the one-phase approach was the best alternative under the conditions in which the operation was being considered. He added that if the lowest cost road among the three is selected, as a result of a feasibility study, he would be prepared to recommend using the balance of the loan elsewhere in Peru for high priority roads. If additional funds are required to ensure an economically justifiable project for this purpose, we could make a supplementary loan. He also suggested that if the cost estimate of the road selected on the basis of the feasibility study turns out to be higher than estimated in Mr. van Helden's report, he would be prepared, in this case also, to recommend a supplementary loan. He agreed with the proposal in Mr. Alter's memorandum that the proposed loan cover two-thirds of the road reconstruction costs. Mr. McNamara said his position was that an IDA credit should not be used for the proposed operation. He was also prepared to leave the IRC expropriation matter out of consideration in the case of the proposed loan for road reconstruction.
4. Mr. Knapp suggested that in view of the foreseen delay in disbursement of funds for the road reconstruction component, we be prepared to waive the Bank's normal commitment charge for the first year after the signing of the loan agreement. He indicated that a precedent existed for such a waiver in the

July 17, 1970

case of the Indus Basin project for which a Bank loan and an IDA credit had been made but it was known beforehand that Bank funds would not be disbursed until well after the commitment was made. Mr. Knapp suggested that in lieu of an appraisal report a technical annex be attached to the President's report and recommendations to the Executive Directors.

5. Mr. McNamara concluded that if the Peruvian Government agrees to our approach, we schedule the presentation of the proposed loan to the Executive Directors at their meeting of September 8. He said that the Peruvian Government should be informed as soon as possible of our approach. He agreed with Mr. Knapp's suggestion that before informing the Peruvians we should meet with the Executive Directors of France, Germany, Japan, the United Kingdom and the United States to obtain their reactions and to ascertain their willingness to consider a Bank loan for road reconstruction in Peru. (For record of the subsequent meeting with the Executive Directors, see the writer's memorandum to the Files of July 17, 1970, relating to that subject.)

Cleared with and cc: Mr. Alter (SA)

cc: Messrs. McNamara (2)

Knapp  
Bam  
Knox  
van Helden  
Kapur

BZinman:sb

792/1/42

MEMORANDUM FOR THE RECORD

July 14, 1970

Visit by Computer Consultants to the World Bank, July 9, 1970

Present: Messrs. McNamara, Ripman, Twining, BKing and Downey, Harper, Ward and Corbett

Mr. McNamara said he was in principle in favor of computer mechnization when it could be demonstrated that it was the most economical tool for a specific purpose. The Bank's reliance on computer facilities had to be viewed in relation to comparative costs. He understood that the Bank presently was spending relatively larger amounts of money on computer work than most other organizations. Perhaps the team could provide some rough estimates of comparable computer costs in other institutions. He promised to treat such data confidentially.

The major focus of attention should be computer analysis of data relating to economic development. It was in this field the Bank had a major role to play. He was not sure it was right to computerize the accounting system, since the Bank Group was still small enough in size to undertake this task efficiently with other less costly means.

Mr. McNamara asked if the present equipment could be considered appropriate for the World Bank Group. Mr. Downey answered in the affirmative, pointing out that the equipment was particularly well suited for the present level of training of the computer staff but stated it would be necessary to transfer to equipment of another manufacture in the future. Mr. Downey also said it was difficult to arrive at a conclusion on whether the present costs of running the computer service were appropriate; he promised to review these in comparison with other large institutions. In regard to personnel needed for the computer unit, it was evident that, besides appointing a new and qualified manager, the other staff members needed both more and wider-based training in handling the facilities. A major product of the consultants' work would be to prepare a simple but effective control system for allocation of computer time.

Mr. McNamara finally pointed out that it might be economical for the Bank to consider using unutilized capacity elsewhere in Washington. He was concerned that the Bank had not made an attempt to use such facilities. He was also anxious to see that the Bank ensured full coordination with computer units elsewhere in the UN system. Mr. Downey assured him that with the present equipment it would be possible to establish such coordination. His team would examine carefully this aspect of the computer unit's functions.

