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The World Bank Group
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Memoranda for the Record - Memoranda 16

MEMORANDUM OF CONVERSATION

792/3/43

Meeting on Mr. McNamara's Visit to Japan, May 24, 1978

Present: Messrs. McNamara, Cargill

Cofinancing

Mr. Cargill said that the Japanese Government had no administrative setup yet to conduct a bilateral aid program. This had led to the disappointing performance on ODA. The responsibility for selecting projects was distributed among various ministries. In the years to 1980, cofinancing arrangements with the Bank would not make a significant contribution towards increasing aid flows. The impact would only be felt in the years beyond 1980. Mr. McNamara agreed. In response to a question, Mr. Cargill said that Messrs. Okura, Sagami (who will replace Mr. Matsukawa), Watanabe (who in a year's time would return to the Ministry of Finance) and Nakaoga were knowledgeable about the ODA situation. He had also instructed Mrs. Atsumi to arrange that the ministers would be fully briefed on this subject before Mr. McNamara's arrival. Mr. McNamara said that it would be almost impossible for the Japanese Government to increase ODA from Y381.5 billion to Y763.1 billion until 1980. A big pledge for IDAVI, combined with a quick allocation of these funds, would help. In response to a question, Mr. Cargill said that the Japanese were presently not in a mood for nitpicking on such issues as definition of ODA, base year, etc. In recent years, the Budget Bureau had taken the initiative. There had been a recent Cabinet decision that cofinancing should be untied. There was also increasing interest in increasing aid to Africa. The Government faced problems in getting a sufficient number of projects; particularly in Asia, there was sensitivity to Japanese "tramping around." Here the Bank could help. The Bank should not raise false expectations as to what it could contribute towards increasing aid flows in the short- and mid-term.

Borrowing

Mr. McNamara asked for a note on the planned borrowing program in terms of new borrowings and rollovers, public versus private placements, and comparing the years 1979 to 1978. Mr. Cargill said that Mr. Sumito, who would take Mr. Moringa's place next year, was the most knowledgeable person about these aspects. Japan wanted the Bank to disburse quickly the funds borrowed in Japan.

Japan's Voting Share

Mr. Cargill said that, in the IMF, Japan aimed at a voting share which corresponded to the level of France. It would probably suffice if the Government could point to a position somewhere between the present level and France's position. In the view of the Ministry of Finance, this issue should not be mixed up with the IDAVI Replenishment but should be argued in the context of the capital increase. The Government expected an indication from Mr. McNamara that he took the issue seriously and would also help with the Fund. Mr. Blumenthal had been very offhand when the issue was mentioned to him by the Japanese. Mr. McNamara said that the UK voting share should probably be brought down to some extent to allow for an increase for Japan.

CGIAR and Onchocerciasis Fund

Mr. Cargill said that the Japanese Government would increase its contribution to these programs. Mr. McNamara said that, if this turned out to be helpful, the Bank could take Japan's contribution as a trust fund for, say, five years.

Briefing Notes

It was agreed that Mr. McNamara would be provided with the following notes as background briefing for his trip: (i) cofinancing, (ii) DAC definition of ODA, (III) borrowing program in Japan, (iv) voting share (harmonization), (v) CGIAR and Onchocerciasis contributions, and (vi) a list of other issues to be raised.

Mr. Cargill mentioned that the Liberal Democratic Party was expected to win the next election again; Mr. Fukuda would probably be succeeded by Mr. Ohira. Mr. McNamara said that he would like to talk to Mr. Hattori next week on these background issues.

CKW
June 1, 1978

MEMORANDUM FOR THE RECORD 792/3/42

Meeting of Steering Group on Compensation, May 23, 1978

Present: Messrs. McNamara, Knapp, Broches, Cargill, Chadenet, Chenery, Clark, R.Clarke, Damry, Gabriel, Qureshi, Sommers, Stern

Non-Professional Staff

Hewitt Study

Mr. Chadenet reported on the agreement reached with Hewitt that the consultants would carry out the required study on non-professional staff. The quantitative survey would cover the U.S. Government and private companies as comparators. OMB, Treasury and the Federal Reserve Board/Washington would be the comparators within the U.S. Government. The survey data results would be received by the Bank on July 14, 1978, and Hewitt's full report on issues analysis and recommendations by August 15, 1978.

Mr. McNamara questioned the need for including three U.S. Government agencies. He asked Mr. Chadenet to discuss with the Civil Service Commission any differences in compensation between these agencies before deciding on the U.S. Government comparators. Messrs. Chenery and Stern argued that there were indeed differences between U.S. agencies; agencies could "play a lot of games" within the CSC framework.

Mr. McNamara asked Mr. Chadenet to distribute to this Steering Group for review (i) copies of the Hewitt contract and (ii) by mid-July the Hewitt survey data.

Kafka Committee

Mr. Chadenet said that the Bank would give the Hewitt survey data results on support staff to the Kafka Committee (KC) when they were received by mid-July. Mr. McNamara enquired whether--in turning over the Hewitt reports to the KC--the Bank would have to comment on these reports; so far comments to the KC had not come from management but from technical staff in Personnel. Mr. Sommers suggested a decision be made later in the light of the Hewitt results. It was agreed that any Bank comments to the KC on Hewitt's support staff data or recommendations would come from the Steering Group and that it should be made clear that management must be free to change its position should circumstances warrant when recommending to the Board action in the light of the KC report.

Staff Association

Mr. Clarke recommended that management should consult with the Staff Association before making recommendations on the Hewitt support staff data and analyses to the KC. Mr. McNamara disagreed: this would mean a piecemeal discussion by mid-July. Mr. Clarke reported that the Board had decided not to have the KC report sent to the Staff Association before preliminary discussion by the Board. He enquired whether the Technical Group of the Staff Association should not receive Hewitt's survey data on non-professional staff by mid-July. The new Staff Association officers would want to know the procedures. It was agreed that management should not consult with the Staff Association on substantive compensation issues before receiving the KC report, and that Mr. Chadenet would agree with the KC that the Bank would give Hewitt's data, issues analyses and recommendations to the Staff Association. After obtaining KC's approval, Mr. McNamara would seek permission from the Board by next Thursday.

Parallelism

Mr. McNamara said that reference to parallelism with the Fund should be taken out of documents. The IMF believed that the Bank was more vulnerable than they were and tried to cut the umbilical cord so that the two institutions would float on different political seas. The KC should not go into this issue.

Schedule

Mr. McNamara asked Messrs. Clarke and Chadenet to work out a program of action from September 15 to November 30 based on the assumption that the KC report would be received by September 15. In particular, the issue of how to relate to the Staff Association should be addressed.

Issues Papers

It was agreed that the next meeting with the same group would consider an issues paper on how to derive net equivalents from gross salaries for non-professional staff. Mr. McNamara said that in the case of non-professional staff there was agreement that the Bank should start with U.S. gross salaries. This was based on the assumption that such support staff should not be paid more than U.S. Government employees. Mr. Cargill disagreed. The support staff should not be paid at the levels of the U.S. Government; whereas the Bank's staff was worth something, the U.S.G. staff was useless. Mr. McNamara suggested that a 5% differential might be required.

Further, it was agreed that issues papers should be prepared on the expatriate benefits for non-U.S. citizens (Number 2) and on whether U.S. staff compensation should include the benefits of Social Security (Number 3). Mr. Clarke reported that a majority of staff preferred to continue under the present Social Security system.

CKW
May 31, 1978

MEMORANDUM FOR THE RECORD

792/3/38

Meeting on Mr. McNamara's visit to Japan, May 18, 1978

Present: Messrs. McNamara, Knapp, Cargill, Chadenet, Stern

The meeting discussed (i) the cable by Mr. Maeda regarding cofinancing of the Vietnam Irrigation Project with Japan and Mr. Husain's participation in Mr. McNamara's forthcoming visit to Japan, and (ii) the note on Japanese reactions to the announcement of Mr. Husain's participation in the visit (see attached) as communicated to this office through Mrs. Atsumi.

Mr. Knapp commented that Mr. Husain was taking the rap for senior management's instructions. Mr. McNamara replied that this was not the case; it was the way he had handled the Vietnam cofinancing proposal which led to the Japanese reaction. He had "put them under the gun." Because of Japanese sensitivity, Mr. Husain probably should not join him during his visit. He would clarify the matter in his discussions with Japanese officials and explain that Mr. Husain was a sensitive man. Mr. Knapp said that the Bank should announce that the Vietnam cofinancing proposal would be dropped and that, therefore, Mr. Husain would not visit Japan at this point. It was wrong to have three Pakistanis in high positions in the East Asia Region. Mr. Stern said that Japan should not be treated as an appendix to the East Asia Region. The Bank's major cofinancing with Japan would not take place in East Asia because the Japanese were familiar with this area. Mr. McNamara concluded that Mr. Please should reply to Mr. Maeda's cable along the lines of Mr. Knapp's suggestion.

CKW
May 26, 1978

May 18, 1978

Today high-level sources of the Japanese Ministry of Finance informed us that they were "shocked" when they learned about Mr. Husain's plans to accompany Mr. McNamara during his visit to Japan. They indicated that this would be a "disaster" for the outcome of this "goodwill visit" to which great importance had been attached in terms of building broad support for Japan's expanded role in the aid field. It was made clear by these sources that Mr. Husain "would not be welcome."

The following reasons were given:

(i) Mr. Husain had shown a lack of sensitivity in his dealings with Japanese officials; he was "arrogant" and used to "lecture" his counterparts; during the ADB's Annual Meetings of 1977 and 1978, he had offended high-level officials;

(ii) The fact that the Bank's East Asia Region--an area of crucial importance for Japan-- was dominated by Pakistanis in senior positions was deeply resented by Japan, particularly in view of the fact that there were no Japanese nationals in influential positions; as long as this situation continued, Japan would probably not be as supportive of the Bank as it otherwise might be;

(iii) Mr. Husain's recent cable--announcing that he intended to seek agreement on a co-financing arrangement for a project in Vietnam during Mr. McNamara's visit--was taken as further evidence of his lack of sensitivity; the Ministry of Finance could not believe that Mr. McNamara really wished to associate the negotiation of a \$10 million co-financing arrangement with his visit which would deal with basic policy issues of great future importance (involving billions of dollars).

The sources concluded that the nature of Mr. McNamara's meetings with high-level officials--which should lead to a frank exchange of views--would be seriously affected by Mr. Husain's presence; they went so far as to say that Japan's willingness to discuss its participation in IDAVI would be impaired by such an "offense." Mr. Husain would be welcome to visit Japan separately in order to discuss the Vietnam co-financing proposal.

MEMORANDUM FOR THE REC D

792/3/41

Meeting on World Development Report II, May 17, 1978

Present: Messrs. McNamara, Stern, Karaosmanoglu, Acharya, Chenery

Mr. McNamara said that this group should meet routinely at 2:00 p.m. on the second Thursday of every month. Mr. Acharya's title should be Director rather than coordinator, in order to stress the fact that he carried the full responsibility for the report. The WDR should become the major expression of DPS as the intellectual foundation of the Bank. He agreed that the involvement of the WDR team should be limited to one year; it could be one of the most exciting assignments in the Bank. He accepted the core staff recommendation; Mr. Chopra would probably be a good choice for an outstanding, broad-based regional economist. With regard to the budget, he asked Messrs. Chenery and Karaosmanoglu to send a detailed proposal through Mr. Gabriel. The projection model should be one of the core elements of the report and a wider range of sensitivity analyses should be introduced. He agreed to the proposed time schedule, namely, that a draft outline of WDR II would be completed by mid-July before Board discussion of WDR I. In response to a question by Mr. Acharya, he said that a number of consultants could be used if it were ensured that the best experts could be hired. The next meeting on WDR II should discuss the extent of regional disaggregation of the model. He enquired about the time horizon of the projections and about the proposed work on energy. Mr. Chenery replied that the model projections should extend to 1990 and that some projections should be made through 2000. As to energy, the report would have to rely on outside work. Several universities, such as MIT and Stanford, had developed large research centers on energy. Their analytical approach and the Bank's own assumptions should be used.

Mr. McNamara said that at some early point, probably in July 1978, the group should discuss the content of the concluding chapter. Mr. Stern said that this was an important point because many issues were intellectually appealing but did not lend themselves for a concluding chapter on important policy suggestions. Mr. Chenery said that Chapter VII of WDR I could constitute a good issues paper for WDR II. Mr. McNamara said that in June or July the group should also discuss improvements to the statistical annex. Mr. Chenery would spend some time during the summer contacting eminent users in order to benefit from their thoughts.

CKW
May 26, 1978

B/ 17: RSOT has seen this.
No meeting until
early July.

MEMORANDUM FOR THE REC)

792/3/40

Meetings on Regional Lending Programs FY79 with Regional Vice Presidents and Mr. Baum, May 1, 8 and 17, 1978

Present: Messrs. McNamara, Knapp, Stern, Gabriel and individual VP concerned

East Asia

Mr. McNamara explained that he was holding these meetings with the individual RVPs in order to learn whether they felt comfortable with the approved FY79 program and in order to discuss remaining issues. In particular, the new budgeting procedure by which the Regional program totals were not allowed to exceed the Bank-wide program total had to be clearly understood. Mr. Husain replied that he was now more comfortable with his program. This year's budget process had started very well but had deteriorated later. He said that (i) the East Asia Region showed a considerable bunching of project completion reports requiring substantial manpower; (ii) his lending program was considerably more advanced at the beginning of FY79 than it was last year, resulting in less bunching (37% of operations in the last quarter in FY79 versus 40% in FY78); (iii) in order to achieve a more even scheduling of standbys over the year to reduce bunching, the operations program should not be bunched more than the lending program; this was not possible yet; (iv) the new budgeting procedure was acceptable to his Region but would in his view create inter-Regional problems; one Region could not pick up another Region's "Afghanistans"; (v) in his view, the Bank program should be less than the combined Regional programs because of country slippage and because RVPs should feel free to drop a project.

Mr. McNamara said that the problem with the present practice was that projects were lost during the first quarter but that standbys came in only in the fourth quarter. Management had to think about a sufficient number of standbys beyond individual Regions. He would like to receive a list of Regional standbys on a month-by-month basis which allowed for inter-Regional shifts. The Bank should not fail to process its work program in a world of sparse capital. East Asia's programmed processing of 37% of operations during the last quarter of FY79 was satisfactory.

