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THE WORLD BANK
Washington, D.C.

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McNamara Papers

Chronological files, 1971 (Aug. - Oct.)

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Archives



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Robert S. McNamara Personal Chronological Files - Chrons 15

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489 / 4 / 1907

October 26, 1971

Mr. Raymond Lawing
17 E. Centre Street
Baltimore, Maryland 21202

Dear Mr. Lawing:

I regret that because of so much travelling in the past few months I have not written to thank you for your kind letter of August 12. Your comments were more than generous, and I deeply appreciate your thoughtfulness in writing to me.

Sincerely,

Robert S. McNamara

489/4/1106

October 26, 1971

Dear Mr. Minister:

Mrs. McNamara and I are delighted to have the book, History of Mexican Mural Art. It is a handsome and interesting work. Thank you for your thoughtful generosity.

I hope that your return to the United States for the Annual Meeting was interesting and enjoyable for you. It was nice to see you again.

With best regards,

Sincerely,

Robert S. McNamara

His Excellency
Hugo B. Margain
Secretary of Finance and Public Credit
Mexico City, Mexico

489/4/1904

October 26, 1971

Dear Miss Hintz:

Mr. McNamara has received your letter requesting the return of a visitors badge for the National Accelerator Laboratory. There must be some mistake in identity since Mr. McNamara has not visited the laboratory.

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. McNamara

Miss Joan Hintz
Radiation Physics Section
National Accelerator Laboratory
P.O. Box 500
Batavia, Illinois 60510

489/4/103
10/23/71

Subjects to be included in the study of the Bank's organization

1. The proper relationship of Projects Departments to Area Departments:
 - a. Should regional departments merging area and projects functions be established. (Such a merger of operational functions would presumably require assignment to a Vice President of staff responsibility for the functional supervision of project work.)
 - b. If Projects Departments are to remain separate from Area Departments, what should be the division of authority and responsibility between them in order to remove the present causes of friction. (Examine the organizational portion of the "project function" in USAID.)
2. How should the Industrial Projects Department, the Development Finance Department, and IFC be related organizationally to ensure effective coordination and integration of their work.
3. Does the present relationship between IFC and IBRD represent the proper balance between unification of common functions and separation of unique operational responsibilities.
4. Regional Offices:
 - a. What should be the function and authority of a Regional Office vs. the Area Departments and the Projects Departments.
 - b. How many offices should be established and what should be their size.
5. The effect of an expansion in lending on the procedures for the processing of loans:
 - a. What was the role of the Division Chiefs and Area Department Managers, the Regional Offices, the Vice Presidents in charge of the Area Departments and Projects Departments, the Loan Committee and the Board in the processing of new loans in 1968, what is it today, and what should it be in the future.
 - b. Compare the process for the supervision of loans as it was in 1968, as it is today, and as it should be for the future. In the future, would it be wise to separate the supervision function from the appraisal function and/or decentralize it to the Regional Offices.
6. How should the top structure of the Bank be organized: should there be an Executive Vice President; a Vice President for Administration; a separation of the responsibilities for projects and finance; a Vice President of the Bank serving also as Executive Vice President of IFC; a Vice President in charge of external relations (other than public information) who would supervise the Development Services activities and perform Ambassador-at-Large functions similar to those carried out by Shoaib.
7. Is it desirable to continue indefinitely the post presently held by Denis Rickett or could that function be assumed by a Vice President of Finance

8. Would it not be wise to develop an optimal organizational structure and then a plan for moving toward a series of steps extending over a period of time, the scheduling of the steps to be affected in part by personnel decisions.

9. Should not an Organizational Planning Department or Division be established. If so, where should it be placed in the organization.

10. How should we organize to carry out the organizational studies: effective January 1, could not Shoaib be relieved of his other duties and assigned to direct the studies with the objective of completing them by July 1. He could be assisted by two or three senior people from inside the Bank (for example, Demuth, Gaud) and one or two from outside the Bank, plus a full-time staff of two or three men from inside the Bank (for example, John King, ul Haq, Mrs. Boskey; hopefully, one of them could later direct the organizational planning activities of the Bank), and in addition, could utilize outside consulting firms for well-defined portions of the work, particularly those portions relating to an examination of procedures. Outside consultants to be considered might include Dave Sommers, John Macy, John Corson, professors of public administration or business administration, Charles Schultz, Ed Mason, Eric Roll, Seymour Rubin, Bob Bowie, Jim Wright, Dave Bell, John Crawford, Alec Cairncross. What steps might be taken to minimize the disruptive effects (rumors) of such an organization study on the morale of the staff.

11. As a means of freeing Shoaib to direct the organizational studies, would it be wise to move Chadenet to Administration and Cargill to Projects.

12. In preparation for the appointment of a Vice President for Administration, would it be helpful to ask McKinsey and Company to prepare a statement of the functions of the Vice President for Administration and an outline of the structure and functions of the Administration Departments.

13. Would it be wise to establish a Rural Development Projects Department (on October 4, Demuth was asked to consider this question).

14. Examine the complaints of Governors that unreasonable delays occur in the processing of projects. Are such complaints justified and, if so, what can be done to speed up the process.

15. Extract and comment upon the organizational recommendations of Escott Reid and Ed Mason.

16. If the positions presently held by Shoaib and Denis Rickett were to be abolished, how should contact with Part I and Part II Directors be maintained.

17. What should be the long-run coverage, content and organizational structure for our Operations Evaluation Program.

18. How should the Paris and Tokyo offices be supervised.

19. What should be the function of the Development Services Department after Dick Demuth retires.

20. To whom should the Development Finance Department report.
21. In connection with the time-phasing of the organizational moves, prepare a plan for reassignment of key personnel, taking account of scheduled retirement dates.
22. What causes the "bunching" of projects and what can be done to prevent it.
23. Would it be wise to organize a "policy planning staff" and, if so, where should it be placed.
24. Compare the organization structure of the Bank with that of four or five other organizations similar in function and size of professional staff.

489/4/102
10/23/71

Non-organizational issues requiring

1. Evaluation of the Horowitz plan.
2. Examination of alternative approaches to the 4th Replenishment of IDA.
3. Development of a new policy for the contracting of civil works.
4. Would the addition of Merrill Lynch to our underwriting syndicate so expand the retail and secondary market of those syndicates as to either reduce the cost or increase the effectiveness of our bond sales.
5. Consider how best to integrate the UNDP's country program activities with the Bank's Economic Mission Reports and Country Programs. (See UNDP memorandum C.B. 12/4, dated September 24, 1971, and prepared for consideration by the IACB.)
6. Consider what should be the proper relationship between Bank Resident Missions and UNDP Resident Missions. Could the Bank serve as economic advisor to the UNDP Resident Representative; in some cases, would it be possible for the Bank and the UNDP to be served by a joint representative.
7. Study each of the non-organizational recommendations of Escott Reid and Ed Mason, including the possibility of higher lending rates for such countries as Finland, New Zealand and Israel; a shorter maturity, for example, 25 years, for IDA; a blending policy based on categorization of countries in interest rate classes.

489/4/100

Extracts from Edwin Reischauer's Book, "The U.S. and Japan"

The slim margin of profit from this reexport trade must be sufficient to pay for all the imports Japan must have to support her own people. To do this, Japan's export trade must be huge. But where is she to find her markets in a divided world and in a Far East disrupted by revolutions and bitterly determined not to trade with her?

Japan's precipitous mountains make beautiful scenery but leave little space for her farmers. In fact, even today only about 16 per cent of the land is cultivated. No country, not even the teeming lands of India, China, or Java, equals Japan's record of almost 1900 members of the purely agricultural population to each square mile of cultivated land.

She lacks the materials to feed her machines, and in this lack lies the great question mark regarding the future of Japanese industry and of Japan herself.

Japan is lavishly supplied with men, but her sources of power, though sufficient to have enabled her to become a first-class industrial nation, are far from abundant.

Oil is a vital deficiency in the Japanese economy, and it must be supplied from abroad.

Cheap hydroelectric power, over half of which is applied directly to industrial purposes, has come to provide about one-quarter of her total power supplies.

Next to men and the power resources of coal and water, wood is probably Japan's greatest natural resource.

Industrialization in Japan, however, has not brought significantly higher wages to the Japanese worker or put more food upon his table.

This is the strong emphasis on personal relationships between employer and employee in Japan.

Nowhere in the world, before the appearance of the totalitarian governments, has such a large percentage of national industrial power been controlled by so few people, and possibly nowhere else has industrialization been achieved so rapidly.

The chief factor which lay behind the development of the zaibatsu system was the paucity of private capital in Japan at the beginning of the modern period.

The big four among the zaibatsu have always been Mitsui, Mitsubishi, Sumitomo, and Yasuda, and among these the first two are the greatest of all and really form a class by themselves.

The zaibatsu system may have had a vital role in building up Japanese industry, but it has also left a legacy of major political and social ills.

The inexorable laws of economic necessity have forced the Japanese to choose one of two diametrically opposed courses to secure the trade they must have. Either they must fight for empire, or else they must be champions of peace, world order, and more international trade.

One obvious influence of isolation on Japan has been the creation of a highly homogeneous race of people there and, what is more important, a very homogeneous culture.

What is important is that there have been no significant additions of blood to the Japanese race for well over a thousand years.

