

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

Folder Title: Memoranda for the Record - Memoranda 04

Folder ID: 1771491

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4543S

Series: Memoranda for the record

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 19, 2012

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK  
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or  
The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

McNamara Papers

Memoranda for the Record  
1971

The World Bank Group  
**Archives**



1771491

A1995-254 Other #: 1

309654B

President's papers - Robert S. McNamara Memoranda for the Record - Memoranda 04

**DECLASSIFIED**  
WBG Archives



792/17/60

MEMORANDUM FOR THE RECORD

Indonesia Population Project: Financing of Operating Costs, December 3, 1971

Present: Messrs. McNamara, Knapp, Chenery, Adler, Baum, Hoffman, Williams, Chadenet, Kanagaratnam, Baldwin, Zaidan, Hawkins, Stevenson

On the discussion of the Population SPP, the issue of financing of operating cost of an Indonesian population project was raised by Mr. Knapp.

The project currently under preparation has an estimated total cost of \$30.8 million, of which \$8 million is operating cost. It has been tentatively agreed that the Bank and the UN will each finance \$1.2 million of operating cost.

Mr. Baldwin said the reasons for this arrangement were to provide simple disbursement procedures and a melding of efforts. Mr. McNamara felt that this was not sufficient justification for departing from usual policy. It was decided that preparation of the project would proceed as planned but, as a rule, the Bank should not finance operating costs and that departures from this or any other established policy should not be made without a Loan Committee Meeting. Since the definition of operating costs may pose a semantic problem, it was agreed that Messrs. Knapp and Chadenet would discuss this and take a closer look at the Operational Memorandum on the subject.

Postscript: There was in fact a Loan Committee Meeting on the project, chaired by Mr. Cope while Mr. Knapp was away, but the financing of operating cost was not discussed.

AL  
December 9, 1971

President has seen

792/1/59

MEMORANDUM FOR THE RECORD

October 21, 1971

Meeting on Expropriations of Foreign Investments

Mr. McNamara met with Messrs. Broches and Demuth on October 18 to discuss Bank policy on lending to countries which have expropriated foreign investments. Sir Denis joined the meeting towards the end. Mr. McNamara said he was most anxious to ensure that the Bank had uniform policy and treatment with respect to its position on lending to member governments that had expropriated foreign investments. He also wished to ensure that this policy was consistent with those of the regional development banks, OECD, and the important bilateral aid agencies. He suggested that a particular Bank staff member be assigned to work full-time on these issues. In particular past written statements on this matter made by the above agencies should be examined in some detail, and also their future plans. Furthermore, a detailed analysis should be made of all expropriation cases which the Bank had dealt with during the last 10 years.

Mr. Broches pointed out that the formulation of Bank policy on this matter was mostly of concern to the U.S. Government. All other member governments did not appear to take any direct interest unless they themselves were directly involved.

It was agreed that Sir Denis would consider taking on responsibility for this assignment. He and Messrs. Broches and Demuth would further discuss what needed to be done and propose a plan of action. Sir Denis would draw upon relevant staff expertise from within Legal and Development Services Departments.

LEC

President has seen



792/1/58

MEMORANDUM FOR THE RECORD

Messrs. McNamara, Knapp, Aldewereld, Chenery, Cope and Chadenet met with Mr. Willoughby on September 16 to hear Mr. Willoughby's report on progress in finalizing the two evaluation reports currently in process in his unit (Colombia's development performance and selected Bank-financed power projects). It was agreed that:

- (a) Mr. Willoughby would prepare a revised time schedule for the completion of these two reports and send copies of it to all present at the meeting (schedule expected to be ready by October 7).
- (b) The final report should be read very carefully by the above to judge whether member governments could have access to the reports.
- (c) Thereafter Mr. McNamara would wish to receive advice from those present as to what work program Mr. Willoughby should undertake next.