Latin America

Before Mr. Krieger joined the meeting, Mr. Stern commented that Latin America had a serious bunching problem although the Region was not understaffed. LAC had to rethink its lending schedule for FY79. Mr. McNamara said that this reflected a Regional management problem; improvement in bunching came from management arrangements and not to a significant extent from an improved pipeline.

Mr. Krieger said that there were differences of view on the FY79 IDA program, on requirements for the Caribbean group activities and on sector work. Mr. McNamara said that Mr. Gabriel would lay out the distribution of FY79 standbys over time and review specifically the FY80-FY81 LAC program.

East Africa

Mr. Wapenhans said that he was comfortable with the FY79 program. The Region planned to continue its debunching work in FY79 and to do better than reflected by the program. Whereas 50% of FY78 operations were presented to the Board during the fourth quarter, the target for FY79 was 49%. He then explained the program country-by-country. Mr. McNamara commented that he was very skeptical about Sudan's economic management and that he considered the chance of an $81 million program in Zaire to be zero. President Mobutu would probably be overthrown in the next six months. There was a lot of softness in the East Africa lending program. Mr. Stern observed that the program was heavily bunched.

Mr. Wapenhans said that he was very concerned about the Region's economic and sector work. The Region showed the lowest economic and sector work coefficients. There was a large number of consultative groups and his countries had no inbuilt economic and sector work capacity compared to countries like India. Although a good policy dialogue with governments required a strong foundation of economic and sector work, the approved program resulted in a cutback. The Region had to go slow on basic economic reports. There was frustration of staff because the Region had gone through a priority selection process involving the entire staff. Mr. McNamara recommended keeping down the economic and sector work on Ethiopia and Zaire because these countries could not absorb the results. He indicated that he was willing to look at the East Africa economic and sector work program again before the Annual Meeting.

EMENA

Mr. Benjenk said that he felt comfortable with the FY79 program. The Region had made progress in its pipeline factor: 59% compared to 49% last year. Economic and sector work had been reduced drastically.

South Asia

Mr. Hopper said that he was comfortable with the FY79 program but that he probably did not know enough yet to feel uncomfortable. The Region had started to schedule its standby projects more evenly over the year. He was planning to establish a resident office in Sri Lanka which would have a coordinating role for the Mahaweli development scheme. Mr. McNamara observed that bunching was really a result of the quality of regional management. Staff felt at times that senior management was more interested in quantity than in quality. There was no excessive emphasis on quantity and projects staff should understand better that poor projects would eventually be charged against them. Management was not in communication with staff as it should be. Mr. Hopper, as a newcomer, might have a good possibility to help in this respect. This was particularly important because of the present problems with the U.S .

CPS

Mr. Baum reported that there were no problems with the programs of the COPDs. Each unit was adequately staffed, although coefficients were tight in some sectors. There was agreement on expanding the mineral sector work. Mr. McNamara said that, after reading the relevant section of the WDR, his uneasiness was confirmed as to whether the Bank was doing enough in this field. He asked Mr. Baum to think about it and to discuss this issue with Mr. Stern. He said that Mr. Knapp would, after his retirement, act on a retainer basis for the Bank. One of his tasks could be the work on energy. Mr. Maurice Strong believes that more should be done and wanted to call public sector enterprises together. One should look at each country's potential; if it were not being developed, explore the reason, and then consider whether multinational, public sector or World Bank involvement were required. Mr. Yamani's recent speech indicated that he expected a demand and supply equilibrium from 1979-86 and from then on an energy shortage.

Mr. Baum said that he was concerned about the work program of the sector departments. He had produced a paper on these issues and suggested a meeting with Messrs. McNamara, Stern, Gabriel and himself attending. A more complete study needed to be done and Messrs. Kearns and Gabriel would look into the issue of how to reexamine CPS' functional control functions. Three options could be identified: (a) continue functional control as presently interpreted; (b) redefine moderately and shift the function upstream in the project process; and (c) turn over quality control to the Regions. What Mr. McNamara had told Regional staff in staff meetings came close to option (c). Mr. McNamara replied that Mr. Baum would waste his time in working on option (c). Before a project passed through the Loan Committee, it had to be endorsed by CPS, i.e., ahead of time. However, endorsement should mean approval of the important objectives and the general thrust of the project and not examination of every covenant: this should be done by the Region. In his Regional staff meetings, he had learned that Regions went through the roof on the issue of their relationship to CPS and he had tried to get every part of the institution to comprehend its role. The Regions' task was administrative control, whereas CPS' role was functional control. The concept should be that Regions consulted CPS. They now argued that "CPS is running us." Mr. Stern added that Regional staff was accommodating CPS' comments. Mr. Baum replied that he had never heard that CPS was taking over the Regions' decision-making. Very few policies in the Bank could be checked quickly by CPS because these policies were flexible. For this reason, quality control was of crucial importance. Mr. McNamara concluded that a study of these issues would take some time beyond July 1978.

CKW
May 25, 1978

MEMORANDUM FOR THE RECORD

792/3/39

Meeting on Role and Use of Consultants, May 12, 1978

Present: Messrs. McNamara, Knapp, Baum, Damry, Stern, van der Tak, Dickerson

In preparation of the Board discussion of OED's report on the Role and Use of Consultants in Bank Group Projects, December 8, 1977, there was discussion of the review of this report by the JAC and management's strategy.

Mr. Baum reported on the vision of the G-9 that the Bank was foisting high-cost consultants on LDCs which were not needed and which could be obtained cheaper on local LDC markets. The OED report had been roundly criticized by the JAC, in part for being too objective. The JAC had enquired why OED had not followed up on reported cases of misuse rather than using the sample. The hidden agenda was that the Bank should develop local consultant capacity. However, EDs did not speak out on the fact that a number of LDCs did not want consultants from other LDCs. The open agenda was that the Bank should evaluate routinely the performance of consultants. The G-9 believed that the Bank had sufficient knowledge to provide this as technical assistance.

There was then discussion on how the Bank's present system of handling consultants could be improved. Mr. Baum reported on several alternative possibilities presently under consideration in CPS. Mr. Knapp commented that the Bank's use of LDC consultants was concentrated on certain countries; moreover, there was not much inter-LDC use of consultants. Mr. Stern said that there was a number of LDC consultants with a strong domestic base which should move into the international market for consulting and contracting. Mr. McNamara said that this argument would be strengthened if there were a correlation between software consulting and following hardware. The Bank would probably have to give up shortlist assistance to borrowers and would have to do a more systematic evaluation. At least it had to analyze more clearly the extremes in terms of consultant performance. In Tuesday's Board discussion, management would have to agree to such a systematic evaluation process.

CKW
May 26, 1978

MEMORANDUM FOR THE RE D

792/3/37

Meeting on Governors' Speech, May 12, 1978

Present: Messrs. McNamara, Stern, Clark, Haq, Maddux

The meeting discussed the themes for the 1978 Governors' Speech as proposed by the memoranda of Messrs. Chenery and Haq.

Mr. Stern commented that the third theme proposed by Mr. Haq, namely, the Future of the World Bank, could make a good speech. The time was appropriate; however, the problems faced in this area would make too much of a press event. Mr. Haq's other two themes, namely Interdependence between Rich and Poor Nations, and International Agenda for Povery Alleviation should be integrated. Such a speech could draw on the WDR and emphasize the point that the poorest countries did not draw sufficient resources from trade or capital markets. A Bank focus could be added by either following Mr. Chenery's suggestion of a five-year retrospective on rural development or including part of Mr. Haq's third theme. Mr. Clark said that Mr. Haq's third theme was appropriate but--in order not to sound like a confrontation--it should be put into the mold of the WDR. The speech could constitute a useful introduction to the WDR. It could go over the 10 years since the 1968 targeting report and describe how the Bank had refined its concepts and instruments. The fine tuning rather than the doubling in lending over the last five years should be emphasized. The population problem could be addressed.

Mr. McNamara agreed that Mr. Haq's third theme could not be developed as a separate speech to the general public. The second theme was too limited in audience and appeal. He suggested the introduction of elements of themes nos. 2 and 3 into no. 1, which should be the focus of the speech. In order to add a section on the Bank, the speech could state that (a) it was time to negotiate IDAVI which should be at a level sufficient to offset inflation and constitute a real increase, and (b) there was agreement in principle on a general capital increase for IBRD which would ensure a 5% real growth rate; however, a prompt formal decision was required. Also, the paper should assess the Bank's thrust on low-productivity lending, and point out that this approach had been successful in rural areas and not yet as successful in the urban environment. The speech had to put special emphasis on an outlook for absolute poverty; the WDR was good on this. It should stress that country-specific programs were needed to reduce poverty drastically by the year 2000, that there were important differences in approach for Africa and Asia and that, without a substantial transfer of ODA, it would not be possible to make the required progress. It should point to the need for legislative action to come from the U.S., West Germany and Japan, with the last having agreed to doubling in ODA over the next three years. Action had to be taken by the multilateral institutions together with private financial institutions in order to continue private transfers, increase total capital flows and extend the maturity profile. The trade issues should also be dealt with.

Mr. Haq said that the concept of interdependence would constitute the unifying principle of the speech. Mr. McNamara agreed. There was a major community of interest, both in moral and economic terms. This speech should emphasize the point that 25 years ago the interdependence of the U.S. with Western Europe had not been clear, that 10 years ago the interdependence between OECD countries and MICs had not been evident, and that today the foundations for interdependence with the poorest countries would be laid. He said that he had asked Mr. Haq to prepare a full first draft of the Governors' Speech by mid-June.

CKW
May 25, 1978

MEMORANDUM FOR THE RECORD

792/3/36

Meeting on Compensation, May 10, 1978

Present: Messrs. McNamara, Knapp, Broches, Cargill, Stern, Chadenet, Damry, Trott, Jennings

Mr. Chadenet reported that the terms-of-reference for Hewitt's work on professional staff had been approved by the Kafka Subcommittee and sent to Hewitt. The analysis on the interpretation of the collected data by Hewitt was not part of the terms-of-reference. EDs had originally not wanted recommendations from an outside body. However, the Kafka Committee would probably agree now that the consultants should also comment and interpret. Mr. McNamara said that the consultants should examine the salary structures of the two institutions in the light of guidelines and arrive at recommendations. They should interpret the reasonableness of the present salary structure. He wanted the consultants' professional view on what the Bank should pay in order to attract and retain competent staff at lowest cost, and he did not want the Kafka Committee's political view on a pre-decided basket. In order to ensure such an outcome, the time to act was now. The Board should ultimately be able to make a decision based on independent professional judgment. Therefore, the Committee should not receive help from the staff in interpreting the data. He asked Mr. Chadenet to put in writing what exactly management wanted from Hewitt, i.e., the Bank's terms-of-reference for Hewitt. In response to a question from Mr. Stern, he said that Messrs. Cross and Wahl did not want to have the independent professional judgment from the consultants. In view of all these problems, the Bank might have to start its own parallel exercise with the 20 EDs. In the Kafka Committee, Mr. Cross dominated the meetings every step of the way.

With regard to the study of nonprofessional compensation, Mr. McNamara said that Hewitt should do the entire study; it was a less complex exercise because there were only three local comparators.

With regard to the 3.5% cost-of-living increase decision, Mr. McNamara said that, according to Mr. Witteveen, there was a sense in the Fund Board that perhaps the matter could be reviewed by September if the Kafka Committee's report was delayed. However, he had received different reports from the EDs suggesting that the slight majority stood firm on its 3.5% decision. The staff should not be misled on the prospects for such a reconsideration because otherwise there would be a strong likelihood of a strike in September. He suggested to discuss the situation with the Board in order to agree on the required action in September if the Kafka Committee further delayed its report. He owed an answer to the Bank Staff Association on this issue. Mr. Chadenet suggested to hold an informal meeting of the 20 EDs to discuss the issue.

Mr. Stern suggested consulting the 7 EDs who had opposed the 7% increase and then to hold a meeting of the 20 EDs as soon as there was some indication that a majority of the Board was willing to act in September if the Kafka report were delayed. Mr. Chadenet agreed that there was mounting evidence of the willingness of EDs to agree to September action in case of delays of the Kafka Committee.

CKW
May 24, 1978

792/3/35

MEMORANDUM FOR THE RECORD

Meeting on Tourism Lending, May 8, 1978

Present: Messrs. McNamara, Knapp, Stern, Damry

Mr. Knapp reported that the G-9 would vote as a bloc against management's proposal to terminate Bank lending to the tourism sector. Since they would be joined by a number of Part I countries, management's proposal was headed for defeat. Board discussion of management's proposal should therefore be postponed. As a compromise, management should propose the establishment of a core unit of three or four staff to continue providing technical assistance services to member governments. Mr. Stern opposed this compromise because (i) it was not clear to him that this would sway the necessary votes and (ii) management's authority to manage the Bank should not be put in question. Mr. McNamara said that he could not win the required votes on the basis of Mr. Stern's position. He did not understand the U.K. approach to this matter; he had always been able to count on the U.K. for support of his proposals. He asked Mr. Damry to take the item off tomorrow's agenda on the grounds of controversy and to postpone consideration to a date to be determined. He asked Messrs. Knapp and Stern to meet with the members of the G-9 individually and to work on Messrs. Rota, de Groote, Magnussen, Janssen and Murayama. Management could propose that the Bank would (i) provide continued sector advice for two fiscal years, while processing the remaining projects, and would then evaluate the experience; (ii) continue its tourism infrastructure work; and (iii) through IFC, continue to finance tourism superstructure.

CKW
May 12, 1978

MEMORANDUM FOR THE RE(D

792/3/34

Meeting on World Development Report II, May 1, 1978

Present: Messrs. McNamara, Chenery, Stern

The meeting discussed Mr. Chenery's memorandum on themes and organization for the 1979 WDR. Mr. Stern commented that the topics of food and agriculture could not be dropped but that there would be only a shift in emphasis. Large gaps persisted in the Bank's knowledge on the trade side and on MICs. The paucity of data on MICs should not be underestimated. Messrs. McNamara and Chenery agreed. Mr. Chenery said that the data situation would improve in the near future.

With regard to the proposed candidates for organizer and editor of WDR II, Mr. McNamara said that a candidate's skills as organizer had to be weighed against his research capabilities. Decentralization of the work in DPS was not possible and a strong organizer was needed to get the work out of DPS. Mr. Chenery was not used to run DPS in such a way. Mr. Chenery replied that Mr. McNamara underestimated his capabilities to be rough. He and his Directors could do the organizing part. The person managing the report needed strong editorial and analytical abilities. Mr. Stern said that he agreed with Mr. Chenery that the present system of a separate entity for the report could not be continued. However, a strong critical path organizer was required. In addition to the editing and organizing tasks, a lot of external work had also to be done.