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President has seen

792/1/41

MEMORANDUM FOR THE RECORD

June 17, 1970

Meeting on Bank's Lending Rate and Profit Transfers to IDA, June 10, 1970

Present: Messrs. McNamara, Aldewereld, Friedman, Adler, Blaxall and Brash

Mr. McNamara queried whether the issue of Bank profit transfers to IDA could be separated from that of the Bank's lending rate. While the papers should be drafted separately, Mr. McNamara would wish to review the two papers together before he decided whether to send them as one joint, or, two separate papers to the Board. Mr. McNamara agreed with Dr. Lieftinck's comments at last Board Meeting that the Bank's profits had not been appropriately related to the general problem of inflation. It was also clear that a smaller profit transfer to IDA would reduce the pressure to increase the Bank's lending rate. He asked that Mr. Adler prepare the papers in such a way that all the arguments were clearly spelled out, disregarding for the moment the consideration that some of the information might be unsuitable for Board presentation. He would prefer to have a thorough and scholarly paper for review internally in the Bank before he decided how to approach the Board. The paper on the Bank's interest rate should include reference to the present value of profits foregone by having a lower interest rate than the present cost of capital in the international capital markets and should also discuss the problem of external indebtedness in developing countries. Mr. Adler would have the drafts ready on Wednesday, June 17.

LEC

President has seen

792/1/40

MEMORANDUM FOR THE RECORD

May 11, 1970

Meeting on Proposed CIAP External Debt Study, May 7, 1970

Present: Messrs. McNamara, Friedman, Cope and Kamarck

It was agreed that:

- (a) Mr. Friedman would be personally responsible for all creditworthiness studies in the Bank, including those related to the study proposal sponsored by CIAP.
- (b) Mr. Friedman would personally attend CIAP meetings on this matter.
- (c) The Bank should be prepared to take leadership and ensure that a definitive study on the external debt problem will be forthcoming.
- (d) Mr. Friedman would be in direct contact with the CIAP Chairman to ensure full coordination between the two institutions.
- (e) Mr. McGibbon should be assured adequate staff for his study of the external debt problem in developing countries.

LEC

President has seen

7012/1/39

MEMORANDUM FOR THE RECORD

May 1, 1970

Meeting in Mr. McNamara's Office, April 30, 1970

Present: Messrs. McNamara, Knapp, Aldewereld, Blaxall

1. Five-Year Lending Program

It was agreed that:

- (a) Mr. Aldewereld would distribute projections on future sources of funds by Monday, May 4.
- (b) Mr. Blaxall would revise Table I to include a \$200 million increase in assumed cash holdings, cover at least the period up to FY80, and spread borrowing requirements over several fiscal years. It would be distributed before noon on Thursday, May 7.
- (c) Gross borrowing was not a restraint, but the creditworthiness problem was.
- (d) Current "benchmark" for the general level of future operations was about \$2 billion for the Bank and \$1 billion for IDA.
- (e) Differences between the tables to be produced by Mr. Aldewereld and by Mr. Blaxall would be used to introduce a "slippage" factor.
- (f) Future earnings should under no circumstances be less than a 5% return on capital, but preferably no less than 6%.
- (g) Further meetings would be held on Monday, May 4, at 2:00 p.m. and Friday, May 8, at 9:30 a.m.

2. Administration Budget for FY71

It was agreed that:

- (a) FY71 authorization for recruitments for Agricultural Projects Department should be filled by December 31, and reviewed at that time.
- (b) An "unallocated" category of 1½% (21 professional positions) should be set aside for discretionary use by the President, and \$1.5 million in a contingency fund.
- (c) Consideration should be given to splitting up the Agricultural Projects Department into two separate units.
- (d) Planned reductions in the New York Office and the Travel Office should be incorporated.

**President has seen**

LEC

792/1/38

April 13, 1970

MEMORANDUM OF LUNCHEON CONVERSATION WITH FELIPE HERRERA, APRIL 13, 1970

During the conversation Felipe agreed that:

1. Gerry Alter and Ed Gutierrez could meet with his Operations Manager to review the future lending programs in Latin America, country by country, sector by sector, of our two institutions for a period of such as a year in order to divide the projects in such a way as to avoid potential conflict.
2. Dick Demuth could meet with Al Wolfe to coordinate matters of general policy and approach and to obtain their suggestions on how both operating and policy coordination could be improved.
3. He and I would lunch or otherwise meet together every three or four months and he will take the initiative to arrange the next meeting. (When I made this suggestion, he indicated it might be helpful to have Messrs. Knapp and Upton present.)

When I expressed appreciation for IDB participation in our Economic Missions, Felipe said they were happy to assign personnel to our Missions, but Carlos Santa Maria had led him to believe that CIAP looked upon the Missions as an encroachment on their responsibilities.