Their culture, though repeatedly enriched by foreign borrowings, has also had time to become extremely homogeneous, particularly during the two centuries of Tokugawa isolation.

In Japan, however, the very paucity of such influences at most times meant that, whenever close contacts were feasible, there was likely to be heavy, almost frantic borrowing from abroad. The first such period was from the beginning of the seventh century through the first half of the ninth, when the still very backward and primitive Japanese state, in an amazing display of energy and ambition, attempted to model itself after the T'ang dynasty of China, which at that time was unquestionably the richest, strongest, and, in many ways, the most advanced state in the world.

The Japanese, however, are unique in having kept alive a distinction between what is considered to have been natively Japanese before the seventh century and what resulted from the contacts with China from that time on.

In any case, the Japanese show a national self-consciousness and a sense of inferiority which, while not altogether unknown in a self-assertive America just emerging from a position of cultural inferiority to Europe, is far more ingrained and compulsive with the Japanese than with us.

All this stands in sharp contrast to the Chinese, who, except for a small group of strongly Westernized apologists, have until recently tended to remain blandly secure in their knowledge of China's long superiority over all her neighbors and content to let the outside barbarians discover China's virtues for themselves.

Thus, the Chinese, with their easy-going assumption of superiority, have appeared to the rest of the world relaxed and genial, whereas the Japanese, fearful of the scorn of the outside world and eager for its plaudits, have made others vaguely ill at ease by their self-consciousness and definitely annoyed by their insistent demand for appreciation.

The emotional drive toward self-expression appears to be, if anything, greater among the Japanese than with us, but at the same time the Japanese have developed a counter-force of social conformity which is far stronger than anything with which we are familiar.

But any close study of the Japanese will reveal that the Japanese are an emotional people or at least a people whose emotions are so pent up by other forces as to have more explosive powers than we would consider normal.

The peoples of East Asia have consistently given a greater place in their higher culture to direct emotive response to outside stimuli and have shown far less interest than we in systems of logic.

The Japanese are not the phlegmatic conservatives they appear to be but a people given to fads and enthusiasms.

Throughout their history the Japanese have shown an enthusiasm for beauty in all its forms which is almost unique. An inordinate passion for the beauties of nature has filled their literature since earliest times and is an important part of Japanese character today.

From the top to the bottom of their society, they exhibit a high artistic appreciation for what is in their own tradition and uniformly good taste in a myriad of intimate details of their daily life.

Japanese poetry is always emotive, rather than didactic, impressionistic, rather than expository.

Although their tradition of painting still stands, for the most part, little affected by Occidental artistic traditions, Japanese music is on the verge of rout before our music.

Have stressed the purely emotional aspects of religion more than we have.

Shinto, the religion of the primitive Japanese and the backbone of Japanese religion today, is in essence a nature cult. Its typical cult deities are natural phenomena which by their superb beauty or their mysterious power create a sense of awe in the breast of the onlooker.

So-called State Shinto was created during the last few decades and, to meet the objections of Buddhists and Christians, was defined as being nonreligious.

The Japanese of the seventh century was attracted by the magnificent ritual of Buddhism, its glorious art, the worldly wisdom of its continental missionaries and of the Japanese monks who had studied abroad, and the power of the many deities it had acquired on its long journey to Japan.

The old, familiar deities of Japan, it was explained, were merely the local manifestations of the universal Buddhist deities. The two were not at all incompatible but existed simply on two different levels -- the local and familiar, the universal and supreme -- and, ever since, most Japanese have considered themselves to be both Shintoist and Buddhist without any sense of incongruity or conflict.

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But this great Buddhist awakening of medieval Japan, everything that was stressed was diametrically opposed to the teachings of early Indian Buddhism. Nirvana had become a beautiful paradise, a glorious afterlife, which compensated

for the pain of the life on earth. And the way to paradise was no lonely road of self-denial and mortification of the flesh.

Emphasizing meditation and the sudden flash of intuitive knowledge which transcends all rational perception, the Zen practitioners sought to achieve a oneness with nature, an understanding of the basic principle of the universe, through intuitive understanding of one of its humble natural manifestations.

Thus, religion in Japan, whether Shinto or Buddhist in form, is largely aesthetic in expression. A code of ethics and a system of philosophy are secondary, or perhaps entirely irrelevant.

In a great variety of ways, the Japanese show themselves to be a strongly emotional people, but what strikes the foreign observer first is not at all their emotionalism but rather the heavy cloak of conformity which so covers the surface of Japanese society as to all but conceal the lines of emotion below.

Perhaps in a heavily crowded land such as Japan has been since the seventeenth century, established patterns of conduct must be more rigidly observed than in lands where people live with more room about them and a wilderness to conquer.

It is significant that, with the advent of Tokugawa stability, the Japanese suddenly took a much greater interest in Confucianism than ever before.

Confucianism, the way of life taught by the Chinese sage and his disciples more than two millenniums ago, emphasized etiquette and ceremony.

Confucianism emphasized the "five relationships," which were those between ruler and ruled, husband and wife, father and son, elder brother and younger brother, and friend and friend.

In the West we have tended to build up a universalistic ethic which equates all individuals in their relationship to God or to society. In the Far East, all relationships tend to be specific. Proper ethical conduct cannot be generalized but depends upon the particular relationship between the two individuals involved.

The Japanese are sticklers for etiquette. Each situation calls for an exactly correct act or a precisely prescribed phrase.

The Japanese who ventures out beyond the boundaries of his rule book is more completely lost than those of us who live by more generalized precepts and fewer exact rules. When he enters another culture, he is baffled by the vagueness of its rules of conduct.

But whether or not natural disasters have forced the Japanese to show greater flexibility in their conduct, there can be no doubt that their situational ethics has often permitted them to reverse their attitudes suddenly when convinced that the situation required a new approach.

They obviously have a substitute for our Western religious sanctions and our sense of guilt as means of preventing individual infractions of ethical codes. This substitute is a sense of shame before society.

This emphasis on the judgment of society makes the individual Japanese a very self-conscious person.

They are far more rank-conscious than we in America, but are afraid of promotions by merit, preferring to stick wherever possible to the less competitive system of promotion by age.

No one should be shown to be in error, because to look silly or to be wrong is too damaging to the personality in a society which stresses the avoidance of error or ridicule as we stress the avoidance of sin.

A business call in Japan will normally start and close with polite conversation which serves as a sugar coating for the unpleasant necessity of making a request and possibly being refused. And one never makes a simple refusal in Japan. There must always be an excuse, however transparent, to make it appear to be not unwillingness to comply but rather a reluctant bowing to fate. But the best loved strategem is the go-between -- that is the use of a third party or, often enough, two third parties to bargain and make arrangements in behalf of the principals, so that the latter will not be forced to lose "face" or be impolite to each other. This is how marriages are arranged, how most embarrassing or important requests are made, and how many business deals are transacted.

But "face" is not merely keeping up appearances and avoiding embarrassment. As we use the word in English, it is exclusively a matter of outward appearances. But in Japan it also means self-respect. Maintaining "face" to oneself is far more important than maintaining "face" before others.

The man who undergoes indignities with composure gains "face." The man who loses his temper also loses "face," no matter how justified his anger or effective his tongue or fists.

The language itself reflects their heavy consciousness of indebtedness.

Self-respect in Japan calls for "sincerity." But "sincerity" is by no means to be associated with frankness, as it is in the United States. Frankness to the Japanese often appears to be nothing more than rudeness. "Sincerity" to them means knowing what is expected of one, or rather what one should expect of oneself to maintain self-respect, and then having the strength of will to do it. It means being to "big" to act improperly, no matter what the other man does.

In theory the individual does not even exist as an individual but only as a member of certain larger groupings -- family, school, community, or nation. There are no individuals but only sons and fathers, students and teachers, citizens and officials, subjects and rulers.

Nor is the judgment of society merely a tabulation of individual preferences. The Japanese whenever possible avoids individual decisions and individual responsibility. Group decisions and group responsibility seem to him the way to achieve group interests.

Ever since earliest times, however, the basic principle of the Chinese writing system has been that each word, or, in cases of polysyllabic words, each syllable of a word, should be represented by a separate character.

This means that several thousand symbols are required to write Chinese, as opposed to our twenty-six letters, and because of their very number many of these symbols must be extremely complex.

Such a complicated writing system has inevitably had a profound influence on Chinese culture. It has been a serious limiting factor, making the recording and transmission of knowledge and ideas harder than in India or the West.

There has been less room in Chinese education for reasoning or the exercise of judgment.

Knowledge and wisdom have become essentially the accumulation of facts from books and teachers, not a dual process of study and thought.

The scribe or even the scholar has been a relatively humble member of our civilization, but in China the social and political ideal for more than two thousand years has been rule by the best educated.

The very difficulty of writing has given great prestige and authority to that which is written and also to the few who are literate.

The deciphering of even the simplest Japanese sentence takes on some of the aspects of solving a puzzle. The net result is probably the most difficult writing system which is still in use anywhere in the world.

The important point in all this is that education in Japan, as in China, requires a tremendous amount of memory work, which seems to have had the same result in Japan of strengthening the authority of tradition and the emphasis on obedience.

The emphasis on obedience to authority is very similar in China and Japan, but the nature of authority in the two lands is not.