Messrs. Chenery and Stern then ranked their candidates and the meeting discussed the strengths and weaknesses of the proposed persons. It was agreed that Mr. Shankar Acharya should succeed Mr. D.C. Rao and that Mr. Karaosmanoglu should take over from Mr. Stern. Mr. McNamara asked Mr. Chenery to find out about Mr. Acharya's availability and to convene another meeting not later than May 15. He asked Messrs. Chenery and Stern to address the issue of how to dispose of the other members of the present team. He urged DPS to work on a more consistent use and presentation of data and he welcomed the decision to keep Mr. Chandra on the DPS staff. He did not agree with Mr. Chenery's suggestion that WDR II should go into the issues of appropriate technology. DPS should undertake a separate study on actions to ensure the use and transfer of appropriate technology.

CKW
May 5, 1978

792/3/33

MEMORANDUM FOR THE RECORD

Meeting on the Distribution of the World Development Report, May 1, 1978

Present: Messrs. McNamara, Stern, Clark

Mr. McNamara said that the World Development Report should receive the most massive distribution of any Bank document ever. The Bank could therefore not depend on commercial channels for satisfactory distribution. Since the incremental cost per copy was probably less than $.50, the Bank could distribute about 100,000 copies on a complimentary basis. This would not leave much of a residual commercial incentive for further distribution. He asked Mr. Clark to organize a thorough categorization of complimentary distribution by country, language and class, i.e., government officials, media, libraries, and academic institutions. As far as possible, recipients should be identified by name. Mr. Clark said that people would probably be suspicious of the motives if they received copies free. Mr. Stern suggested to rely on the mailing and distribution lists of institutions. This additional institutional link should be used in order to reach the large mass of informed public which does not fall under the above categories. Mr. McNamara agreed. He urged not to discuss the distribution of the WDR with Board members before the document had been discussed by the Board. He was concerned whether the Board would approve distribution of the document in the proposed forum. It would be unrealistic for management to aim at a document endorsed by the Board.

CKW
May 5, 1978

MEMORANDUM FOR THE REC D 792/3/32

Meeting with Mr. Donald T. Regan, Chairman and Chief Executive Officer of Merrill Lynch and Co., Inc., April 27, 1978

Present: Messrs. McNamara, Regan, Schreyer, Kugler, Shay, Tully, Urciuolo, Rotberg

The meeting discussed the paper prepared by Merrill Lynch on Merrill Lynch as Manager of World Bank Issues, dated April 19, 1978, which dealt with the following topics: (i) increasing the number of purchasers of World Bank securities and tapping new sources of capital for the World Bank; (ii) pricing World Bank U.S. issues more aggressively; (iii) improving liquidity on the secondary market; (iv) the ability of Merrill Lynch to support World Bank goals; (v) improving the World Bank's image in the United States; (vi) Merrill Lynch and the investment banking relationship; and (vii) impact on the present managers. Mr. McNamara agreed with the paper that the major issues facing the Bank were (a) to expand its market, (b) to expand the secondary market, and (c) to increase the understanding of the Bank.

Mr. McNamara said that he was not ready to make a decision today on whether to add Merrill Lynch to the Bank's co-managers for the following reasons: (i) in view of the U.S. Executive Branch's problems with Congress, agreement on the envisaged IBRD general capital increase of about $30 million could be reached only after the 1979 appropriations round in Congress which affected about $2.2 billion; and (ii) management had first to establish more clearly the amounts to be borrowed in the U.S. during the year from July 1, 1978; an experienced lag in disbursements would have its impact on the borrowing volume and the combination of interest outlooks and exchange rate projections would probably lead to increased borrowing abroad; at the moment the Treasurer anticipated a much lesser borrowing in the U.S. than he did 90 days ago. The Bank also had to ensure that the adding of a co-manager did not result in reduction in incentive to the present underwriters. The Bank laid great importance on the assurance of good profits for its underwriters because they would have to continue selling Bank bonds even if at some future date there might be no prestige derived from an association with the Bank. He was leaning very strongly towards adding Merrill Lynch as a co-manager, but, before a decision was taken, another meeting should be convened to discuss all issues in more detail.

Mr. Regan replied that he would hope to be able to start activities soon, e.g., holding fora for investors and educating salesmen. However, these activities could not be started until some signal was received from the Bank. The politically beneficial impact of such educational efforts for the Bank was also significant. Mr. McNamara said that in about 60 days the Bank's budget and lending program would be presented to the Board for approval. The approval would give him greater assurance as to the future borrowing needs. The Bank would get in touch with Merrill Lynch again in about 30-60 days.

CKW
May 9, 1978

MEMORANDUM FOR THE RECORD

792/3/31

Meeting with Mr. Maeda, April 18, 1978

Present: Messrs. McNamara, Maeda, Mrs. Atsumi

Mr. McNamara enquired about the purpose of his proposed visit to Japan. Mr. Maeda said that both Japanese Ministries had asked for the visit in order to discuss the past accomplishments and future policies of the Bank. The Japanese public was very interested in the Bank and he hoped that Mr. McNamara would explain the Bank's work, its poverty focus and its future directions to a large TV audience and the press.

Mr. McNamara said that he was not well educated in Japanese culture, politics and economics. He could make a meaningful contribution and would be willing to come only if he were extremely well briefed. He asked Mr. Maeda to (i) assume the responsibility for preparing the entire briefing material, (ii) prepare a brief statement for the press luncheon, (iii) prepare a list of questions which he expected to be asked by the press, and (iv) prepare the brief for his TV statement. All briefing materials should be delivered to his office by Friday, May 19.

CKW
May 5, 1978

MEMORANDUM FOR THE RECORD

792/3/30

Meeting on the FY79 Budget, April 5, 1978

Present: Messrs. McNamara, Cargill, Gabriel, Stern

Mr. Gabriel said that it would be desirable to bring the process of budget appeals to an end before Mr. McNamara's departure for Turkey. Mr. Stern and he had talked to the Regions and they agreed on the following proposals to be submitted for Mr. McNamara's approval.

1. In the case of East Africa, nine positions were at issue, of which five were for economic and sector work, two for supervision, and two for building up the pipeline. Mr. Wapenhans had now agreed to drop the two pipeline and the two supervision positions if the three assistant level positions he had asked for were reconfirmed. Mr. McNamara emphasized that an over-all picture of the East Africa staff situation was required. The Region had three times as many assistant level jobs as some other Regions and the assistant level positions did apparently not reduce the number of staff in professional status. There was no basis for asking for nine additional positions. He agreed that the nine positions at issue should not be given and that the three assistant level positions should be granted only for this fiscal year; all 25 assistant level positions would have to be justified for next year.

2. According to Mr. Stern, East Asia had asked for five additional positions for supervision because of the large number of upcoming PCRs. Mr. Husain had now agreed that, by slipping some PCRs and combining others, he could do with one more professional slot plus one additional consultant year. Mr. McNamara agreed.

3. In the case of South Asia, 10 positions were at issue, of which 7 were for lending work and 3 for supervision. This reflected the issue of project size and the fact that some projects were very difficult, e.g., the large rural development and the railways project. The Region had now agreed to 4 professional and 1 consultant position. Mr. McNamara agreed.

4. With regard to CPS' Other Output, Mr. Baum had asked for 10 additional positions of which 7 were required immediately. Mr. McNamara decided that the P&B proposal should not be changed and asked Mr. Gabriel to prepare a note from him to Mr. Baum.

CKW
April 6, 1978

MEMORANDUM FOR THE RECORD 792/3/29

Meeting on the Budget for FY79, April 3, 1978

Present: Messrs. McNamara, Gabriel

The meeting reviewed the FY79 program and budget proposal. Mr. McNamara complimented Mr. Gabriel for the best budget ever. Copies should be distributed to the PC. Mr. McNamara made the following points:

1. With regard to budget appeals, only major differences over program content and staff, exceeding three professionals, should be brought to him in the week of April 17 for settlement; such major differences related mainly to CPS functional control and economic and sector work; with regard to minor differences, the matter should be brought up for discussion after July 1.

2. He asked to be provided with a quarterly projects program before sending the budget to the Board.

3. The memorandum to the Board should include the revised interim plan.

4. For this year he was willing to leave the over-programming in the budget; total output and quality but not bunching were a function of pipeline; he was not sure how far to go in building up the pipeline.

5. The salary increase assumption should be revised after tomorrow's Board discussion, probably downwards to 3.5%.

6. He was not sold on the assumption that assistant level positions were a substitute for professionals; if so, the offset in professional manyears had to be ensured; this had to be watched carefully.

7. There should be no relaxation in cost-sharing and cofinancing arrangements.

8. With regard to the table on page 8, the IFAD cofinancing amounts should not be lumped into the IBRD figures.

9. Although in principle he was in favor of increased economic and sector work, the Bank was not ready for it; at present this work was not properly planned, executed and used.

10. He would ask OPD and P&B to organize a study in early FY79 on how CPS carries out its functional control.

11. With regard to the FAO Cooperative Program, he was inclined to keep the professional manyears at 48, to be reviewed after the second year.

12. He would hold the number of assistant level staff for East Africa at 22; the Region was not managed efficiently and it was not true that East Africa and West Africa had more difficult countries.

13. 2.1 manyears for minerals sector work should be added to CPS and should not come out of the contingency.

14. The DPS panel reviews should be left unbudgeted and be charged to the contingency.

15. With regard to P&B, the two assistant level positions for work, inter alia, on Standard Tables should be cut.

16. The Joint Audit Committee should not receive additional positions.

17. With regard to the International Relations Department, no position should be added.

CKW
April 5, 1978

MEMORANDUM FOR THE RECORD

792/3/28

Meeting on Cost-of-Living Adjustment, April 3, 1978

Present: Messrs. McNamara, Cargill, Chadenet, Damry, Stern, RClarke

Mr. McNamara said that Mr. Rota had reported to him that at Friday's ED meeting an agreement had been reached to vote for a 3.5% interim increase. Mr. Fried was willing to support such a compromise and wanted him (Mr. McNamara) to put it forward. He had told Mr. Fried that he would not do so. Management could try to get a 3.5% increase immediately and a decision that the difference to 7% would be granted retroactively if supported by the outcome of the Kafka Committee. Mr. Stern said that management should start with the 7% and end up with 5% and a tax taper. It would be helpful if Mr. Fried did not sound too supportive. He did not consider it worthwhile to fight over the X percent retroactive adjustment. Mr. McNamara disagreed. The greatest danger was that the Kafka Committee and the consultants will cave to the U.S. The U.S. position was to reduce salaries whether right or wrong. The issue had therefore to be fought every day. The principle of retroactivity stated today would help with staff and maintain the principle against U.S. opposition. However, he saw no great chance to get 5%, since Messrs. Fried, Ryrie, Murayama, El-Naggar, Narasimhan, Johnston, Razafindrabe and Drake were opposed to an increase of that order.

Mr. Chadenet said that a 3.5% increase, supported by the U.S., would be very resented by the staff. Mr. Stern said that, in view of this concern, management could aim at a 4% increase, thereby certainly losing the support of the U.S. Mr. McNamara agreed. It was a question of who is dictating compensation on what basis rather than a financial issue. He concluded that management should aim at 4% because (i) this was more than 3.5%, (ii) the U.S. would not support this figure, and (iii) it would help establish the principle that, if reductions in compensation levels would be recommended by the Kafka Committee, they should not amount to more than 3% per year.

Mr. McNamara asked Mr. Clarke to provide him for tomorrow's Executive Session with information on past cut-offs, the number of people involved in a potential cut-off of $35,000 or $40,000 and the effect of a taper of 1.5% starting at $30,000.

CKW
April 6, 1978

MEMORANDUM FOR THE RECORD

792/3/27

Meeting on Cost-of-Living Adjustment, March 31, 1978

Present: Messrs. McNamara, Chadenet, Damry, RClarke

Mr. Damry reported that the EDs were presently meeting on a compromise solution of a cost-of-living adjustment between 3% and 5% with some cut-off point. The meeting had been called by Mr. El-Naggar. Mr. Fried had talked to the Part II EDs threatening dire consequences for appropriations if management's proposal would be passed. Mr. Chadenet reported that staff morale was very low, not because of the likelihood of a less than 7% adjustment but because of the U.S. approach. Staff believed that the Bank had become a U.S.-led institution. Messrs. Fried, Drake, El-Naggar, Johnston, Murayama, Ryrie, Narasimhan and Wahl opposed the management proposal for a 7% increase and had a majority of votes. It would be a disaster with the staff to come out with a 3.5% increase supported by the U.S. vote. Mr. Damry said that he hoped Mr. Fried would not ask for a vote on the 7% proposal at the outset of the meeting so that management's proposal would be extensively discussed before it was possibly amended.

Mr. McNamara said that he might want to meet with the EDs before the Executive Session. He asked Mr. Damry to find out about the results of the ongoing EDs meeting on Monday morning. Another meeting should then be convened to develop management strategy for Tuesday's Executive Session; probably all 12 supporters should talk and management should not participate in any formulation of compromise. The meeting could possibly be concluded by stating that there was no strong support for any proposal and that the final decision should await the results of the Fund Meeting.

CKW
April 6, 1978

MEMORANDUM FOR THE RECORD

792/3/26

Meeting on Valuation of Bank Capital, March 24 and 27, 1978

Present: Messrs. McNamara, Bergsten, Fried, Nachmanoff, Munk, Hoopengardner, Knapp, Cargill, Broches, Nurick

Mr. Bergsten said that the U.S. could not accept the proposal to go over to SDRs for maintenance of value purposes through interpreting the Articles of Agreement. On substance, the Administration would have to get Congressional approval. The U.S. would have to insist on ex-ante appropriation of a certain percentage of this contingent liability, thereby adding an additional amount to be appropriated. On procedure, the U.S. would have to inject a strong reservation; the letter of reservation would set a precedent. Subsequent Congressional action would be required and would jeopardize efforts to avoid restricting amendments. He proposed the following alternative courses of action: (i) to let the status quo continue; this would be a pragmatic solution and the Bank had been living in sin already for years; (ii) to replace gold dollars of 1944 with the current dollar; a strong legal case could be made for this option; (iii) to use the SDR as unit of account but not for maintenance of value; there would be no net effect on the Bank, given the composition of currencies in the SDR and in the Bank's portfolio; and (iv) to introduce the SDR as unit of account and for maintenance of value through the amendment route; this would require work on the Congress through the legislative process. The introduction of SDRs through interpretation--i.e., the incurring of a contingent obligation without previous Congressional approval--would crystalize the conflict between the Bank and Congress.