LEC  
September 23, 1971

President has seen



For Rally  
▽

792/1/57

Memorandum for the Record

August 11, 1971

Gunter K. Wiese

Meeting of Mr. McNamara with the President of the  
Anaconda Company, Mr. John Place

The President of the Anaconda Copper Company, Mr. John Place, accompanied by the Vice-Chairman of the Anaconda Board, Mr. Bill Quiggley, and Mr. Paul Bilgor of Anaconda and Mr. Lloyd Cutler, the Washington lawyer representing Anaconda, called on Mr. McNamara today. Messrs. Knapp and Wiese were also present.

The Anaconda representatives reported on the present situation in Chile as regards the copper mining sector. Since the passage of the constitutional amendment, production had been further declining. Anaconda's largest copper mine, Chuquibambilla, which had a capacity of 780 million lbs. per annum, was presently operating at an annual output level of only 570 million lbs. The other two mines of Anaconda, El Salvador and Exotica, were recently operating at a similarly reduced level and are presently completely shut down by a strike. The El Teniente mine of Kennecott and the Andina mine of Cerro were also operating at low rates of capacity utilization. The operating costs of all mines were climbing rapidly, but the exchange rate applied to their exports continued to remain at 12 escudos per dollar.

The Controller General had until mid-October to calculate the amount of compensation to be paid. Under the constitutional amendment, he could postpone that deadline by another 90 days. The formula he was using to compute the compensation was to start with the book value of the assets, net of depreciation, and then deduct an amount for so-called "useless" properties. A further deduction would be made for claims of the Government against the companies. As regards Anaconda, the Government had already indicated that it would press a claim for tax arrears in the amount of \$50 million even though this claim pertained to years for which the companies had already previously settled with the Chilean Internal Revenue Service. The Government would also press a claim of another \$50 million on behalf of former employees of Anaconda who were allegedly not paid the full amount of pensions due to them. A final deduction of \$40 million was to be claimed to compensate the Government for the cost of removing deposits of old strip mining wastes which had been placed at locations where they impeded the expansion of the mines. Finally, during the 90-day or perhaps 180-day period referred to above, the President, under the constitutional amendment, had to decide whether the Controller General is to make an additional deduction for "excess profits" earned by the



companies in the past. The amendment stipulated that in arriving at the amount of such deduction, if any, the President should take into account (a) a comparison of the level of profits made by the international copper companies in recent years as between Chile and other areas of the world, (b) whether or not the companies had earned more than the 14 percent rate of return on investment provided for under the recent Andean Pact and (c) the extent to which profits had accrued in the past because copper prices had been above 40 cents per pound. In these circumstances, it was clear that the Government presently intended to pay no compensation at all, or only a very small amount. Allende had recently stated just that during private conversations. Whatever the Government would be willing to pay, if anything, was to be paid in long-term bonds denominated in escudos and without provision for the maintenance of value. The bonds would carry interest at no less than 3 percent. The Anaconda representatives also expressed concern that the constitutional amendment could be read to abrogate commitments entered into by the Frei Government in 1969 when the copper companies were more or less forced to sell to the Government the majority of their stockholdings in their Chilean subsidiaries. Under this agreement, dollar bonds were issued which are held by a New York custodian. However, up to this point, payments under these bonds had been made promptly, the last time on June 30, 1971.

The Anaconda representatives went on to say that there was at present a shift inside the Cabinet toward the left. Two or three ministers were likely going to be replaced soon by representatives of the far left, particularly the Minister of Mines, Canturias, who had submitted his resignation. While Allende was trying to keep the course of the Government from drifting too far left, the pressures from the younger members of the political spectrum presently represented in the Government was very strong. There was therefore little choice for him but to lend his support to a very tough compensation proposal and, once such a proposal was made, it would be politically impossible to soften it.

Mr. Place reported that he had discussed the situation yesterday with the Secretary of the US Treasury, Mr. Connally, and with Mr. Ortiz Mena, the President of the IDB. Mr. Connally had expressed grave concern about the spreading of expropriation issues all over the Western Hemisphere and had agreed that if the Chilean copper expropriation was not settled properly, it would be another unfortunate precedent which would be an open invitation to other countries to do likewise. He had assured them of his full support in pressing for equitable compensation. As regards the meeting with Ortiz Mena, Mr. Place reported that the former had visited Chile last week and



had been assured by Mr. Allende that Chile wanted to remain a member of the international community and to honor its obligations. Mr. Ortiz Mena also had been given to understand that the Chilean Government intended to pay in full on the 1969 bonds. It had, however, become clear to them during their meeting that the President of the IDB, of necessity, had to view the situation in Chile from a different point of view.