The Chinese ideal has been that superior persons, regardless of origin, would distinguish themselves and rise to the top.

The Japanese have been much more like the post-Classic Europeans in their attitude toward authority. They have a strong aristocratic tradition and have always looked upon heredity as the basic source for authority.

The Japanese has a much clearer sense of belonging to a class than does the America. The eta, or so-called "outcasts," have enjoyed full legal equality with other Japanese for many decades, but social discrimination against them still remains severe.

Although the achievement of a position of leadership in Japan today depends, as with us and the Chinese, primarily on the ability of the individual to prove superiority, authority in Japan continues to retain much of the absolutism which it naturally had when heredity was the only criterion.

With obedience to authority so stressed throughout Japanese society, a primary problem is that of hierarchy among the different types of authority.

Each person, each thing, fits into an accepted order of prestige and power.

A committee without its chairman, a delegation without its chief makes the Japanese uneasy and unhappy.

There are many different types of hierarchy in Japan, but perhaps the most fundamental are those of age and sex.

In the course of the last several hundred years, probably under the influence of Chinese concepts, women have been pushed down to a position of legal and social inferiority to men.

The Japanese, however, entered the past century of rapid Westernization with a concept of law far more like that of Europe than was Chinese legal theory and a belief in the supremacy of the political unit which resembled that of the modern West and contrasted sharply with the family-centered social and political concepts of China.

As in China, connection with the government, either through direct service or through official recognition of this sort, carries with it particular prestige.

Thus, millions of Japanese have been willing to accept any changes we wished to make in Japan so long as we did not do away with the Imperial system. They have been indifferent to constitutional changes which deprived the Emperor of all power but have insisted that at least a purely figurehead Emperor remain as the theoretical apex of Japan's hierarchic system.

The more divergent the sources of authority became in Japan, the more the Japanese felt the need for a single and unquestioned symbol of authority.

More important than external conformity to avoid ridicule and shame is the inner force of will power to bolster self-respect. Self-discipline parallels obedience as a fundamental force shaping Japanese character.

Artistic adornments, instead of choking every corner and dripping from all the walls, are limited to a few carefully selected items, placed in a special alcove where they can really be seen and their beauty enjoyed.

There is no harsher word of criticism in the Japanese artistic lexicon than "showy" and no higher praise than jimi, which might be translated "restrained," "sober," or merely "plain."

The Japanese have a fundamental suspicion and dislike of ostentatiousness and even of wealth.

The genro system was typically Japanese -- a product of the Japanese respect for age and dislike of the ostentatious display of power or of positions involving individual responsibility. Time after time in Japanese history, the real leaders have been a group of men behind the figurehead ruler or possibly behind a whole series of figureheads.

However emancipated, intellectually and socially, the better educated residents of the cities might be, the mass of Japanese tenant farmers and day laborers unconsciously continued in the old paths of quiet obedience and deference to authority, and the vast weight of tradition still stood firmly in the way of democratic growth. Perhaps even more important was the mounting strength of the new forces of authority and conformity which Westernization itself had fostered -- the highly centralized economic empires of the zaibatsu, the huge and omnipresent civil bureaucracy, the all-seeing, all-knowing police, and, worst of all, the closely knit and fanatical corps of army officers.

The army, without changing its basic views but merely by increasing its intransigence, started the whole kaleidoscopic regrouping of forces to form an entirely new pattern. Secure in its virtual independence of the civil government and emboldened by the growing economic crisis in the world and the success of totalitarian ideas in Europe, the army began to knock the props from under democratic government by "direct action."

The strongly democratic lands of the West all show a rapid and apparently irresistible drift toward greater governmental controls over individual freedom of action, while each totalitarian regime ostentatiously maintains a show of democratic electoral procedures and is vociferous about its democratic aims. The point of conflict is different, but the nature of the conflict is basically the same. The two forces of democracy and totalitarianism are inevitable concomitants of machine production and universal education, and their harmonious reconciliation is no easy matter.

The impossibility of maintaining cleanliness and neatness during the war and postwar years was almost as injurious to morale, for the Japanese value perfection in physical detail as much as in ethical codes.

If the Japanese do manage to solve their many economic problems and make their country a stable and respected member of the family of nations, it will be primarily because there is something to their belief that will power is stronger than matter.

This was the renunciation "forever" of war and "the right of belligerency" and the corollary promise never to maintain "land, sea, and air forces, as well as other war potential," which were made Article Nine of the new Japanese Constitution.

The most revolutionary doctrine in the new Constitution is that sovereignty lies with the people and not with the Emperor.

A more important practical innovation in the new Constitution than the changed locus of sovereignty is the clear shift of power from the executive organs, formerly under the Emperor, to the Diet, elected by the people.

For almost a thousand years no Japanese Emperor has actually ruled.

The concept of the "Imperial will," the myth of Imperial sacredness, the burning devotion of the average subject to the Imperial symbol, all could have survived as easily without an actual Emperor on the throne. We had far more

chance of reducing these attitudes to safe proportions -- of changing mystical devotion to simple affectation and respect -- with an Emperor on the scene toward whom the Japanese could develop new attitudes.

Tests also show that many children soon after leaving school lose their ability to read or write except at the most elementary level.

The most drastic proposal, which was supported by certain occupation authorities, was to abandon the use of Chinese characters and the native phonetic syllabaries in favor of the use of the Latin alphabet, known in Japan as Romaji or "the Roman letters." This would probably be in the long run the best solution, because spoken Japanese can be written perfectly with only seventeen letters and one or two diacritical marks, and in this form could be mastered by the Japanese child in as many months as it now takes years.

Many deeply ingrained habits of conduct must be changed before Japanese women achieve full social equality with men, but some of these habits are visibly changing.

From all parts of the country, both urban and rural, come reports of a rapid shift in the whole concept of marriage from a family-dominated match to a matter of personal choice on the part of the two principals.

The end result in many cases was that the stocks gravitated into the hands of the banks, which ever since have exercised an inordinate degree of control over Japanese industry.

The land reform program we sponsored encompassed every piece of agricultural property owned by absentee landlords, no matter how small, and in most parts of Japan it affected most other holdings of more than two and a half acres. Absentee landlords were forced to sell all their land to the government and in most parts of Japan all non-cultivating landlords living in the local community had to sell the land they owned above two and a half acres. The lands thus acquired were then resold to the former tenants who had operated them. Cultivating landlords were permitted to keep two and a half acres of tenant-operated land together with the area they and their families cultivated, which was presumed to be no more than about seven and a half acres. Thus, in most of Japan even farmers could not own more than about ten acres of agricultural land and other persons in rural communities no more than two and a half acres.

The remainder, perhaps a quarter of the number of tenants before the war, had their rents reduced by law to approximately half of what they had been, with rent ceilings established at 25 per cent of the value of the crop on rice paddies and 15 per cent on dry fields.

Viewed in this light our efforts in Japan had very limited and also very realistic objectives -- to readjust the balance so that in the future the peaceful and democratic forces within Japanese society would gradually win out over the militaristic and authoritarian forces, reversing the history of the 1930's when the balance turned in favor of the latter.

For industrial growth the qualities the Japanese have, that is the capacity for hard work, high levels of education and technical competence, and the ability to maintain political and fiscal stability, are vastly more important than the possession of raw materials.

They have allowed investment in the public sector of the economy -- in roads, harbor facilities, schools and social services -- to lag behind, while devoting their efforts to building up industrial capacity.

It is a fact of the greatest significance that the fastest growing economy in Asia -- possibly in the whole world -- has been an essentially free enterprise system. At the same time, the Japanese have shown remarkable skill at integration within industry and cooperation between industry and government.

Japan remains very much at the mercy of world trade, itself a pawn of international politics.

Among the great social changes of the postwar years has been the increase in social mobility.

Japan ranks only after the United States and Israel in the percentage of its youth that seeks higher education.

The different age groups in any modern country show decided differences in their attitudes toward many things, but the contrasts in Japan are far greater than in the United States or most European countries.

Japan today lacks any central core of ethics or any system of guiding ideals. The Japanese religions of Buddhism and Shintoism offer the modern Japanese little solid religious basis for their ethics or ideals; the feudal and Confucian ethics of the past have decayed.

In other words, neither religion, nor ethical principles, nor political and social ideals serve as the great unifying forces they do in many other lands. The keystone appears to be missing in the intellectual or spiritual arch, and this lack in turn gives a certain instability to the whole structure of modern Japan.

No clear consensus developed, however, as to how Japan could best use its new found economic strength and influence in the cause of world peace. In fact, it is on this point that the Japanese since the war have remained most seriously divided.

When the war brought the militarists down in ruin and the occupation authorities lifted the lid on all thought and political movements, the bulk of the intellectuals, as well as the newly reorganizing labor unionists, flocked to Marxism as the seemingly obvious alternative to the discredited past.

The conservatives, as a politically organized group, derive directly from the two major prewar parliamentary parties, which amalgamated as the Liberal Democratic Party in late 1955. They have been traditionally strongest in rural Japan, where many conservative politicians have maintained virtually impregnable constituencies. They have also traditionally been closely allied with the business community, particularly big business.