Mr. Broches argued that the EDs could interpret the Articles of Agreement; the obligation was not subject to ratification by parliaments, only the implementation was.

Mr. McNamara said the present U.S. position in the Fund and Bank was untenable and highly damaging to these institutions. He wanted to avoid Board action on the issue. However, a continuation of the status quo would be a formal recognition of the U.S. being relieved from maintenance of value and would create the image of the U.S. being treated differently. Although in practice there had not been a maintenance of value of the dollar, the Bank had reserved the right to act on this issue. He agreed that a way should be found for both sides to live with their constituencies; one could end up with each party having its own interpretation. The Bank would think about the problem facing the U.S. Administration. It was agreed to meet again on March 27.

The meeting on March 27 reviewed management's draft memorandum to the Board. Mr. Bergsten proposed to substitute the SDR as unit of account and to eliminate the maintenance of value provision. This would be politically appealing because all members would be treated equally; and the economic argument could be made that the use of the SDR would by definition come close to maintenance of value. The only problem would be that the countries with appreciating currencies might feel unfairly treated.

Messrs. McNamara and Knapp disagreed. Mr. Knapp said that elimination of maintenance of value would seriously distort the burden sharing between countries. It would favor countries with rapidly depreciating currencies, e.g., Brazil. Also, it would present serious issues as to the allocation of voting power. Mr. Cargill argued that the maintenance of value enabled the Bank to state to bondholders the value of its capital. The creditors would not agree to the proposed solution as a satisfactory arrangement.

With regard to the draft memorandum to the Board, Mr. Bergsten said that it did only postpone implementation but did not address the fundamental issue. Congress would enquire whether the Administration had accepted an additional commitment. If this were the case, Congress would argue that again it had not been consulted; if it were not the case, Congress would argue that the President of the Bank was not the Gospel, which in turn would set a dangerous precedent.

Mr. McNamara proposed management to state to the Board that, in view of the Fund's Second Amendment and taking account of the General Counsel's opinion, the Bank should move from 1944 dollars to the SDR. However, since there was disagreement among governments whether such a substitution, insofar as it resulted in any new obligations with respect to maintenance of value, should only be made by amendment to the Articles. These and other issues required some time to be considered and resolved by the Board. He emphasized that the principle of maintenance of value was not of substantive importance financially but politically.

Mr. Bergsten considered this an acceptable approach. Before any decision would be finalized, the Administration would have to consult with Congress. Last year the Congress had raised six basic issues with regard to the Bank which had all been dealt with. Any new issues, in the hand of demagogues, would kill the Administration's efforts.

CKW
April 27, 1978

MEMORANDUM FOR THE RECORD

792/3/25

Meeting on Comparison of Bank Salaries with Other Institutions, March 24, 1978

Present: Messrs. McNamara, Chadenet, RClarke, Trott

Mr. McNamara said that the meeting should agree on a flat rule as to how to compare Bank staff salaries with compensation levels of other institutions.

Professional Staff

U.S. Nationals. Mr. McNamara said that the average salaries of U.S. staff of the Bank should be presented in terms of the gross amounts paid by the Bank, or the gross amounts paid minus actual or average deductions. This rule had not been followed so far and had led to misperceptions as to the actual pay levels of U.S. staff. For example, U.S. staff were paid substantially more on an average net basis than shown in the upper half of Table I (March 20) and he had never realized the magnitude of the discrepancy between the compensation of expatriate staff and U.S. national staff. This proposed presentation of U.S. staff salaries on an average gross basis would be used to inform about actual pay levels and not for policy purposes. The dispersion around the average would then have to be determined and any new policy would have to be implemented on an individual case basis.

It was agreed to show the average salaries of U.S. national, professional staff, married with two dependents, on an actual gross basis, arrived at through a payroll analysis (Rule I).

For purposes of comparison with salaries of U.S. national, professional staff of other institutions, the meeting agreed to present (i) U.S. Treasury salaries gross, (ii) IDB salaries on an actual gross basis, assuming Bank staff characteristics for IDB staff, and (iii) UN salaries gross, arrived at by applying the UN principle of tax reimbursement to the UN net salaries, and again by assuming characteristics of Bank staff (Rule II).

Expatriates. The meeting agreed to present average salaries of expatriate Bank professionals, married with two dependents, on a net basis (Rule III). For comparison, (i) the corresponding salaries of IDB and UN expatriate staff would be shown net, and (ii) the average salaries of U.S. Treasury staff, married with two children, would also be given on a net basis, arrived at by netting down gross salaries using 1977 Arthur Andersen average deductions (as done in the top right column of Table III, March 20) (Rule IV).

Non-Professional Staff

U.S. Nationals. Mr. McNamara said that the tables analyzing and comparing salaries of non-professional staff would constitute the first steps of "our Hewitt study." Mr. Trott said that the Bank's non-professionals consisted of about 50% single and 50% married staff members. Mr. McNamara said that therefore two sets of tables were required, showing non-professional salaries for U.S. single and U.S. married staff.

It was agreed that the salaries of U.S. non-professional staff, single and married plus two, would be presented on an actual gross basis (Rule V). As a first approximation, gross salaries would be arrived at by using the Arthur Andersen survey results on actual average tax reimbursements; as a second step, actual gross salaries would be determined through a payroll analysis.

As in the case of professional staff, it was agreed to present (i) U.S. Treasury salaries of non-professionals, single and married plus two, on a gross basis, (ii) IDB salaries of non-professional U.S. staff, single and married with two dependents, on an actual gross basis, assuming Bank staff characteristics for IDB staff, and (iii) PAHO salaries of non-professional U.S. staff, single and married plus two, on an actual gross basis, again assuming Bank characteristics of staff and applying the UN principle of tax reimbursement (Rule VI).

Expatriates. The meeting agreed to present average salaries of expatriate Bank non-professionals, single only, on a net basis (Rule VII). For comparison, (i) the corresponding IDB and UN expatriate salaries would be shown net, and (ii) the average salaries of single, non-professional U.S. Treasury staff would be given net, arrived at again by netting down gross salaries using 1977 Arthur Andersen average deductions (Rule VIII).

Mr. McNamara said that, since Hewitt would not deal with the compensation of non-professional staff, a statement should be obtained from the Kafka Committee asking the Bank and Fund management to undertake the required analysis and to report to the Committee. The Bank and Fund should then hire jointly an outside consultant. The Bank should accept the use of only one comparator, i.e., the U.S. Government. Data could be obtained from the U.S. Civil Service comparing non-professional pay levels of the U.S. Government to the private sector (e.g., IBM Washington).

Mr. Trott said that the Kafka Committee was a political forum: the U.S. was not interested in technical details but only in appearance. Therefore, the Bank should leave the Committee idle and further strengthen its own work on the issues. Mr. McNamara agreed that the Bank had to assume the responsibility for preparing the proposal for changes in staff compensation. It was agreed to institute a regular monthly meeting on compensation policy.

cc: Mr. Chadenet
Mr. Clarke
Mr. Trott

CKW
March 30, 1978

MEMORANDUM FOR THE RECORD

792/3/24

Meeting on Executive Session of EDs on the Cost-of-Living Increase, March 15, 1978

Present: Messrs. McNamara, Knapp, Cargill, Chadenet, Damry

Mr. McNamara said that the purpose of the Executive Session was (a) to hear the Staff Association, and (b) to stimulate an informal exchange of views leading to the EDs urging their governments to support the recommended cost-of-living increase. He suggested to discuss (i) what the Staff Association would say at that meeting; (ii) what management should state, particularly with regard to staff morale; (iii) what the EDs might say; (iv) what management might ask some EDs to state; and (v) what kind of bridging arrangements should be considered.

Mr. Chadenet said that he did not have information yet on the statements to be made by the Staff Association. Mr. McNamara asked Mr. Chadenet to suggest to the Staff Association to support the 7% increase recommended by management and to comment on the present problems of staff morale. Mr. Knapp said that staff was very upset, in particular because of the political nature of U.S. intervention. The cost-of-living increase was considered to constitute a test case. Mr. Cargill agreed. The staff was angry about the U.S. attacks on the Bank and was not convinced that the compensation issue was handled in a professional and independent way. In his view, the results of the Kafka Committee would have no impact on Congress. Mr. Chadenet said that the staff was angry and discouraged. According to staff, the Bank had become a political football in Washington village and the really tragic aspect was the increasing politicization of the Bank. Mr. Damry reported that, for the first time, EDs were increasingly being consulted by staff on these and related issues.

The meeting then discussed the memorandum sent by Treasury to U.S. Embassies for their lobbying efforts with other governments against a cost-of-living increase. The memorandum contained several incorrect statements. The consultants had not stated that staff were overpaid by about 10%; the consultants' report did rather state that there might have to be extra compensation to expatriate staff. Mr. McNamara said that he did not want to make a cause celebre of these misstatements because they had been bootlegged to the Bank and because they might have been made inadvertently.

Mr. Cargill said that, if the U.S. Treasury memorandum contained dishonest interpretations of the consultants' report by the U.S., the report should be distributed to the other EDs. Mr. McNamara said that he did not want the report to be distributed because it would create a precedent for other reports (e.g., the tax study which should definitely not be made available to EDs because the content might be leaked to the press). However, he would quote from the report and the appropriate pages might be made available. He asked Mr. Damry to ask a Part I ED (preferably Mr. de Groote) to raise this issue of misstatement of facts by the U.S. memorandum. The position of the opponents to the 7% cost-of-living increase should be shaken by arguing that (i) the consultants did not conclude that Bank staff was overpaid; (ii) the cost-of-living increase would not prejudge the recommendations of the Kafka Committee; to the contrary, a less than full cost-of-living increase would prejudge such results; and (iii) no early completion of the Kafka report could be expected. As to potential bridging arrangements, it could eventually be agreed not to act on the cost-of-living increase now but to establish that, if no decision on compensation were made by July 1, a retroactive 7% increase, as of March 1, would take effect; he did not favor this rather extreme solution. An alternative would be to agree that there would now be a 7% increase effective March 1 and that the final decision on compensation later in the year would apply to the salary base of February 1978. He concluded that management would presently not have the necessary votes for its recommendation and that the U.S., France, U.K. and Colombia would certainly vote against the proposal.

CKW
March 16, 1978

MEMORANDUM FOR THE RE ?D

792/3/23

Meeting with Goldman, Sachs and Company, March 14, 1978

Present: Messrs. McNamara, Knapp, Cargill, Rotberg, Fowler, Hofgren, Smeal, Whitehead

The meeting discussed Goldman, Sachs' proposal of managerial participation in World Bank financing.

Mr. McNamara asked the meeting to address the question of what would be added by Goldman, Sachs participating in the managing of Bank financings at (i) present levels of borrowing and (ii) without considering dropping one of the present three co-managers. Mr. Whitehead reported that 1977 was a great year for Goldman, Sachs (GS). It was the best year in terms of revenues. Of Fortune's 750 corporations, 120 were GS clients. GS was emerging as a leading investment banker. Under Mr. Fowler's leadership, strong international activities had been developed with government and corporate clients. GS participation in the management of Bank financings would (a) broaden the market and help to sell bonds to institutions which do not own Bank bonds at present, e.g., state pension funds, and (b) would help develop the extremely important secondary trading market.

Mr. McNamara said that he was not entirely satisfied with the Bank's U.S. marketing efforts at present. Mr. Rotberg had done an excellent job in a number of countries, e.g., Switzerland. The Bank was weak in the secondary market; however, Salomon had done very well in working on this. Many large bondholders were still without World Bank bonds. The Bank had to double its borrowing in the U.S. over the next four years and had, therefore, to broaden its market. At present, however, the Bank was satisfied with its three co-managers and had to be sensitive to their aims. He did not anticipate to borrow much more next year than the Bank had borrowed this year. He had a high regard for GS. In the long run, GS could possibly help (i) with its financial policy advice (e.g., on how to leverage IDA funds), (ii) to develop the secondary markets where the Bank was weak, (iii) to broaden the market; the Bank had not even begun to tap the worldwide market potential, and (iv) to develop the private placement capacity; again, the Bank had not even begun to do this in this country and it had so far not been attractive because of the cost differential. He was not satisfied with the analysis and disaggregation of factors influencing the spread of IBRD bonds versus U.S. Government. The Bank's co-managers had to narrow these spreads.

Mr. Fowler said that the Bank needed an account coverage program. Mr. Cargill agreed; Mr. Rotberg's "road shows" were important but too much was left to the Bank's initiative. Mr. Rotberg's activities had to be followed up by an elaborate account coverage program carried out by the co-managers. Mr. Rotberg agreed. Mr. McNamara said that lead time was required in order to allow for a gearing up to future borrowing levels and to broaden demand. In buying the services of its co-managers, the Bank was forcing them to broaden the market and to bring down spreads. Mr. Whitehead said that there would be more of an incentive to present co-managers to work in that direction if GS would be added as a co-manager. Mr. McNamara said that this had been true when Salomon Bros. was added. The Bank had to address vigorously the issues of driving spreads down, of broadening the U.S. market and of penetrating foreign markets.

It was agreed that GS would have further discussions with Messrs. Cargill and Rotberg.

CKW
March 29, 1978

7392/3/22

MEMORANDUM FOR THE RECORD

Meeting on Cost-of-Living Increase, March 14, 1978

Present: Messrs. McNamara, Chadenet, Damry, Trott

Mr. McNamara said that an informal meeting with EDs should be convened before April 4 in order to (a) give the Staff Association the opportunity to express its views and (b) discuss informally the reasons for proposing a cost-of-living increase of about 7%, thereby building support among EDs. As of today, the vote on the proposed increase would be negative. Mr. Chadenet said that, following past procedures, the Staff Association would participate in the meeting merely to discuss the technical issues and not to take part in the deliberations leading to the decision. The recent letters sent by Treasury to U.S. Embassies for their lobbying efforts against a cost-of-living increase misrepresented and misinterpreted the findings of the CL and TPFC study. Mr. Damry said that an increasing number of governments were apparently influenced by these U.S. letters.

It was decided to hold the meeting in Executive Session in the Board Room at 10:00 a.m. on Thursday, March 16, subject to agreement by the Staff Association.