Robert S. McNamara



792/1/37  
April 9, 1970Meeting on Proposed External Debt Study, April 2, 1970

Present: Messrs. McNamara, Knapp, Cope, Adler, Kamarck, McGibbons

Mr. McNamara referred to the recent Rockefeller Report which had discussed the question of external debt rescheduling for Latin American countries. It was not clear from that Report whether the U.S. should undertake unilateral debt rescheduling exercises or whether, as Mr. Woods had said, this should be contemplated within a multilateral framework. In any case, the problem was not limited to Latin America, and it was clear that in the future the Bank could expect to be called upon more often to provide leadership on policy issues related to external indebtedness. It should, therefore, undertake further studies on external debt problems so that it could be in a position to propose action whenever requested. As a first step toward that objective, a thorough analysis of the general problem was needed, and the Bank should set up a study group to write a paper on this topic. In the short run, Mr. McNamara was more concerned about the structure of the paper than about the adequacy of the data which could be obtained. Full responsibility for the study should rest with one experienced economist who should work full time and be assisted by appropriate staff. While the problem of external indebtedness was of major concern to all the Area Departments, at this stage these Departments would have no responsibility for the paper, although the task entrusted to the study group should be made clear to them. The paper should be written as if it were addressed to a Minister of Finance. It should describe past experiences with external indebtedness problems in developing countries, analyze the problem from the point of view of both debtor and creditor countries, and review what further action was needed.

It was agreed that:

- (a) Mr. McGibbons would assume responsibility for the staff work on the study.
- (b) He would have three full-time staff members to work with him.
- (c) The final draft would be completed by June 15.
- (d) Area Departments should organize their own work so as to review the draft after that date and then incorporate their own experiences and analyses into the study.
- (e) Mr. Cope should devote a good deal of time in this period to ensure that the study group benefitted from his own operational experiences with this problem.

LEChristoffersen

President has seen

March 5, 1970

Mr. McNamara  
to see  
Lee  
3/6

Meeting in Mr. McNamara's office on points arising from his visit to East Africa  
January 20, 1970

Present: Messrs. McNamara, Cope, Chadenet, Clark, Diamond, Lejeune and Baum

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Mr. McNamara said that during his visit to East Africa several points had arisen which seemed to need further study within the Bank. He wanted to outline these points to the meeting without specifying a time limit for their composition. The Departments concerned could then decide how much time they would need to undertake the particular task and inform him subsequently of their proposed time schedules.

1. Staffing Needs of the Nairobi Office

Changes in staff allocation to the Nairobi Office might require earlier action than the final decisions on the FY71 budget.

Action: Area Department will have specific recommendations ready for submission to Administration Department by March 9.

2. Supervision Role of Nairobi Office

Mr. McNamara asked that Mr. Ripman examine the question of what function, if any, the Nairobi Office should have in respect to project supervision in Eastern Africa.

Action: Administration Department advises that agreement has been reached within the Bank that the Nairobi Office should have no project supervision responsibilities since this is best dealt with from Headquarters, but the Office should have more flexibility with respect to sending their own staff to accompany supervision missions for "critical" projects. A memorandum giving the details on this agreement as well as its general applicability to Bank field offices elsewhere will be ready by end of March.

3. Public Administration Consultant to the Kenyan Government

Mr. Lejeune was asked to respond to the Kenyan Minister of Finance who had asked the Bank to help provide an expert for the reorganization and staffing of government departments and institutions in Kenya.

Action: Terms of Reference being revised by Government. The Minister advised Mr. Lejeune at the consultative group meeting in Paris on February 4 that they were withholding their request to the Bank for the time being pending a comprehensive review and redrafting of the Terms of Reference.

4. Tana Irrigation Project

Recognizing that there are questions about the economic priority of the Tana Irrigation Project in Kenya, Mr. McNamara felt that the Bank should see if it could go ahead in one form or another with this project in view of the important employment benefits. The Bank should examine carefully the possibility of reshaping this project into an acceptable form.

Action: Work program proposed by the Agricultural Projects Department will be submitted to Area Department on March 6.

President has seen

5. Curricula Reform in Kenya

Mr. McNamara asked Mr. Chadenet to re-examine the Kenya Education Project and to check the possibility of using the project as leverage for curricula reforms in Kenya's education system. At the same time he was aware that the project might have to go ahead quickly to fulfill an urgent need in Kenya at the moment and that it therefore might not be a suitable vehicle for such leverage.

Action: Mr. Lejeune subsequently confirmed that the project already supported reforms and the credit documents were revised to strengthen that support. Action completed.