In the judgment of Anaconda, not much time could be lost if one wanted to prevent the worst from happening. They inquired about the possibility of the World Bank's assuming the role of a mediator. In the ensuing discussion, reference was made to previous settlements on the Suez Canal and in Katanga. There was also some discussion of the IPC issue and a recapitulation by the Anaconda representatives of the reasons leading to their giving up their Peruvian concessions. Mr. McNamara then stated that the Bank was strongly interested in a satisfactory resolution of the issue of compensation for the Chilean copper companies. Without adequate progress towards such solution, there would be no Bank lending to Chile and Chile's prospects for development would be negatively affected. The Bank would therefore be prepared to offer its good offices as a mediator on two conditions: (1) that it be requested to do so by both parties and (2) that after initial contacts with the parties, it would conclude that there were indeed prospects for its role being productive.

Mr. Place inquired whether the Europeans had given any indication as to how they viewed the matter. Mr. McNamara stated that there had recently been a number of unfortunate manifestations of a prevailing disunity among the major capital exporting countries as regards the attitudes vis-a-vis various compensation issues in different parts of the world. He referred to Algeria and Peru and the lack of consensus between the US and France. The meeting ended by the President of Anaconda expressing his appreciation for the cooperative attitude shown by Mr. McNamara and the joint expression of hope that reasonable progress toward a mutually satisfactory settlement could soon be initiated.

P.S. - After the meeting, Mr. McNamara raised with Mr. Knapp the question of whether there was anything we could do in the immediate future to enter into a dialogue. Mr. Knapp replied in the negative.

cc: Mr. Christoffersen ✓  
Mr. Knapp  
Mr. Broches  
Mr. Alter o/r  
Mr. Dosik

GKwiese:mr



792/1/56

MEMORANDUM FOR THE RECORD

Meeting between Mr. Peter Koehn of The Industrial Commonweal,  
Mr. McNamara and Mr. Gaud, 5.30 pm, July 12, 1971

Mr. McNamara and I met with Mr. Koehn yesterday afternoon. He presented an elaborate scheme for setting up fertilizer plants in African countries. They are to be set up by the Industrial Commonweal, a corporation which he has organized. According to him the plants have been designed by Japanese equipment manufacturers. They will cost approximately \$85 million each. He wants them financed entirely by debt, or, if that is impossible, on a 90/10 debt/equity ratio. After 20 years they are to be turned over to local interests by some unspecified means.

The concept is that the capacity of each plant will far exceed the market of the country in which it is located. Surplus production is to be exported to nearby countries. The Commonweal Foundation have planned for each plant a "grid team" which will handle marketing, distribution and the like. As time goes on the importing countries will set up mixing plants of their own, instead of importing complete fertilizers.


A further part of the concept is an elaborate training plan to train nationals of the host countries so that they can ultimately take over the operation of these plants. In the first instance their operation is to be in the hands of expatriates.

Mr. Koehn says that he has been working on this plan since 1965, that he has made two trips to Africa to discuss it with Governmental authorities and that it has the strong backing of Japanese equipment manufacturers. He feels that detailed market studies are now necessary, and he asked for Bank or IFC assistance both for the financing of these studies and for the financing of the plants themselves.

With respect to the market studies, we told him that this was not a matter on which he could expect help from the Bank Group. We suggested that the only public sources from which he might get funds for such studies would be a bilateral aid agency or an appropriate U.N. Agency (UNDP, UNIDO or FAO). With respect to financing the fertilizer plants themselves, we told him that neither the Bank nor IFC would be interested unless the projects were to be financed in a more conventional way (on something like a 60/40 debt/equity ratio).