Mr. McNamara asked for the following background information: (i) one paragraph on the Noblemaire System at the UN; its underlying philosophy; (ii) the relevant extracts of the Bradford Report on this issue; (iii) the relevant extracts from the CL/TPFC report; and (iv) a chart showing the increase in the price index since 1968 and the lagged increases in Bank salaries; it should show and quantify cumulative losses incurred by staff due to the lagged adjustment of salaries. He asked Mr. Chadenet to get a statement from Mr. Kafka on whether he considered the 7% cost-of-living increase recommendation to prejudge the results of his Committee.

CKW
March 16, 1978

MEMORANDUM FOR THE REC

792/3/21

Meeting on Interview with Mr. Leonard Silk, New York Times, March 13, 1978

Present: Messrs. McNamara, Clark, Merriam, JWood

Mr. McNamara asked Mr. Clark to consider and to consult Messrs. Wapenhans, Chaufournier, and Stern on whether the WDR background paper by Mr. Acharya on sub-Saharan Africa should be published. The findings of both this paper and of the WDR background report on small farmers in South Asia had great application outside the areas concerned. They provided excellent teaching material to deal with opponents such as Mr. Clarence Long.

Mr. McNamara said that he could not follow Mr. Silk's order of questions. He asked Mr. Wood to rephrase and reorder the questions and to draft the answers. This should take about two days and extensive use should be made of the recent statements by Messrs. Blumenthal and Bergsten and the Bradford Report. The main theme of the interview should be interdependence of the U.S. and LDCs, i.e., U.S. interests in a new world. He suggested the following reordering of questions.

Question 1: What does interdependence mean for the U.S.?--The response should deal with the major shifts in export and import levels and composition, the relevance of growth rates of LDCs for the U.S. economy, sources of raw materials, and jobs provided by U.S. exports to LDCs.

Question 2: U.S. interest in capital transfer.--Distinction should be made between MICs to which market rates apply, and the poorest countries where humanitarian interest exists.

Question 3: The ability of the Bank to provide assistance.--The enormous leverage of the Bank should be mentioned.

Question 4: Allocation of funds.--Performance and nature of projects criteria would have to be dealt with.

Question 5: Human rights and basic human needs.--The answer to this question would have to be discussed at a meeting which included Messrs. Cargill, Knapp and Stern. His inclination was to make the distinction between economic and civil rights. A position had to be taken. It should be stressed that the institution did not have the capability to deal with human rights.

Question 6: The effectiveness of the Bank in addressing poverty.--The answer to this question should use the examples of new-style projects prepared by Mr. Merriam and also use aggregated figures of new-style lending.

Question 7: Salaries.--He would have to state that (a) the U.S. taxpayer does not pay Bank staff salaries, (b) structural changes in developing countries were extremely difficult to deal with, as evidenced by the history of the U.S., and required high-quality staff, and (c) Bank staff were paid like the UN. He asked Mr. Wood to get the cost-of-living increase percentages for a typical civil service officer since 1969, and the statements by the Peterson Commission on the effects of the erosion of U.S. Government salaries.

Question 8: How Congressional restrictions affected the Bank.--The answer to this question should be based partly on Mr. McNamara's letter to Mr. Blumenthal of last year. Particular restrictions should not be mentioned since they all had constituencies.

Question 9: The interview should end on a more general note, dealing with the problem of worldwide food production and reserves and the North/South relations. As to the North/South dialogue, the point should be made that the Bank assisted each side in its own interest and that this was a plus-sum game. The question on Egypt should be left out. He asked Mr. Merriam to propose 2:30 p.m. on March 23 for the interview. The New York Times provided an excellent forum for management's efforts to deal with the issue of the Bank's public image.

Mr. McNamara urged Messrs. Clark and Merriam to agree with the EDs on the text for the letter on compensation and to persuade all EDs to sign it. Also, he would suggest to the Select House Committee on Population that the world needed an annual report on the status of the world's population. The Committee should identify the appropriate institution to produce such a report.

CKW
March 16, 1978

MEMORANDUM FOR THE RECORD

7.92/3/20

Meeting on Cost-of-Living Increase and Kafka Committee, March 9, 1978

Present: Messrs. McNamara, Chadenet, Damry, Trott

Mr. Damry reported that Mr. Ryrie was strongly opposed to a 6% across-the-board increase but would agree to a flat 3% with a complete cut-off at a fairly high point. Mr. Looijen would favor 6% at the lower end, with tapering from about the L or M level. Messrs. Drake and Johnston would probably get negative instructions, possibly to meet management half way. Several EDs appeared inclined to accept the U.S. view. Belgium, Denmark and Germany had opposed the U.S. view in the EC. At the request of Mr. de Groote, the IMF had postponed the cost-of-living discussion which would now probably be held on Monday, April 3. A number of IMF EDs apparently saw a conflict between deciding on a cost-of-living increase at this point in time and the deliberations of the Kafka Committee. Mr. Chadenet said that Mr. Witteveen would visit a number of countries in Europe and raise the issue of the cost-of-living increase. He would certainly visit France, England, Belgium and Holland. Mr. McNamara said that certainly Germany and probably Japan would support management's recommendation for a 7% increase.

Mr. McNamara said that management had to insist that Hewitt Associates got complete information on supplementary incomes of EDs. They should therefore have a second round of interviews. The President of the Bank had the right to know about the compensation of EDs. They worked for and were paid by the Bank and not their governments. According to the Articles, they were Directors of the Bank and not representatives of governments.

In order to enable him to talk intelligently to the opposition and to consider alternative courses of action, Mr. McNamara asked for the following information: (i) tables giving the general salary increases (percentages by grades, date, and form) from 1968 on an annual basis for the UN, EEC, OECD, U.S. Civil Service and Bank; (ii) appropriate comparable data as of today on (a) Bank salaries vs. U.S. Government salaries for the typical married professional and the single non-professional; these tables should give both salary ranges and median salaries for U.S. citizens on a gross basis with the standard deductions and for non-U.S. citizens on a net basis arrived at by average deductions; (b) Bank salaries vs. the UN salaries Washington-based, again for U.S. citizens (using the most reasonable comparison between salaries of UN-employed U.S. citizens and Bank-employed U.S. citizens in Washington) and for non-U.S. citizens at the professional and non-professional levels; and (c) Bank salaries vs. IDB salaries, again for professional and non-professional staff and U.S. and non-U.S. citizens; this information should be provided by the end of next week (March 17) and another meeting should then be called.

The meeting then discussed the present status of the work of Hewitt Associates on identifying relevant skills in the Bank and in the Fund, interviewing staff and matching skills of the Bank and IMF with the private firms and public sectors.

Mr. McNamara emphasized that Hewitt had to do a professional job and not feel under pressure from Mr. Cross. Otherwise he would not accept the results. The future of the institutions and of about 6,000 staff members depended on the outcome of the present deliberations and the study by Hewitt could therefore not be compromised to meet a deadline. He asked Mr. Chadenet to talk to Mr. Kafka about this issue. He asked Mr. Trott to send him a skill classification of professionals in the Bank. Hewitt should start from such a list. Also, work had to begin on the non-professional staff. The U.S. Civil Service would probably be used as a comparator. For U.S. citizens, salaries would be arrived at on a gross basis, and for non-U.S. staff using average deductions. Mr. Chadenet said that the difficult conclusion would probably be that the Bank was overpaying its non-professional staff.

CKW
March 10, 1978

MEMORANDUM FOR THE RECORD

792/3/17

Meeting on Cofinancing, March 2, 1978

Present: Messrs. McNamara, Knapp, Cargill

Mr. Knapp said that Division Chiefs and Loan Officers were becoming bored with the Bank's cofinancing attempts. Mr. Cargill's critical statements on cofinancing were well-known and added to staff reluctance. A consistent line needed to be adopted by management. Mr. Cargill said that he had put one simple question to the RVPs: would cofinancing result in additional resources flowing to LDCs? Most of the RVPs had expressed doubts; Mr. Stern's answer had been "no." He personally also doubted it. He would like to see evidence for the advantages; cofinancing was very expensive in terms of staff time and also an unstable source of finance. He offered to prepare a paper on his doubts. Mr. Knapp replied that the cofinancing activities were not very expensive in terms of staff time and did only slow down project processing to some extent. It would also become a more stable source of finance if it were project-tied.

Mr. McNamara asked Mr. Cargill to prepare the proposed memorandum and not to voice his concerns openly throughout the institution. While the costs of cofinancing activities to the Bank were not very high, he expected the benefits to be substantial. The Bank's relations with the commercial banks 5-10 years from now had to be considered, particularly with respect to the graduating countries. However, the Bank's graduation policy should also leave room for further direct involvement of the Bank in those countries, although smaller amounts of money would be involved. The role of the Bank in such countries as Mexico and Brazil 5-10 years from now would probably be to (a) not graduate these countries entirely, (b) lessen the Bank's financial involvement, and (c) develop relationships through the commercial banks. Cofinancing activities should also be seen in that context.

CKW
March 6, 1978

792/3/19

MEMORANDUM FOR THE RECORD

Meeting on the Valuation of the Bank's Capital, March 2, 1978

Present: Messrs. McNamara, Knapp, Cargill, Nurick

Mr. McNamara said that there were three alternative courses of action for management:

(i) to distribute Mr. Broches' memorandum to the Board, recommending the EDs --in exercising their powers of interpretation pursuant to Article IX of the Articles of Agreement--to interpret the Articles to mean that the SDR is to be substituted for the 1944 dollar, effective on the date of the IMF's Second Amendment;

(ii) to distribute the Broches memorandum to the EDs with a covering memorandum outlining the options; and

(iii) to defer action until the ADB acts on the issue.

Mr. Nurick reported that, according the the Counsel of the ADB, the President of the ADB originally had intended to recommend the SDR but, in order not to cause problems with the U.S., planned to recommend the use of the current dollar basis, pending amendment of the Articles. According to the latest information, however, he had now changed his mind again and would recommend the use of the SDR--by way of interpretation--as the unit of value at the ADB's Board meeting on March 9, 1978; i.e., the same approach as the Broches memorandum.

Mr. McNamara said that the alternative to the ADB approach would be not to raise the issue with the Board at all, i.e., to follow the General Counsel's opinion until an objection was raised. This approach could be based on the Counsel's legal opinion stating "Article II, Section 2(a) of the Bank's Articles of Agreement must be read to mean..." (p.8 of Opinion, dated February 17, 1978). Mr. Knapp added that this would constitute a decision by tacit acceptance.

Mr. Nurick said that Treasury argued that the U.S. would be internationally bound if the U.S. ED were outvoted in the ADB. Adoption of the SDR would not lead to any problem of appropriations but to authorization difficulties. Mr. McNamara agreed; open-ended authorization would be required. He decided to wait until the ADB would act on the issue on March 9 and Mr. Fried would have received Treasury's memorandum outlining alternative courses of action but to meet again not later than March 15.

CKW
March 9, 1978

792/3/18

MEMORANDUM FOR THE RECORD

Meeting on Human Rights, March 2, 1978

Present: Messrs. McNamara, Knapp, Cargill, Stern, Nurick, Damry, JWood

Human Rights

The meeting discussed the draft memorandum to the Board prepared by Mr. Wood, dated February 27, 1978

Mr. Nurick reported on the human rights hearings on The Hill; the Gonzalez Committee was addressing exactly the same implementation issues which management was trying to deal with.

Mr. McNamara said that it had probably been a mistake for Mr. Gutierrez to ask for postponement of Board presentation of the Paraguay loan. The U.S. and U.K. would now oppose the loan and would probably be joined by others if a formal vote were taken. He said that, in the short run, the Bank could live with both the human rights issue and also the capital increase issue since a $6.8 billion FY79 program was now assured. However, he did not know how to solve the conditionality of the capital increase imposed by the U.S. He would therefore like to give the staff paper on human rights to Mr. Fried in order to force the U.S. Administration to produce a thoughtful piece of paper on how to implement the U.S. position. He would like Mr. Vance to focus his attention on this issue. The low-ranking U.S. team which went to Europe to discuss a common human rights position with European Governments had accomplished very little. Mr. Janssen had pointed out to him that the German Government would (i) insist on living with the Articles of Agreement but (ii) agree to some understanding among major shareholders as to the worst cases of human rights violations. Mr. Fried argued that the Board should not give any list to management but that management should take action. He had told Mr. Fried that the Bank would only act under explicit Board instruction.

Mr. Stern said that it was not clear to him what could be gained from giving this paper to Mr. Fried. If the U.S. Government took the paper's approach (c) (namely, management of the Bank to be authorized and instructed to take account of "civil rights" considerations), it would be difficult for the management to back off. Since the U.S . would not be able to give a figure for the IBRD capital increase anyway until much later in the year, management could let the human rights issue simmer until then. The tide would probably be on the Bank's side. Mr. McNamara replied that more thoughtful provisions on human rights in the U.S. legislation was required. Introduction of more restrictive language had to be avoided. However, the issue about this paper was whether it should be less neutral, i.e., less "white." Mr. Stern said that, if the purpose of the paper was to educate the U.S. Government, a different paper should be written, which would address the issues more openly. It should (i) point out what an introduction of human rights considerations would do to the institution, (ii) be more concrete on possible actions, and (iii) suggest measures the Bank could live with, i.e., keeping the issue on a bilateral level and not seeking an institutional position. A paper such as the one prepared by Mr. Wood would not be needed before September 1978. Mr. Nurick agreed. The presented paper suggested possibilities which were no possibilities for the Bank; the "new" paper should go back to increased emphasis on raising the problems. Mr. Knapp also agreed. This was a good and balanced paper for eventual Board discussion. For Mr. Fried a more aggressive statement on the potentially damaging effect of human rights on the institution would be required. Mr. Stern suggested the following action: (a) to write a paper for Mr. Fried, to be handed to Mr. Christopher to prepare the U.S. Government for the Congressional actions lying ahead; and (b) to prepare a paper for management to deal bilaterally with Part I Governments in preparation of the Summer Summit meeting in Germany.

Mr. McNamara said that this draft paper should be set aside for the time being. He asked Mr. Wood to write a paper, using much of the content of his first draft, and addressing the basic issue of the U.S. trying to use the IFIs for objectives which lie outside their area of competence. Mr. Wood enquired whether the paper written for the U.S. should spell out the bilateral option and implications for management action if the U.S. were constantly outvoted. Mr. McNamara said that it had to be understood that the bilateral option did not lead to the defeat of loans and that, if it did, no guidance for management was implied because the defeat of a loan did not constitute an instruction to management. In other words, the paper had to emphasize that the bilateral option did not provide any policy guidance for management.