6. Tourism in Kenya

A sectoral plan for tourism was urgently needed in Kenya. Mr. McNamara wanted to know what the Bank could do in this important sector and whether Bank staff would be available to help prepare a sector plan. It ought to include details of project proposals which could be submitted for external financing. The plan might also look into the possibility of reviewing tourism as part of regional efforts by the three East African countries.

Action: The Tourism Projects Department has submitted a first draft on the proposed work program. Area Department is currently reviewing this draft.

7. Murchison Falls

Mr. McNamara noted that President Obote felt deeply committed to go ahead with the power project at Murchison Falls, although the economic justification had not yet been substantiated. It was unlikely that the power to be produced under the project would be needed during the next five years. Mr. McNamara asked that a special effort be made in the Bank to evaluate all aspects of the project and to see whether an ecologic study could be undertaken.

Action: Mr. Weiner prepared a note setting out:

- (a) the work done or to be done on the economic aspects of the provision of power for a unified Kenya-Uganda system and relating this to the exploitation of Murchison Falls and the forthcoming appraisal of the Kamburu project in Kenya; and
- (b) the proposals for studying the ecological and tourism aspects of Murchison Falls.

The note was submitted to Mr. Lejeune on March 4.

8. Reply to Uganda Minister of Planning

The Minister had complained to Mr. McNamara that, over a period of six years, the Bank had not reacted to an agricultural credit proposal which the Government had submitted in 1964. Mr. McNamara had promised to respond to the Minister on this point.

Action: Letter sent on February 9. Action completed.

9. Uganda: Request for Information on Projects Which may be Submitted for Bank Financing

Uganda would wish to submit more projects for the Bank's consideration and would like briefing on project preparations and project submissions to the Bank.

Action: Mr. Brakel visited Kampala soon after Mr. McNamara's departure. During his visit in Washington in February, discussions were held with the various Projects Departments on this matter. Mr. Brakel will visit Kampala again now that he has returned to Nairobi.

10. The National Bank of Commerce in Tanzania

The Chairman of the Bank of Commerce in Tanzania had told Mr. McNamara that his bank was extremely interested in setting up a subsidiary for financing tourism in Tanzania. Mr. McNamara asked Mr. Diamond to look into this possibility. He had been impressed with the dynamism of the bank's management.

Action: After Mr. McNamara's return, Mr. Diamond was informed by Mr. Kahangi that it was yet unclear whether the National Bank of Commerce would wish to organize an investment banking section within the bank or whether they wanted to establish a new company for this purpose. Mr. Diamond expects the Government to clarify this point and submit further details about this proposal before he schedules a mission to go out to Tanzania.

11. DFC Operations in East Africa

Mr. McNamara thought the Bank should be much more actively involved in DFC projects in East Africa. The East African Development Bank appeared satisfied with the supply of Bank funds it had received, but he doubted whether it was aggressive enough in promoting regional projects. He was also convinced that more could be done with respect to national development banks in the region. Mr. Diamond agreed to submit a note on this matter.

Action: The DFC Department has reviewed a loan request from the Industrial and Commercial Development Corporation in Kenya and a letter to the Government on January 27 setting out in broad principles the reorganization considered necessary before a Bank loan could be granted. If the reply is encouraging, an appraisal mission would be sent out. A loan request has also been received from the Uganda Development Corporation. Due to staffing shortages, it is not very likely that this mission can be sent out before the end of the current fiscal year. Future DFC missions to East Africa will take full advantage of the East African industrial survey mission which started work in February. Judging from the work done in Brazil by Mr. Walinsky, the head of that mission, his report will be invaluable in establishing the nature and volume of the demand for industrial credit.

12. East African Community

The Community appeared extremely fragile, as it was apparent there was a conflict between regional and national interests in East Africa. Mr. McNamara had been asked whether the Bank could help finance the Community office building in Arusha. He had encouraged the Minister to approach Canadian and U.S. aid agencies on this matter but, at the same time, indicated that the Bank might consider participating in the financing of the office building. Mr. Cope was asked to look into this matter.

Action: Discussions took place at the consortium meeting and during Minister Ouko's visit to Ottawa and Washington. The Kenyan Government had been very critical of the Arusha proposals. Minister Ouko had promised to send the Bank a dossier on the details of the building proposals and of their financing needs. The Special Projects Department prepared a questionnaire and will review the proposals when detailed information is received from Arusha.