We also expressed serious reservations as to the basic concept of setting up a plant in a single African country which will depend upon a number of other African countries for its market. Mr. McNamara described our problems with the fertilizer plant in Senegal, and explained to Mr. Koehn some of the political problems that are inherent in his basic concept.

When he left, Mr. Koehn said that he would look elsewhere for the funds needed to finance his market studies.

  
WSGaud:jm  
July 13, 1971

President has seen



792/1/55

MEMORANDUM FOR THE RECORD

April 2, 1971

A confidential Board paper titled "Staff Compensation", R71-65, was issued on April 1, 1971. During the afternoon of April 1, I hand-carried one copy each to the following: Mr. Jahanshahi (for Mr. Ali); Mr. Barco; Mr. Bihute; Mr. Hattori; Mr. Cranswick (for Mr. Knight); Mr. Boukar (for Mr. Kochman); Mr. Mey; Mr. Ceric (for Mr. Rinnooy Kan); Mr. Rota; Mr. Artopoeus (for Mr. Stedtfeld); Mr. Navaratnam (for Mrs. Suparb); Mr. Rafik (for Mr. Tazi); Mr. Wolf (for Mr. van Campenhout); Temporary Alternate Mr. Beaumain (for Mr. Vienot); and Mr. Wiczorowski.\*

On Friday morning April 2, I hand-carried one copy each to the following: Mr. Chen; Mr. Isbister; Mr. Lajous; Mr. Shroff (for Mr. Sen); and Mr. Tornqvist. Mr. Mitchell received a copy from Mr. McNamara personally at noon on April 2.

In each case I informed the recipient that the information contained in the Board paper was of a highly confidential nature. However, in view of the broad changes proposed in the employment compensation package, Mr. McNamara would like the Executive Directors to have detailed knowledge of this matter. I also informed them that the information contained in the staff paper would not be made available to Bank staff, including the Bank's senior officers.

In the afternoon of April 1 I also delivered the same Board paper, with deletions for average salary figures pertaining to Bank and Fund senior staff, to the following members of the President's Council: Messrs. Knapp, Shoaib, Aldewereld, Ripman, William Clark and Sir Denis Rickett. Through Mr. Shoaib Mr. Thorson, Director of Administration in the Fund, has received a copy. Mr. Southard will receive a copy from Mr. Shoaib on Monday when they meet.

Upon their return to the Bank, Messrs. Broches, Demuth, Gaud and Chenery will receive their copies from me personally.

*lec*

L.E. Christoffersen

\* Subsequently, Mr. McNamara allowed Mr. Wiczorowski three additional copies of the Board paper, but without the data on average salaries for Bank and Fund Senior Staff.

President has seen



792/1/54

March 24, 1971

MEMORANDUM FOR THE RECORD

Mr. McNamara convened a meeting on March 24 at 9:15 with Messrs. Knapp, Aldewereld, Shoaib, Rickett and Demuth to discuss the report submitted by Mr. David Frenzel, management consultant, on the Bank's personnel problems. Mr. Knapp expressed the opinion that the paper somewhat exaggerated and distorted real conditions in the Bank. He agreed, however, that it was still true that major problems existed in the Bank's personnel administration. He saw no other way out of the difficulty than to replace Mr. Ripman. All the others present agreed with this conclusion.

Mr. Demuth added that he had found Mr. Clarke very effective to work with in the Compensation Committee. He had a sharp mind and received great loyalty from his own staff. However, he had two weaknesses: firstly, he lacked the ability to transmit personal warmth to staff elsewhere in the Bank; and secondly, he did not seem to have the ability to delegate his work. It was therefore agreed that Mr. Clarke should not be considered for the position of Director of Administration. Nor would it be appropriate to promote Mr. Twining to that job.

Mr. McNamara said that it was important to obtain someone with a high degree of professionalism for the job. Possibly, he would seek an outsider to fill it. Mr. Demuth suggested Mr. Chadenet or Mr. Mendels. Among those two, the meeting concluded that Mr. Chadenet was a definite possibility. Mr. McNamara asked those present to treat this matter in utmost confidence and not to mention it to anybody. If any of them had further suggestions as to who might be qualified to fill the position, they should communicate with him orally.

LEC