Mr. Knapp urged the new paper to hit hard on the conflict between economic and civil rights, in order to widen the economic rights loophole for the Bank. Mr. Wood suggested to survey the 18 loans the U.S. had voted against on human rights grounds for economic rights implications. Mr. McNamara agreed.

In summarizing, Mr. McNamara said that the paper should state (a) that the U.S. should not use the Bank for pursuing human rights objectives; and (b) that such attempts would mean a violation of the Articles of Agreement (and here the paper should also refer to the IMF) and lead to the building of a poor record with Congress because of constant defeats.

Lending Program

Mr. McNamara reported that Mr. Janssen had raised again the issue of the $5.8 billion vs. $6.1 billion lending program in terms of establishing $5.8 billion as the new base. He asked Mr. Cargill to talk to the other EDs with a view to the implications for the budget discussion. Mr. Wood suggested to argue that this year there had been perturbations in the average project size but that next year the Bank would continue with the previous trend. The budget was built on the number of operations and management should emphasize growth in terms of number of operations. This emphasis would avoid an argument about whether the dollar commitment level for FY79 should be reduced. Mr. McNamara replied that it had been agreed with the Board that the Bank would budget on both the number of operations and dollar commitment levels. Management should (a) use the $6.8 billion figure for FY79 and the Interim Plan for FY80-FY82; (b) gain Mr. Janssen's support and ensure that he did not revert to his mid-year review statements; and (c) analyze carefully the number of projects proposed for FY79 in view of the Bank's processing capacity.

IDA Appropriations

Mr. McNamara said that chances were less than 50-50 to get any IDAIV appropriations. If the Bill went through with $800 million, the Bank had (i) to ensure that the full amount was allocated to IDAV in order to ensure ratification of the second tranche; and (ii) consider the IDAIV issue. In response to Mr. McNamara's question, Mr. Nurick said that he did not expect the Congress to vote on the Appropriations Bill before September 1978.

Compensation

Mr. Cargill said that Mr. Kafka expected to produce a divided JC report by June, which would make any action before the Annual Meeting impossible. Mr. McNamara agreed that a final conclusion before the Annual Meeting would be highly unlikely, particularly in view of the fact that the JC report would not deal with all the issues the Bank had to insist on, e.g., topping up, the Pension Plan, recruitment bonus and grandfather clause.

CKW
March 7, 1978

792/3/16

MEMORANDUM FOR THE RECORD

Meeting on the Bank's Public Image, March 2, 1978

Present: Messrs. McNamara, Clark, Merriam, Maddux

Mr. McNamara said that Mr. Janssen insisted on a paper to the Board on how to deal with the Bank's public image issue. He thought that such a paper would be undesirable in view of the fact that at present the issue was almost exclusively compensation. Such a paper might also be leaked to the press. He asked Messrs. Clark and Merriam (i) to establish a schedule of near-term public contacts, itemized by ED, etc.; he agreed to the proposed feature by ABC on the Bank, its President and development, possibly including coverage of his potential field trip to Mexico; (ii) to provide him for his Senate breakfast with an opening remark and a list of points and "dirty questions"; this briefing material should include copies of the letters sent by Mr. Fried to Congress members on the commodity notes; (iii) to provide him with a list of questions for his interview with Mr. Silk of the New York Times on March 23; (iv) not to commit him at this point to an appearance at the Press Club; (v) to prepare short and crisp statements on 12-24 new-style projects which would hone up the project summaries included in the Board book and deal with the cost of these projects, the number of people benefited, the increase in incomes and productivity, employment creation and economic rates of return; emphasis should be on how the Bank was going about raising the productivity of the rural and urban poor; and (vi) to plan for another meeting as soon as Mr. Maddux returned from his trip.

CKW
March 7, 1978

792/3/15

MEMORANDUM FOR THE RECORD

Meeting on WDR Statistical Annex, March 1, 1978

Present: Messrs. McNamara, Stern, Chandra

The meeting reviewed the draft WDR Statistical Annex, dated February 22, 1978.

Mr. McNamara said that (i) there was some duplication of indicators and information in the proposed format; and (ii) he had an uneasy feeling that the logic was not readily evident to the user. He then commented specifically on the different indicators used and their presentation.

It was agreed: (i) to produce the final layout in bound form as soon as possible and then to have another review meeting; (ii) to ask some outside experts with research and policy experience to review the Annex, including Professor Fishlow; (iii) to discuss the format of the Annex in the PC in April; and (iv) to prepare a memorandum by May 14 on those data which would be added to future issues of the WDR.

CKW
March 6, 1978

792/3/14

Meeting on Summer Summit, February 27, 1978

Present: Messrs. McNamara, Knapp, Cargill, Stern

Mr. McNamara said that the Bank could try to introduce into the preparation meeting for the July Summit Meeting in Germany what it wanted to be stated on development issues. He asked Mr. Stern to draft a two-page paper on this. One possibility would be to state that several members urged increasing attention to be given to human rights, that a distinction had to be made between economic and civil rights, and that the IFIs were the appropriate international institutions to increase emphasis on economic rights. This would turn the statement around to damn the U.S. Mr. Stern said that further possibilities would be statements on (i) trade relations with LDCs; (ii) IDAVI; (iii) reaffirmation of the debt situation of LDCs; the U.S. had backed off from its leadership role in assessing the debt structure; and (iv) basic needs and the poverty objective. Mr. McNamara agreed. As to basic needs, the Bank was now in an ambiguous position.

CKW
March 2, 1978

MEMORANDUM FOR THE R ORD

792/3/13

Meeting on Travel Policy and Staff Association, February 19, 1978

Present: Messrs. McNamara, Chadenet, RAClarke

Mr. Chadenet reported that the next steps in dealing with the staff on the changes in travel policy would be to: (i) issue the announcement of the changes; (ii) circulate the minutes of the Department Directors' Meeting on travel; (iii) circulate a memorandum to the PC stating the staff benefits added over recent years in order to kill the "salami myth"; and (iv) circulate a memorandum by Mr. Twining on where the Bank stands vis-a-vis its competition on travel. He admitted that he had not done enough on the Staff Association side because he had focused on the hierarchy. Mr. Clarke had disagreed with him on how to handle the Staff Association. Mr. Clarke said that his concern had been not to lose the Staff Association which management had carefully built up over the years and which was very different from the Fund's Staff Association, both in terms of promoting the interests of the Bank and promoting the well-understood long-term interests of the staff. He had therefore recommended to accept their proposal to establish a task force consisting of 4-5 senior managers and 4-5 staff members which would work out the exceptions to the economy-class travel rule. There was a definite danger that the staff would now review the entire role of the Staff Association and move into the direction of unionization. Mr. McNamara said that decision-making authority could not be delegated; it would have been difficult to overrule the recommendations of such a task force. He had therefore decided not to pursue the task force idea.

Mr. McNamara said that consultations with the Staff Association on the recommended full cost-of-living increase should begin as soon as possible. Staff should also be given the assurance that, whatever the decisions eventually taken on compensation, there would be no reduction in net pay.

CKW
March 3, 1978

792/3/12

MEMORANDUM FOR THE RECORD

Human Rights - February 16, 1978
Present: Messrs. McNamara, Knapp, Cargill, Broches, Damry, J. Wood

Mr. McNamara explained his draft outline for a memorandum on human rights. The issue should be posed by differentiating between economic and civil rights. Under IV, namely: Action by the Bank to inject human rights considerations into its operations, consideration would have to be given to (i) the receptivity in a number of countries to the view that the world must do something about human rights; (ii) the support possibly given by some countries to the view that IFIs should deal with the human rights issue; and (iii) the lack of support to the position that the Board should set such standards. Some EDs had enquired whether the Bank could not informally inject human rights considerations into its operations. The answer was that this could not be done because (a) the Bank would then have to raise the issue with specific countries, and (b) the Bank would make no exception in never applying a criterion which is not uniformly applied among countries and endorsed by the Board. A section V of the memorandum could deal with (i) the legal implications, i.e., with the fact that the Articles of Agreement did not permit IV to be pursued, and (ii) the political implications, i.e., that countries would not accept Bank action on human rights and that this would split the institution.

Mr. Knapp said that only in extreme cases the President could poll informally among EDs and not bring a project forward. However, the U.S. wanted a graduated policy which considered improvements, etc. This led to IV(c), namely: management taking account of civil rights considerations. Mr. Broches said that it would be impossible to draw the line between not interfering in political affairs of member countries and injecting human rights considerations into operations. Mr. Cargill said that, according to Mr. Fried, the best solution would be for the President of the Bank not to put forward projects. However, Mr. Fried had no advice to offer on what criteria to use in making that decision. Mr. Damry said that Mr. Fried did still not realize that the EDs resented the fact that the U.S. wanted to use the Bank as a foreign policy instrument. No other government had said that the IFIs should be used for carrying out a human rights policy. Mr. McNamara pointed to the fact that nine EDs voted on Chile in reality on civil rights grounds.

Mr. McNamara said that he would like to give a staff memorandum on human rights to Messrs. Blumenthal and Vance before they got involved in Congressional testimony. The State Department had also suggested that he meet with Mr. Warren Christopher. With regard to IV(a), (i.e,, individual Executive Directors reflecting human rights considerations in the support for or a rejection of particular loans), the paper would have to distinguish between the political effects of a group developing a list and voting as a bloc and of member countries not voting as a bloc. Member countries would probably not be able to agree on a list of countries so that a majority voting against a given country would not be a frequent event. As to IV(b), (i.e., the Board adopting a statement of general principles supporting human rights), the Board had no competence to deal with civil rights, but could make a statement that the statements of other international institutions would be taken into consideration. This would put the burden back to the UN and could be a politically attractive solution. With regard to IV(c), (i.e., the Board determining that the management should take account of civil rights considerations), emphasis should be on "determination by the Board." He had told Mr. Fried that this option would lead to some countries withdrawing from the Bank, and to Bank missions not being accepted by governments. Staff would have to collect information from a wide range of different institutions, e.g., the Red Cross and Amnesty International. These were not necessarily authoritative sources but they could provide a substantial amount of information. The memorandum would probably have to conclude that the Bank could not follow option IV(c), that it was questionable whether IV(b) would be desirable, and that IV(a) would not accomplish much.

Mr. Knapp said that the statements prepared for Mr. Fried on the impact of the Bank's new-style policies in 13 countries were very well received indeed and would be used by Mr. Blumenthal in his testimony. The Bank should stress that it would lose this policy impact in the economic rights field if civil rights considerations were introduced. Basic human needs should not be narrowly defined and be opened up as a loophole.

At the end of the meeting, Mr. McNamara reported briefly on his negotiations with representatives of the Villares group from Brazil on an IFC loan to that group.

CKW

MEMORANDUM FOR THE F ORD

7 92/3/11

Meeting on Actions to Improve the Bank's Public Image, February 16, 1978

Present: Messrs. McNamara, Knapp, Damry, Clark, Merriam

Mr. McNamara reported on his meeting with several EDs on possible actions to improve the Bank's public image. Among the actions suggested were: (i) a letter on the issue of compensation which should go out soon; (ii) an article for the Baltimore Sun on the Bank's programs to attack poverty, signed by an ED; (iii) EDs meeting with TV and newspapers; (iv) EDs meeting with U.S. Congressmen, including the Black Caucus; (v) circulation of statements of non-government sources on the Bank; (vi) publication of the Bank's annual financial statements as advertisements; (vii) using LDC Ambassadors on the Hill; (viii) underwriters to use their contacts to support the Bank; and (ix) Mr. McNamara to appear before Congress, radio and TV, preferably in Bill Moyers-like fora. Although he agreed with these suggestions, he thought that the EDs did not recognize how tough it is to meet the press in this country. He asked Messrs. Clark and Merriam to develop (a) a program of action to be discussed with the 20 EDs, and (b) a set of potential talking points. At this point activities should focus on the U.S. Mr. Fried's endorsement of EDs' appearances in this country would have to be obtained. Messrs. Janssen and Thahane would be good candidates for such appearances. Non-selective small local audiences should be avoided. Statements should deal with the Bank's poverty focus and should be put into the Congressional Record. With regard to his press appearances, he would consider to bring EDs in, e.g., in the case of the suggested New York Times meeting. The EDs had been very resentful of U.S. attitudes but willing to support the Bank in this country.

CKW
March 3, 1978

MEMORANDUM FOR THE RECORD

722/3/10

Meeting on FY79 Budget, February 15, 1978

Present: Messrs. McNamara, Knapp, Cargill, Stern, Gabriel, Nichols, and Hittmair (at end of meeting)

Mr. McNamara said that four matters should be discussed in preparation for next year's budget: (i) number of projects; (ii) pipeline; (iii) bunching; and (iv) average size of projects and project coefficients. With regard to bunching, there were large variations between Regions, e.g., between West Africa and EMENA. His hypothesis was that there were differences in attitude of management involved; this hypothesis should be examined. The serious bunching problems of EMENA, LAC and East Africa should be discussed with the respective RVPs. He had asked Mr. Gabriel to conduct--as a major work program element--a disaggregated analysis by Regions of supervision, project coefficients and pipeline. Mr. Gabriel said that this would be done during March 1978.

Mr. Stern said that (i) there was a general pipeline problem in the Bank with increasing lending levels; the pipeline was tight and run down; (ii) Regions showed different bunching performance and the building-up of the pipeline would not necessarily resolve the bunching problem; (iii) in the case of the three Regions with the worst bunching problem (i.e., EMENA, East Africa and Latin America), staff would have to be built up; however, in the case of LAC, this should probably not be done at this point in time because he was not sure whether the bunching problem reflected a staffing problem; and (iv) in the case of the other three Regions, probably staff savings would be possible by increasing the average project size which could then be used to build up the pipeline. Such a differentiated approach would pinpoint resources to where results can be expected; results would have to be carefully monitored.

Mr. Cargill said that the LAC program would probably fall 9-10 projects short, which was due to poor management. Mr. Gabriel said that LAC had a different philosophy and approach to planning; their program was nonspecific for the outer years. Mr. Stern pointed to the fact that LAC had no standbys if some large projects fell through. Mr. McNamara said that LAC probably had more country problems than other Regions; however, these should be dealt with by having more standbys. He asked Messrs. Knapp and Gabriel to get together with Mr. Lari as soon as possible to discuss these problems. LAC should be told that they had to produce an outer-year program in order to get their budget.