The leftists draw their strength primarily from those social groups which even before the war felt themselves alienated from society or left out of leadership, in other words, the city intellectuals and white-collar workers and urban labor, particularly the part that is organized. Even today many of these people feel themselves estranged from the dominant political leadership, which to them seems an alliance between big business and the bureaucracy, backed by uninformed rural voters and dominated by former bureaucrats who were part of the discredited prewar and wartime system.

In the two decades since the end of the war there has been a general tendency for the leftist vote to increase and the conservative vote to shrink correspondingly. The rate of shift has on the whole been so steady and apparently so little related to current political issues as to suggest more a sociological than a political change.

Neither the conservatives nor the leftists are closely unified groups.

In the November 1963 elections the Communists won 4 per cent of the popular vote, the Socialists, who ideologically spread all the way from fellow travelers of the Communists to former Right Socialists, won about 29 per cent, and the Democratic Socialists 7 per cent.

The question of whether Japan should align itself with the United States and the free world, or with the Communists, or should maintain strict neutralism between the two, has been the most divisive issue in Japanese politics ever since the end of the war.

In a world in which some countries have not abandoned the use of military power in one form or another to subvert or subject other nations and in which the newly rising countries are for the most part finding the achievement of prosperity and democracy a hard and dubious road, it is indeed encouraging that Asia's one major modernized nation, after some decades of conflict between the forces of totalitarianism and democracy, seems to have firmly chosen the latter and to have ranged itself uncompromisingly on the side of peace through international law and order.

One other hope that Japan gives Asia is in the field of culture. In the early days of Japan's Westernization, the native culture seemed at times in danger of being swamped by foreign imports, and many Japanese have ever since feared that Japan will lose its cultural identity. Today, however, with the supposed process of Westernization far more advanced, Japan shows its cultural identity as clearly as ever, and much of Japan's traditional culture, such as music, dance, drama, literature, and the fine arts, has regained its old vigor.

The experience of modern Japan suggests that the common concept that the whole world is becoming Westernized is not correct.

We, in particular, who are less dependent on this flow of trade, must always bear in mind that it is not only mutually beneficial, but is one of the chief factors that makes Japan the healthy country it is, capable of playing a significant role in the achievement of world peace and prosperity.

489/4/101

10/23/71

Possible candidates for Vice Presidential decisions

From outside the Bank

L.K. Jha

Yusuke Kashiwagi

Kreeger Vasena

From inside the Bank

Qureshi

Cargill

Broches

Chadenet

Alter

von Hoffmann

Chaufournier

Benjenk

489/4/99

2412 Tracy Place, N.W.

Washington, D.C. 20008

October 19, 1971

Mr. Harold P. O'Connell, Jr.
Vice President
Continental Illinois National Bank
and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Dear Mr. O'Connell:

I regret that, either because I received no notice or
mislaid a notice, I failed to request renewal of my note
due on October 5. Thank you for sending me the renewal
papers. I have signed them and they are enclosed.

Sincerely,

Robert S. McNamara

CHLON
489 / 4 / 98

October 13, 1971

Mr. William M. Griffith
The Denver Committee for the
United States Ski Team Fund
1700 Broadway, Suite 2308
Denver, Colorado 80202

Dear Mr. Griffith:

Mr. and Mrs. Robert S. McNamara regret that
it will not be possible for them to attend the
Ski Ball on November 20. However, as in the past,
they will be happy to serve as honorary members.

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. Robert S. McNamara

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Revised 10/12/71

All figures subject to check

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Capital Flows and the Role of the World Bank FY74-78

489 / 4 / 97

I. INTRODUCTION

1. One of the main objectives of the first five-year lending program for the Bank Group was a doubling of IBRD/IDA lending in the period FY69-73 compared with FY64-68. When the program was presented at the 1968 Annual Meeting, I indicated that such a doubling of volume appeared amply justified by the needs of the Bank's borrowers, by a prudent assessment of their creditworthiness, and by the prospects that contributions to IDA and proceeds of borrowing operations by the IBRD would be sufficient to finance the envisaged volume of lending.

2. For the period beyond FY73, we have made, until now, the arbitrary assumption that annual IBRD commitments would level off at \$2.1 billion. With only 18 months of the first five-year period remaining, the time has come to begin to formulate plans for the next five-year period, FY74-78, in more realistic terms. The purpose of this paper is to:

a. Outline the broad objectives of a lending program for the five-year period FY74-78 and the rationale underlying it.

b. Explore the consequences of the proposed volume of lending on the Bank's financial structure and borrowing requirements.

3. The study concludes that [check all figures and rephrase to more accurately reflect the argument in Sections II and III]:

a. If GNP in the developing countries is to grow in accordance with the objectives of the Second Development Decade (6% per annum in real terms), not only must their exports expand at a rate in excess of 7% per annum, but public and private aid to them must increase by at least 5% per annum (7% per annum in current prices).

b. An increase of 5% per annum in foreign aid, during a period when the annual growth of GNP in the developed countries is expected to average 4.5%, will require aid as a percent of GNP to rise only modestly, from .74% in 1970 to .87% in 1980. Assuming that Official Development Assistance and other public and private aid flows increase proportionately, ODA which amounted to .38% of GNP in 1970 would total .45% in 1980, substantially less than the .7% called for both by the UN Resolution and by the Pearson Commission, but somewhat more than the commitments made to date by the members of the Development Assistance Committee.

c. With ODA amounting to substantially less than .7% of GNP at the end of the decade, and total aid increasing by approximately 5% per annum, IBRD, subject to the constraints of creditworthiness and capital availability, should program new lending commitments at such a level as to permit disbursements, net of amortization payments, to rise by at least 5% per annum.

d. An increase in Bank disbursements, net of amortization, of 5% per annum would require New Lending Commitments and Gross and Net Borrowing during the period FY74-78 in the amounts shown below (see attached tables for more detail):

IBRD Lending and Borrowing FY74-78^{1/}
(in millions of dollars and current prices)

FY	New Lending Commit.	Gross Dis-burse.	Amort. Receipts ^{2/}	Net Dis-burse.	Gross Borrow.	Net Borrow.
69	1,399	762	298	464	1,224	698
70	1,580	772	329	443	735	299
71	1,921	955	319	636	1,368	819
72	1,800	1,210	383	827	1,259	653
73	2,000	1,404	437	967	1,455	730
74	2,200	1,626	475	1,151	1,739	973
75	2,400	1,851	553	1,298	2,174	1,248
76	2,600	1,998	609	1,389	2,331	1,074
77	2,800	2,208	681	1,527	2,549	1,244
78	3,000	2,381	790 ^{3/}	1,591	2,814	1,415
Ave. 64-68	859	679	169	510	490	200
Ave. 69-73	1,740	1,021	354	667	1,209	639
Ave. 74-78	2,600	2,013	622	1,391	2,321	1,191

e. Detailed projections of the debt servicing capacity of the major Bank borrowers indicate that, in total, they are creditworthy for Bank lending in these amounts.

f. Analyses of the major credit markets show that their growth can be expected to support borrowing by the Bank in excess of the sums listed above, assuming modest increases in "uncalled subscriptions to Bank shares." The borrowing requirements, while large in absolute terms, are small in relation to GNP, national savings, and new bond issues in the capital markets.

^{1/} Excludes loans to IFC.

^{2/} Even if new loan commitments leveled off at \$2,100 after FY74, as was arbitrarily assumed in earlier papers, amortization payments would rise rapidly to \$2,000 in FY90.

^{3/} In addition to "Amortization Receipts," "Interest Receipts" in FY78 would amount to \$1,042.

g. Therefore, the figures for IBRD Lending and Borrowing, as summarized in d above, appear acceptable for use in planning the future scale of Bank operations. They will need to be revised from time to time so as to reflect the accumulating knowledge of developing countries' problems, policies and prospects; the availability of capital to the Bank; and Member Governments' evolving views of the proper objectives of the Bank.

II. THE REQUIREMENT FOR BANK LENDING FY74-78

4. For the Second Development Decade (DD II) there is international agreement that the developing countries should be supported in their efforts to accelerate their average annual rate of growth of gross product to at least 6%. This agreement provides a foundation for estimates of the external capital requirements of the developing countries. The Bank's lending program for FY74-78 will be considered within the framework of these capital requirements.

5. On the supply side, the DD II Strategy endorses the target of 1% of GNP for the economically advanced countries for the total net flow of financial resources from them to developing countries, and proposes a target of 0.7% of GNP for the official development assistance component, though this was not accepted by all developed countries. The Strategy also specifies that: "The volume of resources made available through multilateral institutions for financial and technical assistance will be increased to the fullest extent possible and techniques will be evolved to enable them to fulfill their role in the most effective manner." The Pearson Commission was more specific in recommending that: "Aid-providers should increase grants and capital subscriptions for multilateral development finance to a minimum of 20 percent of the total flow of official development assistance by 1975."

6. The factors influencing the appropriate scale of Bank Group lending operations are complex -- creditworthiness of borrowing countries, the Bank's own ability to borrow, the types of lending permitted by the Articles of Agreement and the policies agreed by the Board, the rate at which the Bank Group can expand its operations without losing efficiency, the division of responsibility between IBRD and the regional development banks; and, for IDA operations, the willingness of Part I Member Countries to provide concessional finance through this particular channel.