13. Agricultural Credit in East Africa

It was clearly essential to assist small-holder schemes in the region. This might perhaps best be done through agricultural credit projects and Mr. McNamara asked that this possibility be explored.

Action: The Agricultural Projects Department prepared on February 13 a draft of an analysis of the Bank's experience with agricultural credit in East Africa, what approaches have been tried and with what success, what complimentary action has been required, and what line they would recommend for further action. Area Department's reaction to this draft will be ready on March 13.

14. Rural Development

Some form of package approach to rural development might be possible. It was clear that the Ojaama villages in Tanzania were so far without much substance. Mr. McNamara asked for a review of the Bank's possibilities for assisting rural development efforts.

Action: A senior economist in Area Department, together with the Agriculture Projects Department, is pulling together information which exists in the Bank and will propose terms of reference for future work. Memorandum ready by end of March.

15. Post-Primary Training

It was evident that some type of training beyond the primary school level would be needed for a large number of people in East Africa. The Bank might see whether it could make the region a test case for new ideas in this field.

Action: Area Department memorandum ready by end of March.

16. Village Industries

Mr. McNamara requested that the Economics and Industrialization Division prepare a paper on what has been done in the field of cottage or village industries in various countries and what prospects such industries had for future industrial growth in developing countries.

Action: Area Department memorandum ready by end of March.

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MEMORANDUM FOR THE RECORD

March 5, 1970

Meeting with Bank of America Representatives, March 2, 1970

Present: Messrs. McNamara, Aldewereld and Rotberg; Coughran, James, and van Vlinder

Mr. McNamara said he was not sure an expanded use of the Bank's guarantee powers would open up new sources of funds. However, he would certainly be interested in any evidence which indicated that this device would enable the Bank Group to achieve such an objective. Mr. Coughran promised he would seek out specific examples and submit these for Mr. McNamara's consideration.

With respect to the proposal to expand sales from the Bank's portfolio without guarantee, there was general agreement that little could be done under present capital market conditions.

Mr. Coughran asked Mr. McNamara what he thought would be possible areas of cooperation with the Bank of America. Mr. McNamara said he would welcome cooperation in the field of project identification. He suggested that initially this be limited to Latin America and to projects not requiring government guarantees. IFC could use some assistance in the "deal-finding" part of their work. It had already established contacts with ADELA on this matter.

Mr. Coughran pointed out that Bank of America, which also participates in ADELA, had just helped establish a new institution in Latin America specializing in agricultural operations, particularly in marketing and processing activities (LAAD--Latin American Agribusiness Development Corporation). Mr. McNamara thought IFC might consider participating in this institution. He promised Mr. Coughran a note outlining his proposals as to how the Bank of America might help IFC as a "deal-finder" in Latin America and how IFC might participate in LAAD's operations.

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MEMORANDUM FOR THE RECORD

January 6, 1970

Meeting in Mr. McNamara's Office on our work in the Mekong Basin, December 22, 1969

Present: Messrs. McNamara, Knapp, Aldewereld, Shoaib and Sadove

Mr. McNamara asked Mr. Sadove about staff shortages in his Department. Mr. Sadove said that he lacked authorization for three positions which he had proposed. Mr. McNamara asked Mr. Aldewereld to ensure that the P&B Department prepared the appropriate authorization and submitted it for his approval by Tuesday evening.

Mr. McNamara asked if the Bank should appoint a resident representative in Bangkok to establish better liaison with the Mekong Committee. Mr. Shoaib said that he would make a specific proposal by February after he had talked with UN officials.

Mr. McNamara asked Mr. Sadove to prepare a work program for the Mekong unit. It should specify what action the Bank should plan to undertake with respect to the Mekong Basin and should also indicate a proposed time schedule. He also asked Mr. Sadove to submit a progress report every month to himself and Messrs. Knapp, Aldewereld and Shoaib. In the spring he could instead send this report out at two-month intervals.

Mr. McNamara suggested that a project list be prepared for the Mekong Basin with a brief description of each project as well as estimated costs.

Mr. Shoaib mentioned that there had been no further action with respect to the appointment of an executive agent for the Mekong Committee. The UNDP seemed disposed to let things ride for the time being. ECAFE appeared to wish to be involved more closely with the Committee. The Bank had had close cooperation with ADB. While Mr. Watanabe had suggested a joint program with the Bank, his staff expected ADB to play a much more junior role. Mr. McNamara said that he would have no objection to calling any future arrangement between the two institutions a joint program, as long as the Bank was left free to take the appropriate de facto leadership.

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