Mr. McNamara said that he had asked Mr. Gabriel to develop factors which would indicate for the different target figures whether actual performance would likely be higher or lower than the projected figure; i.e., on which side the Bank would probably err. Mr. Stern called this an explicit fudge factor. As to the average size of projects, he said that there was a disincentive to the Regions to increase project size because of its implication for staff coefficients; only later in the year, the Regions would change the average size of projects.

Mr. McNamara said that, in view of the poor state of the pipeline, he doubted that 255 projects could be done next year. He asked P&B to (a) deal with the four issues outlined above (number of projects, pipeline, bunching, average size of projects and project coefficients); (b) meet then with Messrs. Knapp, Cargill and Stern to discuss P&B's recommendations; and (c) then meet with the RVPs. Further, he urged to consider a lesser number of projects (than 255).

Mr. McNamara emphasized to Mr. Hittmair that he was not concerned about the impact of a given borrowing program on accounted profits and losses but only interested in maximizing long-term income.

CKW
March 3, 1978

MEMORANDUM FOR THE REC D

792/3/9

Meeting on U.S. Position on IBRD Capital Increase, February 13, 1978

Present: Messrs. McNamara, Cargill, Damry, Stern

Mr. McNamara said that the U.S. Government was prepared to use management's draft paper for their statement to the EDs on February 14. Only a few words had been changed (e.g., that the U.S. supported the 5% real growth rate of Bank lending "for planning purposes"), but strong emphasis on the human rights condition would be added. The issue had been discussed by a mission to Canada, the U.K., Germany, Scandinavian countries, Belgium and the EC, and the Administration was determined to take action on human rights in the Bank. The list of five conditions originally presented had been reduced to two: human rights and compensation. The Board had now to be told that the U.S. Government attached conditions to its agreement on an IBRD capital increase. There was a widespread feeling in the staff and Board that (i) the U.S. Government made unreasonable demands, and (ii) management was going too far in meeting those demands. There was also a widespread feeling rather to give up this year's appropriations than meeting unreasonable demands. Mr. Cargill agreed that there was a strong feeling among staff that management would be prepared to give away staff benefits in order to get a capital increase.

Mr. McNamara said that, in view of a deferment of the capital increase discussion, the next steps for the Bank would be to (i) tie down the FY79 program of $6.8 billion; this might not be easy because other countries (in particular, Germany, France and Canada) might be reluctant to move ahead on the FY79 program without U.S. commitment to the capital increase; and (ii) work on the human rights issue. He asked Mr. Stern to continue his efforts to improve the performance of the FY78 program. Five projects had dropped out during the last ten days. Mr. Stern said that the Regions were still forecasting 240 projects for FY78 and IBRD commitments of $5.81 billion. Ninety-eight projects had to be approved during the fourth quarter which was not too bad in view of the 105 projects processed during the same period last year. On the other hand, there were three or four more projects available for IDA to surpass the $2.4 billion level. Mr. McNamara said that, since IDA was a three-year program, there should be no constraint on this year's commitment level. The bunching problem was mainly a result of the poor performance of three Regions: EMENA, LAC and East Africa. About 50% of the program of these Regions had to be processed in the fourth quarter. In the case of EMENA, there had been no progress over the last seven years. These three Regional Vice Presidents should be asked to come up with a plan to avoid bunching next year. He would schedule a meeting with Messrs. Cargill, Gabriel and Stern for tomorrow or Wednesday to discuss the FY79 program. He had asked Mr. Gabriel to estimate bias factors on his projections (e.g., that results would probably be lower on disbursements, higher on expenses, etc.).

With regard to human rights, Mr. McNamara said that the U.S. Government wanted action in the Bank to be based on civil rights and to penalize gross and persistent violators. However, the Administration had still no answer to the many complex issues of implementing such a policy. The IMF was excluded from such action because it was not considered an aid agency. This made clear that the U.S. Government would use its pressure on civil rights only if it were not contrary to U.S. interests. The Bank might consider to get a group of countries, with participation of Part II governments, to work on the issue. Mr. Damry suggested to let Mr. Fried be asked by the other EDs to recommend the procedures. Mr. Cargill agreed.

Mr. Stern said that the Part II countries would oppose without exception any move in the human rights direction. It would probably not be helpful to ask Mr. Fried for a paper; because of the Administration's ignorance, such a paper would not deal with the procedural issues and would further antagonize governments. It would be preferable for the Bank to prepare a neutral paper on the implementation issues of a human rights policy in professional terms. Management could then, for example, at the Annual Meeting lay out the issue: recognize the importance of human rights, take a position on the economic rights part of human rights, and declare not to be competent on civil rights. The Bank would probably get substantial support for this position from governments; the LDCs would probably go along and the Part I group would be split. Such a scenario might lead the U.S. Administration to back off. The Bank should hammer away at the point that it was less effective in addressing basic economic rights if it had to face the civil rights issue.

Mr. McNamara said that the Bank could not wait until the Annual Meeting and that the U.S. would probably not go along with such an approach which would lack a civil rights element. He suggested to let the situation ferment after tomorrow's statement by Mr. Fried and then, after one or two weeks, to think about putting a paper to the 20 EDs which would (i) present the alternative of focusing on economic rights, and (ii) emphasize the complex implementation issues, by raising a series of tough questions. The EDs should then be asked to put these questions to their governments in order to get answers back. Tensions had developed to a point where one ED had argued that the U.S. position was so unreasonable that the other countries should go ahead without the U.S. The human rights issue was useful for most Congress members in terms of allowing them to be for the angels and anti-foreign aid at the same time. In tomorrow's meeting with the EDs, he would conclude by saying that in these circumstances the discussion of the other matters related to the capital increase would be deferred.

CKW
February 15, 1978

793/3/8

MEMORANDUM FOR THE RECORD

Meeting on Operational Travel Policy, February 6, 1978

Present: Messrs. McNamara, Chadenet, Twining

Mr. McNamara said that he had decided to change the Bank's Operational Travel Policy in accordance with Mr. Chadenet's proposal. The new policy should become effective on March 15, 1978. He asked Mr. Chadenet to draft a memorandum to the staff and to be available tomorrow to make an announcement to the Board. Mr. Clark would have to be consulted on the handling of the public affairs aspects of the decision. Probably no announcement should be put to the press but a canned piece of paper should be prepared to answer potential questions.

He asked Mr. Twining to produce careful estimates on the percentage of total trips and the percentage of staff members for which the exceptions would apply. Mr. Twining said that it would probably be in the order of 12% of trips and 5% of staff members.

CKW
February 6, 1978

793/3/7

MEMORANDUM FOR THE RECORD

Meeting on Mid-Year Budget Review, February 3, 1978

Present: Messrs. McNamara, Damry, Stern, Gabriel, Vergin

Mr. Damry said that several Part II EDs had voiced a concern that the shortfall in lending program performance might become a trend in the eyes of the Part I countries. Mr. Rota, for example, saw such a trend develop and argued that the Bank's lending had reached an absorptive capacity limit. Mr. Stern said that deviations from projections were inevitable. He enquired how Mr. Rota reconciled his view of such a trend with the fact of overfulfillment of IDA targets. Mr. Gabriel said that such deviations had occurred before within a certain margin. Mr. McNamara said that there was a possibility that Part I Directors would use the Mid-Year Review to justify and propose a cut in the FY79 budget. He asked how Mr. Rota reconciled his view with the projected external lending needs and growth objectives of the LDCs. As a point of fact, bunching was not worse than in the past. Certain deviations from the projected figures had always to be expected and a $300 million shortfall was not a substantial one. The fact that management had to operate under ceilings imposed by the Board made such deviations likely. As reasons for the shortfall, he mentioned that seven projects had been transferred last year between fiscal years without transferring the lending amounts and that the Bank had obtained a very substantial amount of co-financing, i.e., was doing the work for others. Mr. Gabriel added that Indonesia, Thailand and the Philippines had been made eligible for IDA in July 1977 which created a tendency towards overfulfilling IDA and underfulfilling IBRD lending targets. In response to a question by Mr. McNamara, Mr. Gabriel said that probably 50% of the shortfall was due to projection errors, particularly for new-style projects, and 50% was due to performance failure.

With regard to disbursements, Mr. Stern said that a large number of countries had accumulated large foreign exchange reserves in 1976-77 and governments were therefore not pushing their agencies so hard to turn in invoices and to speed up disbursements. In virtually every supervision report there was a huge discrepancy between projected and actual disbursement figures. Mr. Gabriel added that a number of projects had also contained excessive price contingencies. Mr. McNamara said that the Bank had a very poor system of projecting disbursements; this needed improvement. As to excessive price contingencies, he and Mr. Stern had different opinions about what to do with these amounts; he favored cancellation. Mr. Damry said that, in a very limited number of cases, the Board would probably approve allocation of these amounts for "similar purposes."

Mr. Stern suggested Mr. Gabriel to mention the pipeline issue in his introductory statement. Mr. McNamara said that a correlation between the pipeline and the fourth quarter performance was not proven. Further, Regional differences of the pipeline factor had to be explained.

CKW
February 10, 1978

793/3/6

MEMORANDUM FOR THE RECORD

Meeting on IBRD Capital Increase, February 2, 1978

Present: Messrs. McNamara, Cargill, Stern

The meeting discussed the strategy to be adopted in dealing with the U.S. Government on the capital increase and made a line-by-line review of Mr. Cargill's draft of a statement which could be made by Mr. Fried and which asked for deferment of the capital increase discussion. The meeting agreed on the adopted strategy.

Mr. McNamara said that it was likely that the EDs might agree on a less than full cost-of-living increase, i.e., on a real cut in salaries. Pressure should be maintained on the U.S. Administration to act formally on the capital increase as soon as the cost-of-living issue had been decided upon. He had learned meanwhile that Mr. Fried had tried to push the U.S. Administration into agreeing to the capital increase without previous resolution of the salaries issue. The envisaged timing implied that Treasury would informally take the capital increase issue back to Congress in April 1978, i.e., at a time when problems on IDA would have to be expected on the Hill. On the other hand, formal Board action on the capital increase was needed before the Governors' meeting at which point IDAVI would have to be raised. Mr. Stern warned that, if there were problems on FY79 IDA appropriations, the Board might settle for the lowest possible number on the capital increase. It might therefore be better to act in October when Congressional IDA action would be out of the way. Mr. Cargill said that Treasury would suffer pressure from Germany, Great Britain and Japan which would argue that agreement to a $6.8 billion FY79 program did not give Treasury one year time.

Mr. McNamara said that, in order to maintain pressure on Treasury for formal capital increase action in the case of further delays, the summer Summit Meeting in Germany should address the issue. At the latest, he would also make a strong speech at the Annual Meeting, arguing that it was absurd to penalize the LDCs and not live up to summit promises, although the compensation issue was being analyzed. Mr. Stern urged to be careful not to push the Administration into untimely action with the Hill. Mr. Cargill said that, if Mr. Fried accepted the draft statement, he should make that statement very soon.

Mr. McNamara asked Mr. Cargill to join him in a meeting with Mr. Fried on this subject later in the day.

CKW
February 9, 1978

793/3/5

MEMORANDUM FOR THE RECORD

Meeting on U.S. Treasury's Position on IBRD Capital Increase, February 1, 1978

Present: Messrs. McNamara, Knapp, Cargill, Chadenet, Stern

Mr. McNamara reported on his meeting with Messrs. Solomon, Bergsten and Fried, January 31, 1978. Treasury would support a capital increase which would result in an increase of lending in real terms of 5% per year but, in view of the various issues raised by Congress, would not make a formal commitment to the capital increase until sufficient progress had been shown on these issues. The five issues were (i) policy leverage with recipient countries, (ii) human rights, (iii) salaries, (iv) travel, and (v) accountability. While the Bank could probably satisfy Treasury on the other issues, compensation remained as the serious problem. He had emphasized during that meeting that there was a basic difference in position between the U.S. and him: while he wanted to decide on the compensation issue on a professional basis, the U.S. Government wanted to penalize staff in order to obtain legislative action. He had pointed out that he might have to tell the Governors that, despite high-level declarations of commitment to foreign aid (Summit Meeting, President Carter's Humphrey speech), the capital increase was being delayed because of an indefensible U.S. position on salaries.

Mr. Stern enquired whose position these Treasury statements reflected; it was probably Mr. Blumenthal's position which was not sustainable. He suggested Mr. McNamara to take the issue to President Carter and to obtain support from the State Department. President Carter could then decide on foreign policy grounds. Mr. McNamara doubted that this was the right move at this point in time and whether President Carter would support him against Mr. Blumenthal on this issue. It would also alienate Treasury. The salaries issue could probably not be delinked from the capital increase. The compensation issue was an extremely serious problem because Treasury did consider a cut in salaries (i) to be a political imperative, and (ii) to be justified on professional grounds. Messrs. Solomon and Bergsten had therefore argued that management could decide now. However, they had also admitted that Mr. Cross' memorandum to the JC constituted only a bargaining position and that they would eventually settle for less. Mr. Stern said that he did not consider a resolution of the salaries issue to constitute a political imperative on the Hill.

Mr. McNamara said that Mr. Solomon had pushed him hard not to recommend a full cost-of-living increase by March 1. He might lose on this in the Board, which might agree on a, say, 3% increase; this would enable Treasury to sell the result as a cut in real incomes on the Hill. Mr. Cargill said that any potential adjustments to be recommended by the consultants would be in that direction anyway. Mr. McNamara said that, in that case, there would certainly be no cuts in nominal terms but possibly in real terms; also, new staff could be recruited at lower rates. Mr. Chadenet said that this would mean to recruit at substantially below UN levels and he urged not to prejudge the findings of the consultants.

With regard to the strategy to be followed, and in view of the fact that the salaries issue could not be delinked from the capital increase, Mr. McNamara asked whether it was not wise for the institution to plan on a $6.8 billion program for FY79 and defer the capital increase discussion for a few months until the compensation issue was resolved. Mr. Chadenet said that it would be dynamite with the staff if the capital increase were delayed because of the salaries issue. Mr. McNamara said that in any statements to be made, e.g., by Mr. Fried, the two issues would have to be delinked but obviously not in reality. Mr. Stern said that, if Treasury could not maintain secrecy on this, management might better try to delink the issues.

The meeting was continued after the PC meeting on tourism lending.

Mr. McNamara asked Mr. Cargill to prepare a draft statement which Mr. Fried could make. It should state that the U.S. Administration

(i) supported a general increase leading to a 5% real lending growth rate;

(ii) faced serious problems with Congress on IDAV appropriations and therefore asked for a deferment of the capital increase deliberations; and

(iii) in order not to penalize the lending program, supported a $6.8 billion program for FY79.