7. These considerations set an upper limit to the expansion of Bank lending, though one which is hard to judge precisely and to quantify in advance. There are strong reasons why the Bank should aim to continue to expand its activities as fast as it prudently can. If developing countries cannot borrow from the Bank as much as they could use with benefit to their development, after allowance for payment of service on the loans, the pressure on them is increased to have recourse to other types of borrowing, often on less favorable terms, which threaten debt servicing difficulties endangering the momentum of development.

8. Part A of this section considers how the balance of payments (and hence the requirements for external capital) of thirty countries selected as major potential borrowers from the Bank, might evolve over the decade consistently with

achievement of the DD II Target. It also considers how Bank lending might relate to other capital flows in meeting the requirements. Part B considers the creditworthiness implications of the levels of Bank lending projected in Part A, and leads to Conclusions in Part C.

II-A. CAPITAL REQUIREMENTS AND THE ROLE OF THE BANK

9. As a basis for estimating the requirements for Bank lending in the remainder of the decade, projections have been made of the balance on current account for thirty developing countries and of the means of financing the current account deficits. The projections cover countries accounting, as of June 30, 1971, for over 80% of the total population of Part II Member Countries and 86% of effective Bank loans to such countries. By per capita GNP group, the coverage is:

<u>Per Capita GNP</u>	<u>Countries Covered by Study</u>	<u>% of Total for All Part II Countries in Income Group</u>	
		<u>Population</u>	<u>Bank Loans Outstanding June 1971</u>
Above \$300	Argentina, Chile, Colombia, Iran, Israel, Malaysia, Mexico, Peru, Spain, Turkey, Venezuela, Yugoslavia	84	89
\$101 to \$300	Brazil, Ceylon, Republic of China, Kenya, Korea, Morocco, Philippines, Thailand, Tunisia, Uganda, Zambia	61	72
\$100 or under	Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria, Pakistan, Tanzania	87	94

Major omissions in terms of population are UAR, Sudan, Algeria, Ghana, Burma, Afghanistan and Nepal. The projections do not cover a considerable number of small low-income countries in Africa and elsewhere, many of which are likely to receive IDA credits rather than Bank loans.

10. The projections are similar to those which underly the Bank's recent Study of the External Debt of Developing Countries. They are consistent with the DD II Strategy in the sense that the rates of product growth for the thirty countries average about 6%, as shown in the table below:

Growth of GDP (% per annum) In Countries Covered By The Study

<u>Per Capita GNP, 1968</u>	<u>1960-69</u>	<u>1970-80</u>
Above \$300	6.0%	6.2%
\$101 to \$300	6.1	6.6
\$100 or under	<u>4.0</u>	<u>5.9</u>
All Countries Covered	5.5	6.2

11. The individual country projections take account of both import requirements and debt service requirements. On average for the thirty countries, it is reckoned that, in order to increase their product by 6.2% per annum in real terms, they would need to increase the volume of their exports by 7.1% per annum between 1970 and 1980 (as compared with "somewhat less than 7%" for all developing countries as envisaged in the DD II Strategy and X% for the thirty countries during the 1970's).

12. Following from the projections made for the recent External Debt Study, further work has been done to incorporate explicit assumptions as to future rates of inflation and their effects on the burden of external debt. It is assumed that prices in Part I countries will rise at an average annual rate of 3.5% (GNP deflator) - fractionally faster than in the decade of the 'sixties as a whole, though slower than the rate since 1968. Prices of exports from developed countries are likely to continue to rise at a slower rate, and so import prices for the thirty developing countries are projected as rising at some 2% per annum. Finally, it is estimated that in these circumstances overall export prices of the thirty countries would increase on average at roughly 1.5% per annum, so that there would be some overall deterioration of the terms of trade (during the 1960's prices of both exports and imports rose approximately 2% per annum).

13. Taking into account these price assumptions, the projected annual rate of increase of the value of imports of goods and services of the thirty countries over the 'seventies is estimated at 9.3%. By comparison, the value of exports from the thirty countries is projected as increasing at 9.7% per annum. Although this rate of growth of export earnings is higher than that projected for the value of imports, the projected resource gap for the thirty countries would increase, since the higher rate of growth of exports is calculated from a lower base figure (c.f. Table 1). The projected resource gaps for the various countries, which grow at average rates of X% in real terms and X% in current prices, are by no means uniform: they show strong increase of the resource gaps in relation to their GNP for nine of the thirty countries, notably for several of the African countries, a strong decrease for another nine, and little change for the remaining twelve.

14. The projections taken together tend to confirm the view embodied in the agreed Strategy for DD II - that the developing countries should be able to increase their product growth rates over those achieved in the past decade, but that this will depend not only on suitable policies in the countries themselves but also on an increasing net transfer of external resources, the counterpart to the projected increase of the resource gap.

15. The future role of the Bank in meeting the requirement for the resource transfer has to be considered in relation to the prospects for transfers of funds from other sources. The basic question is how much of the real income of the developed countries will they be prepared to make available in assistance to the developing countries, and how much of this assistance should be channelled through the Bank.

16. In considering the prospects for the flow of external resources, it has been assumed that GNP of Part I countries will increase over the decade at almost 4.5% per annum in real terms, 8% per annum at current prices, allowing for the assumed rate of price increase. On these assumptions, GNP of Part I countries would increase from some \$2,000 billion in 1970 to \$4,000 billion (at current prices) in 1980. The increase in real-terms would be about 50%, or \$1,000 billion at 1970 prices.^{1/}

17. To arrive at the implications of the resource gap as projected for external borrowing, it has been necessary to take account of the prospective evolution of other capital account items which differ greatly from country to country. The projections assume that emigrants' remittances -- important in several countries -- and other private transfers will increase roughly in line with other economic magnitudes. They also assume continuation of net private direct investment (including reinvestment of profits) in several of the countries, with corresponding increase of profits accruing to foreigners. Allowance is also made for some increase in the countries' reserves.

18. The implication of the projections for the prospective growth of debt service liabilities depends crucially on the assumed balance between assistance on concessional terms and borrowing on commercial or near-commercial terms. Assistance on concessional terms is divided between three items in Table 1: "Official grants and grant-like flows," "IDA," and part of the item, "Other medium- and long-term loans." The assumption for the thirty countries is that these concessional flows grow in total at an annual rate of 5.9% between 1972 and 1980, net of amortization, compared to X% in the 1960's. Although the thirty countries exclude many of the developing countries which have hitherto received relatively large amounts of official development assistance per head of population,^{2/} the assumptions on the growth of official flows may be conservative when compared with the expectation of an 8% rate of growth of GNP in Part I countries at current prices. If Official Development Assistance, bilateral and through multilateral channels, were to rise to 0.7% of GNP of the developed countries, as proposed in the DD II Strategy, and in the Pearson Report, the thirty countries would receive about \$18 billion, net of amortization, in 1980, as compared with a roughly comparable total of \$7.7 billion built into the projections. If ODA does in fact increase so fast, this would enable some of the countries to raise their development targets.

^{1/} Even though GNP per capita per annum, in real terms, is projected to increase during the decade of the '70's at 6% in the LDC's vs. 4.5% in the developed countries, the income gap will increase:

	GNP Per Capita	
	'68	'80
LDC	\$ 175	\$ 245
DC	1,964	3,280

^{2/} With 80% of the total population of all developing countries, the thirty countries received under 60% of net official bilateral flows from DAC member countries in 1967-1969.

Table 1: SUMMARY BALANCE OF PAYMENTS FOR THE THIRTY COUNTRIES COMBINED

	Millions of Dollars at Current Prices				Annual Rate of Increase (%)		
	Actual 1968	Projected 1972	Projected 1976	Projected 1980	1968-1972	1972-1976	1976-1980
Exports of goods and non-factor services	32,755	50,877	73,853	106,945	11.6	9.8	9.7
Imports of goods and non-factor services	36,822	56,744	81,512	115,389	11.4	9.5	9.1
Resource balance	-4,067	-5,867	-7,659	-8,444	9.6	6.9	2.5
Interest payments (net)	-1,653	-2,169	-3,662	-5,799	7.0	14.0	12.2
Profits on direct investment (net)	-2,344	-3,141	-4,435	-6,110	7.6	9.0	8.3
Private transfers and workers remittances	+1,562	+2,715	+3,830	+5,237	14.8	9.0	8.1
Balance on current account	-6,502	-8,462	-11,926	-15,116	6.8	9.0	6.1
Foreign direct investment (net)	+1,548	+2,102	+2,714	+3,680	7.9	6.6	7.9
Official grants and grant-like flows	+ 529	+ 391	+ 186	+ 186	-6.0	-11.1	0.0
Medium and long-term loans							
World Bank							
Gross disbursements	+ 524	+1,164	+1,738	+2,284	22.0	10.5	7.1
Amortization	- 127	- 304	- 500	- 822	12.9	13.2	13.2
(Net lending)	+ 397	+ 860	+1,238	+1,462	26.6	9.5	4.2
IDA							
Gross disbursements	+ 260	+ 323	+ 665	+1,136	5.6	19.8	14.3
Amortization	-	- 3	- 14	- 27	17.8
(Net lending)	+ 260	+ 320	+ 651	+1,109	5.4	19.4	14.3
Other medium and long-term loans							
Gross disbursements	+6,972	+9,299	+13,983	+19,576	7.5	10.7	8.8
Amortization	-2,613	-3,822	-6,126	-10,184	10.0	12.5	13.6
(Net lending)	+4,359	+5,477	+7,857	+9,392	5.9	9.4	4.6
Reserve change and capital (n.e.i.)	- 531	- 687	- 720	- 713	6.7	1.2	-0.2
(- indicates increase in net assets)							
Memorandum Items							
Medium and long-term debt at end-year	31,050	55,864	89,657	134,024	15.8	12.6	10.6
Debt service on medium and long-term debt							
Amortization	2,800	4,129	6,640	11,033	10.2	12.6	13.5
Interest	n.a.	1,999	3,642	5,890	n.a.	16.2	12.8
Total	n.a.	6,128	10,282	16,923	n.a.	13.8	13.3
Detail on "Other M< loans"							
Other official and multilateral							
Gross disbursements	n.a.	+6,017	+8,435	+11,293	n.a.	8.8	7.6
Amortization	n.a.	-1,854	-2,935	-4,869	n.a.	12.2	13.5
(Net lending)	n.a.	+4,163	+5,500	+6,424	n.a.	7.2	4.0
Private loans							
Gross disbursements	n.a.	+3,282	+5,518	+8,283	n.a.	14.0	10.6
Amortization	n.a.	-1,963	-3,191	-5,315	n.a.	12.8	13.6
(Net lending)	n.a.	+1,319	+2,327	+2,968	n.a.	15.7	5.9
Total Other M< loans		+4,359	+5,477				