With regard to the proposed termination of tourism lending, Mr. Knapp urged not to wait and to decide now. Mr. McNamara said that he was concerned about the transition, which needed careful preparation by Mr. Baum. The termination could be taken to the Board as part of the budget. Mr. Knapp disagreed; Mr. McNamara then decided not to defer termination and to ask Mr. Baum to prepare a memorandum to the Board.

CKW
February 8, 1978

MEMORANDUM FOR THE REC)

792/3/4

Meeting with Operating Vice Presidents on Budget Guidelines, January 16, 1978

Present: Messrs. McNamara, Knapp, Cargill, Baum, Husain, Wapenhans, de la Renaudiere, Hopper, Stern, Lerdau, Bart, Goodman, Gabriel, Vergin, Miss Loos

Mr. McNamara said that there had to be flexibility in the application of the budget guidelines and that the meeting could not come to a final conclusion today.

Average Size of Loan/Credit

Mr. Wapenhans said that, in the case of his Region, the 1975-77 base period showed lumpy investments which distorted the average size of loans/credits. Further, the Region expanded the number of projects in order to attract co-financing. Mr. McNamara said that (i) the average size of loans/credits had decreased over recent years for reasons not related to projects, e.g., the availability of IDA funds; (ii) the issue had to be approached on Region-by-Region basis; if the average size were to be reduced, it had to be clearly justified; co-financing could possibly be one reason; and (iii) the implications of a change in the average size of loans/credits were that the proposed program could not be accomplished as the required number of appraisal missions clearly indicated (see page 8, paragraph 12); the set of data was therefore unbalanced.

Economic and Sector Work

In response to a question by Mr. Wapenhans, Mr. McNamara said that economic and sector work would be budgeted by Region. There had been an increase of 21 man-years devoted to such work over the last four years, i.e., from 190 to 211. The Bank lacked an adequate system for planning economic and sector work; it will take CPS and DPS time to develop such criteria but they should be available by next year. Mr. Baum agreed that there was no answer yet; however, programming of this work was improving in the Regions' CPP process. He considered the addition of 21 man-years over four years a very modest increase.

Long-Term Operational Issues

Mr. Husain said that the problems with the budget were a reflection of broader issues, namely, the Bank's capacity to implement the envisaged program. Tensions were building up because of the way the Bank operated, e.g., in the case of Indonesia because of the uninterrupted sequence of a large number of appraisal missions. In the case of larger borrowers, management had to start thinking about the implications of the envisaged size of operations for the efficiency and effectiveness of operations. Mr. Stern said that this was a problem also in India; in five years' time, with the envisaged growth rate, there would be a very large volume of operations. He had started work on how to reshape procedures; one possibility was to subcontract project cycle activities to local firms in order to cut back on travel.

Mr. McNamara asked Mr. Husain to develop, after the budget discussion, an approach to this issue of operational procedures and policies, together with Messrs. Gabriel and Kearns. The case of Indonesia could be studied.

Fill Ratios

Mr. Husain said that fill ratios had apparently been declining and that the projection of higher fill ratios led to lower manpower. Mr. Gabriel said that a fill ratio of .957 had been assumed for FY78, that not much control of fill ratios was exercised, and that P&B had recommended advance recruitment (through T positions). Mr. McNamara said that (i) it should be ensured that shifting fill ratios will not change the budget, (ii) with agreed fill ratios, over-recruitment would be possible, and (iii) Mr. Gabriel should consult with Personnel whether a 97% fill ratio was acceptable.

Supervision and Support Functions

Mr. Baum said that he did not argue for an increase in supervision levels at this point but there were critical assumptions with regard to (i) completion report work coefficients which had to be lower than 8.5 manweeks, and (ii) the number of years of project supervision (5-6 years); a recent study shows that a significant number of projects remain under active supervision for more than six years. He asked for the rationale of keeping cofinancing and other support functions constant over another five years and expressed serious doubts that the 32 additional positions would be sufficient. Mr. McNamara said that there was an increase of 67 man-years and, since there was not much difference between the Regions' and P&B's proposal on supervision, he was willing to accept the Regions' proposal for FY79.

Productivity Gains

Mr. McNamara said that, some years ago, there had been a productivity loss argument because of the addition of large numbers of new staff; now there should be productivity gains on balance. Mr. Wapenhans said that productivity gains were offset by cofinancing activities. Mr. McNamara said that productivity gains should be in the order of 1.5% on operations, ex-cofinancing. He asked Mr. Gabriel to add an estimate on cofinancing cost to the budget document.

Categories of Support Costs

Mr. McNamara said that, as a refinement in the budgetary process, an attempt should be made to separate support costs into fixed, semi-variable and variable components.

Tourism

Mr. McNamara said that he had asked Mr. Knapp to consider the phasing-out of the Bank's tourism lending because of the high staff cost, the availability of other sources of finance, and the relatively lower priority of these activities.

CKW
February 6, 1978

792/3/3

MEMORANDUM FOR THE RECORD

Meeting on IBRD Borrowing from Kuwait and Saudi Arabia, January 10, 1978

Present: Messrs. McNamara, Knapp, Rotberg, Gabriel, El Fishawy

Departing from Mr. El-Naggar's statement during the Capital Increase discussions that the Bank had not dealt adequately with Saudi Arabia and Kuwait in its borrowing program, the meeting discussed the steps to be taken in order to borrow substantial amounts from these countries.

Kuwait

Mr. McNamara said that, due to the fact that Mr. Rotberg was Jewish, the Bank had not used its proper officer to deal with the Arab countries. The Bank wanted to borrow money from Kuwait at acceptable terms but had no clear picture of the complex borrowing situation (e.g., in the case of KIC, on where the commission went). Mr. El Fishawy said that he did not expect Mr. Rotberg to encounter any difficulties to work on Kuwait. Mr. Rotberg said that the Kuwait situation had become very complicated and required substantial Bank efforts.

Mr. McNamara said that, subject to Mr. Cargill's approval next Monday, he would like to put Mr. Rotberg in charge of the Bank's borrowing program in Kuwait. By Friday, January 13, he would like to have (i) a paper, reviewed by Mr. Rotberg, on the situation of the Kuwaiti dinar, and (ii) a paper on the Bank's financial relations with Kuwait, including the information contained in Mr. John Adler's memo of May 1977 and Mr. Cargill's letter of January 9, 1978. During his forthcoming visit, he would tell the Kuwaiti authorities that (i) they had been very supportive of the Bank, (ii) the Bank wanted to borrow and did not understand the present impasse, and (iii) Mr. Rotberg would visit them frequently to develop a borrowing program.

Saudi Arabia

Mr. McNamara said that the Bank had to borrow substantial amounts from Saudi Arabia and that the single issue was whether Mr. Rotberg was to be considered the Bank's Treasurer for Saudi Arabia. Mr. El Fishawy said that, also in the case of Saudi Arabia, he did not expect any problem to arise from Mr. Rotberg's involvement.

Mr. McNamara asked for the paper on the Bank's financial relations with Saudi Arabia to be reviewed and sent to him by Friday, January 13. The paper should suggest Mr. Rotberg as Treasurer for Saudi Arabia. A copy of the paper (as well as the Kuwait papers) should be discussed with Mr. Cargill on Monday, January 16.

CKW
January 11, 1978

792/3/2

MEMORANDUM FOR THE RECORD

Meeting in Preparation of the Informal Meeting of EDs on the IBRD Capital Increase, January 6, 1978

Present: Messrs. McNamara, Cargill, Broches, Rotberg, Gabriel, Wood, Bock

Borrowing

The meeting discussed the letter of the three underwriters to Mr. Rotberg (dated January 6, 1978), which, in the light of the Bank's external financing requirements for the next five years, reviewed the feasibility of raising $14.75 billion in the U.S. capital markets and the impact of such a borrowing program on the Bank's financing costs. Mr. McNamara said that this was an excellent paper. However, it was not quite clear to him why the cost of borrowing should necessarily rise under such an expanded program. The projected 1979-83 annual growth rate of borrowing of 17% departed from a period when the Bank had only a very limited borrowing program in the U.S. and could have borrowed substantially larger amounts. In response to a statement by Mr. Gabriel, he said that private placements had as yet not been offered to the Bank near to a 10-point spread and mostly at an exorbitant cost.

Mr. Cargill reported that the Germans were now more pessimistic as to future borrowing prospects in Germany. In the past borrowing had been favored by currency speculation and low growth. Mr. Rotberg argued that there was a lag in Mr. Janssen's perception; at the present point in time the Bank was already involved in large internal market borrowing in Germany. Mr. Cargill said that the Bank had made only very limited efforts to borrow in Kuwait. An appropriate mechanism still had to be found.

Mr. McNamara said that (i) Table III should be revised to include (a) $1 billion additional borrowing from central banks, (b) about $500 million additional borrowing from the German market, and (c) as a last line, the average maturity of borrowings; (ii) the plan for OPEC borrowing over the next five years would have to be worked out; there was no ready answer yet and he waited for Mr. Cargill's briefing note for his forthcoming trip; he asked Mr. Rotberg to provide him with two copies of the Paine Webber booklet for his discussions with the Saudi Arabian and Kuwaiti authorities; (iii) Technical Note #12 should be revised on a yearly basis; in the case of requests, the revised version should be circulated to the EDs; (iv) a note should be prepared for him on projected gross borrowings FY79-83 under various alternative growth rates (3, 5 and 7%) of IBRD commitments; and (v) the November 1975 paper on Capital Market Prospects and IBRD Borrowing Program, which was the last detailed paper on the subject given to the Board, should be rewritten and circulated to the EDs. He asked Mr. Rotberg to introduce the borrowing discussion on January 10.

Mr. McNamara pointed out that the only major problem in the borrowing field was posed by the uncertainties in the international situation (e.g., irrational reactions from Treasury). As soon as the capital increase was obtained, the Bank should be more flexible as to the lending rate and its liquidity.

Financial Ratios

The meeting discussed Mr. Janssen's draft Board statement, which argued that (a) the Bank should aim to achieve an interest coverage ratio of 1.20 as soon as possible; (b) that 10% of the general increase should be paid in, preferably beginning in FY82; (c) the Bank should generate retained earnings at a rate to maintain such reserves at least equal to 12% of disbursed loans; and (d) the ratio of debt to paid-in capital and reserves should not be allowed to exceed 5:1. Mr. Cargill said that this statement introduced an undesirable element of rigidity into the discussions and that he had urged Mr. Janssen to present these ratios as longer-term targets (e.g., for 1985). Mr. Janssen had been at great pains to present a reassuring picture of the Bank in Bonn and this was now bouncing back at him. He (Cargill) was planning to have discussions in Bonn on these issues.

With regard to the paid-in capital, Mr. McNamara said that it was more important to get a large capital increase than to have it paid in. Management should not get on record for aiming at a 1.20 interest coverage ratio. He asked Messrs. Gabriel and Wood for a paper on meaningful financial ratios which would be sent to the Board. It should revise the selected financial ratios contained in Mr. Wood's memorandum of January 6, 1978; some of those ratios were not relevant.

Statutory Limit

Mr. Cargill said that an amendment of the Statutory Limit should be discussed only after the capital increase had been obtained. There would probably be additional amendment requests and there was only one legislature where it mattered to initiate action with a large lead time. Mr. McNamara said that there were two schools in Treasury: one favoring a change in the Statutory Limit instead of a capital increase, and the other favoring a combination of both. Mr. Rotberg raised the issue of acceptability of such an amendment to the market. He argued that, if the Bank would change the ratio from 1 to 1.5, the market would assume that the ratio would later be changed to 2 or 3.

Mr. McNamara asked for a paper on the amendment of the Statutory Limit to be prepared by early February 1978.

Voting and Representation

In preparation of the informal meetings of EDs on voting and representation (February 16, 1978), Mr. McNamara asked Mr. Wood to prepare, with Mr. Broches' assistance, a paper on these issues which should be circulated to the EDs about two weeks before the meeting.

cc: Mr. Damry

CKW
January 11, 1978

792/3/1

MEMORANDUM FOR THE RECORD

Meeting of the Policy Review Committee on Urban Land Policy: Issues and Opportunities, January 5, 1978

Present: Messrs. McNamara, Knapp, Baum, Bart, Chaufournier, Hopper, Husain, Krieger, Wapenhans Cargill, Haq, Karaosmanoglu, van der Tak, Jaycox, Burki, Dunkerley

Mr. Knapp enquired why this paper had been put to the PRC. Mr. Baum replied that PRC discussion had been proposed in order to get a general endorsement to pursue the issues raised by the report. Mr. Jaycox said that the proposed program of work required a broad effort beyond the Urban Projects Department. His Department wanted to get a feeling whether to get more in depth involved in these issues. Mr. McNamara said that he was concerned about deciding on such a broad effort without knowing in detail the implications of such a decision. There were clearly three categories of actions to be taken: (i) procedural actions to be dealt with by CPS, (ii) more unusual procedural actions to be handled by CPS and the Regions, and (iii) policy actions to be dealt with by senior management.

Mr. Husain criticized the format and presentation of the paper (e.g., the summary of 14 pages) and questioned whether this was an area where the Bank wanted to become involved in a general dialogue with LDCs, given staff limitations and limitations to the coverage of the Bank's dialogue. These issues should rather be played low key and enter into the Bank's normal projects work. They should not be developed into guidelines for policy because the Bank's influence with member countries was also a scarce resource. Mr. McNamara agreed that further work on these issues should be limited to the Bank's project activities.

Mr. Karaosmanoglu argued that urban land issues constituted as important a question as land reform in rural areas. The skewness of income distribution derived to a large extent from present urban land policies. Increases in urban land values had to be dealt with. The effects of present land policies on land distribution should be dramatized and the advantages of land banking efforts should be more clearly shown. Mr. McNamara said that there was indeed a close analogy with the land reform issue, namely, that the Bank could not do anything about it. Mr. Hopper pointed to the speculative nature of urban land as being fundamentally different from rural land reform issues.

Messrs. Wapenhans and Hopper argued that most of the issues raised came up in the context of urban development projects; the approach should therefore be limited to such projects. Mr. Knapp pointed to the recommendations contained in PPR's policy brief (dated January 4, 1978) and considered them a useful approach.

Mr. McNamara said that the PPR comments should be circulated to the Regional Vice Presidents. He asked Mr. Baum to decide on how to deal with the 24 recommendations contained in the paper. The paper could be circulated but with a note that an additional action paper was to follow.

CKW
January 9, 1978