Note: 1968 figures based upon IEF Balance of Payments Yearbook data adjusted for underreporting of reinvested profits and classification differences with respect to official and private transfers. Data on "interest payments (net)" for 1968 include some other forms of investment income where detail not available in country tables.

Debt Service Ratios
No. of countries with Debt Service Over 10%

X	172	Y	15.82
X	5	Y	9

Financial data from table can be used on other countries using same methods

19. For the purposes of the projections, IDA net disbursements to the thirty countries have been assumed to increase at some 17% per annum (current prices), reflecting in part increased disbursements arising from commitments already made. On this basis, IDA disbursements would increase from under 7% of total net official flows to the thirty countries in 1972 to 14% in 1980. The underlying assumption is that a somewhat greater part of total ODA will be provided through multilateral channels, including IDA (X% in the 1970's vs. X% in the 1960's). For this exercise, it has been assumed that IDA credits will continue to be limited to countries with annual per capita income of not more than \$300. The assumptions on IDA availability affect the projections for fourteen out of the thirty countries.

20. The assumed level of assistance on concessional terms leaves a balance to be filled by other medium- and long-term borrowing -- essentially export credits and Bank loans -- of \$2.2 billion net of amortization in 1972, rising to \$4.4 billion in 1980, a rate of increase of 9% per annum (current prices).

21. The very rapid growth of disbursements arising out of commitments now in the pipeline (which will raise the Bank's share of net disbursements of grants and medium- and long-term loans from X% prior to 1968 to 12% in 1972) is not assumed to continue. Projected Bank disbursements to the thirty countries rise from \$524 million gross (\$337 million net) in 1968 to \$1,164 million gross (\$860 million net) in 1972 and to \$2,284 million gross (\$1,462 million net) in 1980. The share of the Bank in total grants and medium- and long-term loans, net, to the thirty countries would remain at about 12% between 1972 and the end of the decade. The projected rate of increase of Bank lending to the thirty countries, net of amortization, amounts to 4.2% per annum, 1972 to 1980 at constant prices.^{1/} This is fractionally less than the assumed rate of growth of real product of the developed countries, which are the main source of the resources transferred by the Bank, and fractionally less than the rate of growth of the resource gap of the thirty developing countries.

22. This would leave \$1.3 billion net in 1972 to be provided by export credits and other private medium- and long-term loans, rising to \$3 billion in 1980. Assumed rates of increase (net) are some 16% per annum in 1972 to 1976, falling to 5.9% in 1976-1980. By comparison, net medium- and long-term export credits to all developing countries increased by 16.5% per annum between the averages of 1960-62 and 1968-70.

23. The question on export credits is whether the expansion might not slow down rather more than has been projected for the period up to 1976. With the increases of bilateral ODA, IDA credits and Bank lending foreshadowed in the projections, developing countries should be prepared to limit their use of high-interest and short-term credit. The recent rapid increase of export

^{1/} Price increase for goods and services financed by the Bank is assumed to be 2.5% per annum, compared with 2% for all goods imported by developing countries because-----.

credits has led to a situation in which progressively higher proportions of certain categories of imports of the developing countries have been covered by export credits: gross export credits cannot continue indefinitely to grow more rapidly than the trade which they finance. Moreover, the developed countries may well begin to take an increasingly critical look at the value to them of ever-growing amounts of export-credit, particularly as the debt burdens of the developing countries continue to increase. The Bank has already indicated in the Debt Study that, within the limits of its established lending standards, it will give special consideration to countries which are willing to improve their creditworthiness by restraining their dependence on short- and medium-term borrowing for long-term investment purposes. Since IBRD loans will thus, at least in part, substitute for loans on more onerous terms, the projected increase of Bank lending to the thirty countries may appear somewhat cautious, rather than the reverse.

24. Assuming that some 20% of Bank lending will go to countries other than the thirty examined in detail for this paper, the future development of total Bank lending, consistent with the projections set out in Table 1, would be as shown below:

EXPANSION OF BANK LENDING TO DEVELOPING COUNTRIES BASED ON TABLE 1
(in millions of dollars)

<u>Fiscal Year</u>	<u>Commitments</u>	<u>Disbursements</u>	<u>Net Lending</u>	<u>Net Transfer</u>
1971	1,921	915	596	263
1975 (projected)	2,400	1,761	1,278	671
1980 (projected)	3,400	2,653	1,715	527

Even with the fairly rapid increase of commitments as shown, the net transfer from the Bank would begin to decline, in real terms, before the end of the decade, after reaching a peak in FY 1977. However, the net transfer figures are not a proper measure of the Bank's contribution to development. If countries are making good use of loans, they receive net benefit from them even though they have to pay interest, so that an increase in the amount of loans outstanding, through continued net lending, should indicate an increase in the benefits received by the borrowing countries.

II-B. CREDITWORTHINESS IMPLICATIONS

25. The question has to be considered whether Bank lending on such a scale would be justified when account is taken of the debt servicing capacity of the borrowers.

26. The study on the External Debt of Developing Countries classified developing countries into groups according to their debt servicing capacity.

A1. Countries which have accumulated such large amounts of debt in the past, and whose development is likely to be such a prolonged

process, that they are likely to encounter serious and protracted debt servicing difficulties unless large amounts of external assistance are made available to them. The Debt Study named India, Pakistan, Ceylon and Ghana as being countries of this kind.

- A2. Countries which, while their existing debt burdens are relatively light, are poor and face difficult development tasks, so that continuation and acceleration of their development is likely to remain highly dependent on sizeable net inflows of external resources -- many countries of tropical Africa, for example.
- B. Countries which have undertaken a significant amount of short-term borrowing, at high cost, in the past and therefore are vulnerable to temporary debt servicing difficulties resulting from unexpected fluctuations in foreign exchange availabilities. The Debt Study named, as members of this group, Iran, the Ivory Coast, Korea, the Philippines, Tunisia, Turkey and Yugoslavia, together with several Latin American countries.
- C. Countries which, as in the past, should be able to avoid significant debt servicing difficulties. The Debt Study instances the Republic of China, Malaysia and Mexico.

The Bank should not lend, or lend only modest amounts, to the first two groups; the major borrowers from the Bank would be countries in groups B and C.

27. The present analysis of possible risks is similar to that described in the External Debt Study. As in the previous study, the analysis is based on projections designed to represent the structural characteristics of the various economies and reasonable expectations about the nature and effects of domestic policies. The projections used are essentially similar to those which underlie the External Debt Study. More explicit attention has, however, been paid to the effects of assumptions as to price inflation and changes in the terms of trade of the developing countries.

28. In analyzing possible risks to the Bank of lending on the scale envisaged, it has been necessary to start from an assumption on the distribution of Bank loans among countries. The assumed distribution, while reflecting the present views of needs and possibilities in the various countries, is, of course, highly tentative and is bound to change with the passage of time.

29. If the thirty countries were to borrow on the pattern envisaged, then, on plausible assumptions as to the terms of the various categories of borrowing and with the projected increases of export earnings, their collective debt service ratio would rise from 12% in 1972 to 15.8% in 1980. In the base period, five of the thirty countries show debt service ratios in excess of 20%. These would be joined by four more by 1980. The projections indicate significant declines of the debt service ratios for three countries.

30. However, both the evidence of past experience and theoretical reasoning show that the debt service ratio, by itself, is not an adequate indicator of the degree of risk of serious debt servicing difficulties. The analysis has taken account of a number of indicators of both the long-term relationship between development and debt and the liquidity problems which may arise from time to time in the process of development.

31. This further examination has tended to confirm the conclusions of the External Debt Study. For no country do the projections make acute debt servicing difficulties appear inescapable, given suitable policies on the part of the debtor countries themselves and providers of external capital. However, it is impossible to form a categorical judgment that a particular country will or will not get into serious debt servicing difficulties at some time in the future. A country with apparently favorable prospects may nevertheless follow policies at some stage which lead to depletion of reserves and accumulation of massive short-term debts. On the other hand, a country for which the projections suggest the possibility of future difficulties may adopt policies which enable it to meet its debt servicing obligations.

32. For some countries the projections suggest relatively slow growth of export earnings available to pay for needed imports and/or of national savings available for the finance of investment after allowance for interest and profits payable to foreigners. However, these are mostly countries with per capita income of less than \$300 and which are assumed to continue to receive IDA credits throughout the projection period with little or no financing from the Bank.

33. In some countries, debt servicing difficulties have arisen or might arise in the future not so much from a large debt in relation to the size of the country and stage of development of the economy, or even from sluggish economic growth, but from short-term liquidity difficulties due in part to high amortization liabilities on external debt incurred on short maturities. For some countries, amortization liabilities arising from relatively short-term debt are so great that they have to borrow large amounts, gross, in order to obtain a relatively limited net transfer. Such countries are vulnerable to sudden and unexpected shortfalls in foreign exchange availability or to sudden increases in imports. This may be considered a liquidity problem, rather than a more deep-seated problem of over-indebtedness, in the sense that such a country can avoid serious difficulties provided that there is flexibility in the amounts which it can borrow at a commercial rate of interest: it is well able to meet its external debt service liabilities over time, provided that there are adequate facilities for rolling over amortization of the shorter-term debts by new borrowing.

34. In practice, countries in this situation can encounter difficulties due to the fact that possibilities of borrowing free foreign exchange are limited: available medium- and long-term external loans largely take the form of project loans, commonly limited to the direct, external costs of specific, approved projects and of export credits available for certain types of goods only.

This makes for difficulty in matching up the amount of external borrowing needed to avoid acute, temporary balance of payments difficulties and the required composition of imports. If present lending practices remain unchanged, this kind of difficulty will become more acute for some countries: with increasing industrialization and growth in domestic production of capital goods in some developing countries, the foreign exchange component of their investment programs is likely to decline and an increasing part of their import requirements will take the form of raw and semi-processed materials and fuels. As a crude indication of the prospective growth of this type of problem, for twelve of the thirty countries, projected medium- and long-term loan disbursements (gross) exceed 25% of projected imports in 1980, whereas this percentage is exceeded by only five countries in the base period. Avoidance of debt servicing difficulties in some countries and at some times will depend on the flexibility with which external lenders are prepared to provide loans which match the required composition of imports of the borrowing countries.

35. Increasing availability of external capital, on suitable terms and conditions, is not a sufficient condition for the acceleration of economic and social development in the developing countries, but it is a necessary condition. The less the availability of long-term loans, the greater will be the pressure on developing countries to have recourse to short-term loans, the greater will be the pressure on developing countries to have recourse to short-term commercial credit, with consequent risks of severe balance of payments problems.

36. Continued increase of Bank loans, together with continued increase of IDA credits and other assistance on concessional terms as the GNP of the developed countries continues to rise, should tend to reduce the risks of acute debt servicing difficulties. However, increased availability of long-term loans will not in itself guarantee that developing countries will not try to increase their total borrowing still further by recourse to hard, short-term credit. Continued expansion of Bank lending should depend on cooperation with the borrowing countries, whereby they on their side refrain from taking on excessive amounts of debt on inappropriate terms.

37. In analyzing the financial risks to the Bank which might be associated with continuing expansion of lending, two additional factors have been taken into account. These are illustrated in Table 2.

38. Horizontally, Table 2 classifies the countries according to the percentage of their projected 1980 debt service which is payable to the Bank. The figures depend, of course, on the assumptions which had to be made as to the distribution between countries of Bank loans and loans from other sources.

39. The figures in the boxes in Table 2 show the percentage share of these countries in total projected debt owed to the Bank by the thirty countries in 1980.^{1/}

^{1/} Allowing for Bank loans outstanding in 1980 to countries not covered by this Study, the figures in the table somewhat exaggerate the shares of the various groups in total debt to the Bank. On the other hand, countries accounting for the remaining debt to the Bank in 1980 may be somewhat similarly distributed between the various categories.

The table distinguishes between countries which have received IDA credits in recent years and those which have not (although the possibility is not excluded that some countries in the latter category might receive IDA credits in the future). To many countries, including many of the countries which have not been explicitly covered in this study, Bank Group lending will be largely or wholly in the form of IDA credits (provided that sufficient funds are available). The amount of Bank loans to these countries, over and above IDA credits, will be graduated according to judgments of the ability of these countries to derive benefit from loans at the Bank rate of interest and to service such loans without undue strain. A large part of Bank lending has gone and is expected to continue to go, on the other hand, to middle-income countries which have not been considered eligible to receive IDA credits. On the assumptions underlying the projections, three-quarters of debt owed to the Bank in 1980 by the thirty countries would be owed by countries which have not received IDA credits in recent years, only a quarter by countries which have received IDA credits in recent years.

40. Taking the countries which have not received IDA credits in recent years, the projections suggested the distinct possibility of future debt servicing difficulties in three of these countries. However, that does not mean that these three countries will in fact run into serious debt servicing difficulties. Their balance of payments may develop more favorably than the projections assume, they may see the need to cut back their development targets if necessary in the face of balance of payments problems or they may receive more assistance on concessional terms than has been assumed.

41. Given the continued rapid increases in external debt of developing countries which must be expected, it is clear that other countries, too, might run into acute debt servicing difficulties. However, there is nothing in the analysis which leads to the conclusion that widespread, acute debt servicing difficulties are inevitable. Much will depend on the policies followed by the developing countries themselves. Much will also depend on the volume, terms and conditions of external capital available to them.

42. Sums already lent by the Bank are, of course, at risk if the original creditworthiness judgment justifying the loans should be falsified by events. However, in considering the amounts of future lending, the Bank can and will take account of any changes in its assessment of the risk of serious debt servicing difficulties in particular countries, in the light of changing circumstances or appreciations. Moreover, debt servicing difficulties develop over time, thus giving opportunities for cooperative action by debtors and creditors to take remedial action before they become acute.

II-C. CONCLUSIONS

43. The Bank's analysis of the problems and prospects of the various developing countries confirms that achievement of the DD II development targets will depend not only on the efforts and policies of the developing countries themselves but on an increased flow of external capital on suitable

[do not retyping]

Table 3: SHARE OF COUNTRIES IN PROJECTED DEBT OWED TO THE BANK IN 1980

	Percentage of Each Country's Debt Service, 1980, owed to the Bank					All countries in category
	Over 20%	15-19.9%	10-14.9%	5-9.9%	Under 5%	
COUNTRIES WHICH HAVE RECEIVED IBA CREDITS IN RECENT YEARS	Nigeria Morocco Kenya Uganda Ethiopia	Turkey Tanzania	Tunisia	Pakistan	Korea India Ceylon Congo Indonesia	
Percentage share in total projected debt owed to the Bank by the thirty countries in 1980	9.9	5.5	0.9	1.4	6.7	24.4
<hr/>						
COUNTRIES WHICH HAVE NOT RECEIVED IBA CREDITS IN RECENT YEARS	Colombia Malaysia Venezuela	Mexico Argentina Spain Thailand ^{a/} Zambia ^{a/}	Brazil ^{a/} Iran Yugoslavia China ^{b/a)}	Peru Philippines ^{a/}	Chile Israel	
Percentage share in total projected debt owed to the Bank by the thirty countries in 1980	13.2	25.0	30.3	4.4	2.7	75.6

a/ Country with per capita income of less than \$300 in 1968 (World Bank Atlas, 1970), but which has not received IBA credits *[do not retyping]*.

b/ Country with per capita income of less than \$300 in 1968 (World Bank Atlas, 1970) but which has not received IBA credits since 1961.

terms and conditions, made possible by the continued increase which may be expected in the GNP of the developed countries.

44. Bank loans involve careful consideration of the developmental value, and appropriate design, of the projects and operations financed, and have the advantage to the borrower of being repayable over a longer period than is generally available in the case of commercial credit. The increased availability of Bank loans should help developing countries, which wish to make use of this opportunity, to avoid liquidity problems which may arise if too much of their borrowing is on short repayment terms.

45. Of the various factors affecting the appropriate scale of the Bank's operations, the present paper concentrates on the question of whether further substantial increase of the Bank's lending in the 'seventies would be likely to lead to serious creditworthiness problems which would in turn adversely affect the Bank's own ability to borrow.

46. On the assumption that capital flows to developing countries, including loans on concessional terms, will continue to increase with continued growth of the GNP of the developed countries, there is nothing in the present analysis which leads to the conclusion that widespread, acute debt servicing difficulties are inevitable. The Study on the External Debt of Developing Countries suggested that: "To avoid debt servicing problems is clearly in the interest of both debtor and creditor countries." It emphasized the need for the developing countries to make efficient use of available resources, to pursue policies designed to increase savings and to adopt appropriate foreign trade and exchange rate policies. It put equal emphasis on the trade and aid policies of the developed countries and the part which might be played by international institutions, including the World Bank.

47. Avoidance of debt servicing difficulties in some countries and at some times will depend on the flexibility with which external lenders are prepared to provide assistance suited to the needs of the case in its amounts, terms and conditions. Some countries may have difficulty in borrowing enough so long as loans are tied to the provision of the direct import content of specific projects and certain limited categories of goods covered by medium- and long-term export credit. There will be a need for the Bank and others to keep under review their policies on financing local costs and providing program loans.

48. The greater the availability of external loans on suitable terms and conditions, the less will be the pressure on developing countries to have excessive recourse to short-term commercial credit, with consequent risks of severe balance of payments difficulties, and the greater the incentive to avoid actions which might jeopardize their share in the future flow of external loans on favorable terms.

49. The analysis in this paper suggests that the Bank could best contribute to the promotion of accelerated development and the avoidance of

severe debt servicing difficulties by being prepared to continue to increase its own lending. However, the success of this policy depends on suitable policies both by the borrowers and by other lenders. It will be necessary to remain on the alert in order to be able to take action in good time, in cooperation with the countries concerned, to head off any impending debt servicing difficulties which could, in their turn, adversely affect the Bank's own financial situation and ability to borrow. Specifically, continued expansion of Bank lending should depend on cooperation with the borrowing countries, whereby they on their side refrain from taking on excessive amounts of debt on inappropriate terms.

50. The next Section will analyze the Bank's ability to finance a commitment level of around \$2.4 billion in FY 1975, rising progressively to \$3.4 billion by 1980.

3.1

78

v.v

4

[on Board copy limit to FY '78 w add Column 64-68, 69-73, 74-78]

Table with columns for years 1968-1996 and rows for IBRD BALANCE SHEET AND INCOME STATEMENT, IBRD SOURCES AND APPLICATION, IDA BALANCE SHEET AND INCOME STATEMENT, and MEMORANDUM ITEMS.

Notes

- a/ Projections assume
- Level of commitments to countries as shown in Memorandum Items
- After FY72, transfers to IDA out of IBRD Net Income of \$100 million p.a., disbursed last.
- Over the period FY72-80 total of cash, securities and delayed deliveries is at the "desired" level...
b/ Amounts receivable from loans include undischursed portions.
c/ IBRD Funded Debt includes delayed deliveries.
d/ Transfers to IDA out of IBRD Net Income have been charged to IBRD Retained Earnings...
e/ Loans guaranteed by Part I countries, and from IBRD to IFC are included in the Part I category.
f/ Sales out of Part II loan portfolio are assumed to be \$10 million p.a.
g/ IBRD commitments shown here are to countries, i.e., excluding loan to IFC of \$100 million in FY1970 and \$570 million over the period FY72-80.
h/ Net transfer indicates disbursements net of repayments and interest or service charges paid to both the Bank and third parties.

Revised P & B 9/13/71

id. IDA Commitment levels have been set at levels consistent with a slow but continuing shift from L-Interest to multi-lateral aid

*For Board copy
omit 72-80
and 82 + 83*

CONFIDENTIAL

IBRD: LIQUIDITY AND BORROWING REQUIREMENTS FY1972-80 ^{a/}
(\$ millions)

EXPANDED LENDING PROGRAM

	FY	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1972-80	1981	1982	1983
Total Application			1297	1486	1699	1917	2050	2238	2415	2566	2821	18489			
Plus: Gross Borrowing			1259	1455	1739	2174	2331	2549	2814	3153	3275	20749	3525	3476	3449
Less: Total Sources			<u>1330</u>	<u>1496</u>	<u>1792</u>	<u>2114</u>	<u>2034</u>	<u>2302</u>	<u>2604</u>	<u>2741</u>	<u>3045</u>	<u>19458</u>			
Cash Requirement			1226	1445	1646	1977	2347	2485	2625	2978	3051	19780	3525	3476	3449
Disbursement Contingency			48	141	215	250	262	278	272	216	152	1834	142	137	135
Government Borrowing Contingency			<u>56</u>	<u>66</u>	<u>84</u>	<u>114</u>	<u>110</u>	<u>114</u>	<u>121</u>	<u>148</u>	<u>152</u>	<u>965</u>	<u>135</u>	<u>139</u>	<u>141</u>
Adjusted Cash Requirement			1330	1652	1945	2341	2719	2877	3018	3342	3355	22579	3802	3752	3725
Less: Government Borrowing			<u>563</u>	<u>662</u>	<u>838</u>	<u>1138</u>	<u>1103</u>	<u>1141</u>	<u>1207</u>	<u>1477</u>	<u>1516</u>	<u>9645</u>	<u>1353</u>	<u>1391</u>	<u>1473</u>
Gross Market Borrowing Requirement			767	990	1107	1203	1616	1736	1811	1865	1839	12934	2449	2361	2252
"Calculated" Cash & Securities End Year ^{b/}	2566	1605	1963	2278	2582	2706	2758	3077	3325	3535	3535	3535	3600	3600	3600
Change In Holdings of Cash & Securities			-961	358	315	304	124	52	319	248	210	969	69		
Gross Market Borrowing Requirement			<u>767</u>	<u>990</u>	<u>1107</u>	<u>1203</u>	<u>1616</u>	<u>1736</u>	<u>1811</u>	<u>1865</u>	<u>1839</u>	<u>12934</u>			
Adjusted Gross Market Borrowing Requirement			-194	1348	1422	1507	1740	1788	2130	2113	2049	13903			
Gross Market Borrowing Rephased			800	1000	1200	1400	1600	1800	2000	2040	2063	13903			
"Desired" Cash & Securities End Year	2566	2599	2609	2702	2899	2883	2947	3136	3311	3535					
"Advanced Borrowing" ^{c/}			994	646	424	317	177	189	59	-14					
Gross Market Borrowing Rephased			800	1000	1200	1400	1600	1800	2000	2040	2063	13903			
Plus: Government Borrowing			<u>563</u>	<u>662</u>	<u>838</u>	<u>1138</u>	<u>1103</u>	<u>1141</u>	<u>1207</u>	<u>1477</u>	<u>1516</u>	<u>9645</u>			
Total Gross Borrowing			1363	1662	2038	2538	2703	2941	3207	3517	3579	23548			
Less: Government Borrowing Contingency			<u>56</u>	<u>66</u>	<u>84</u>	<u>114</u>	<u>110</u>	<u>114</u>	<u>121</u>	<u>148</u>	<u>152</u>	<u>965</u>			
Borrowing Objective ^{d/}			1307	1596	1954	2424	2593	2827	3086	3369	3427	22583			
Less: Disbursement Contingency			<u>48</u>	<u>141</u>	<u>215</u>	<u>250</u>	<u>262</u>	<u>278</u>	<u>272</u>	<u>216</u>	<u>152</u>	<u>1834</u>			
Projected Borrowing ^{d/}			<u>1259</u>	<u>1455</u>	<u>1739</u>	<u>2174</u>	<u>2331</u>	<u>2549</u>	<u>2814</u>	<u>3153</u>	<u>3275</u>	<u>20749</u>			

^{a/} Based on and consistent with cash flow projections as shown in "IBRD: Sources and Application of Funds through FY1980" dated 9/13/71.

^{b/} "Calculated" Cash and Securities End Year is derived by taking 50% of Gross Market Borrowing Requirement over the following three years.

^{c/} "Advance Borrowing" is the difference between "Desired" and "Calculated" Cash and Securities.

^{d/} "Projected Borrowing" is identical to "Gross Borrowing" in cash flow projections shown in "IBRD: Sources and Application of Funds through FY1980" dated 9/13/71. "Borrowing Objective" is equal to "Projected Borrowing" plus "Disbursement Contingency", and shows the maximum amount of borrowing necessary if year after year, and starting in FY72 disbursements of new commitments speed up due to both an acceleration of disbursements of project loans and the commitment of program loans.

489 / 4 / 95

October 8, 1971

Mr. Howard R. Dressner
Secretary
The Ford Foundation
320 East 43rd Street
New York, New York 10017

Dear Mr. Dressner:

Following are the expenses of Mr. and Mrs. McNamara
incident to the recent Ford Foundation meetings:

Round trip air fare	---	\$105.49
River Club bill	---	146.65
Meals	--	20.25
Taxi fares	---	19.50
		<hr/>
Total		\$291.89

With thanks, and best regards,

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. McNamara

489/4/94

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

1075

To Professor Mace

Many thanks Myles
for a copy of your new
book and particularly
for the inscription.

Many joins me in
best wishes to you +
Bunny. We hope you
will allow time for a
visit with us when
you are next in Washington.
Bob

489/4/93

October 5, 1971

Dear Mr. Krishnan:

I was delighted to receive from you a copy of the book, "Chavan and the Troubled Decade." Thank you for your thoughtfulness in sending it to me.

With best regards,

Sincerely,

Robert S. McNamara

Mr. T. V. Kunhi Krishnan
Somaiya Publications Private, Ltd.
F 6 Bank of Baroda Building
Parliament Street
New Delhi-1, India

489/4/92

October 5, 1971

Dear Mr. Holme:

Mr. McNamara has agreed to see you in mid-October, and an appointment has been set up for you at 12:00 noon on Monday, October 18.

If this time is inconvenient or if there is some other time when you are in Washington on other business, please let us know and we will reschedule.

In any event, we would appreciate your confirming to 202-477-2001.

Sincerely,

(Miss) Margaret S. Stroud
Secretary to Mr. McNamara

Mr. Howard K. Holme
66 Irving Street
New Haven, Conn. 06511

489/4/91

1. Funds provided IDA by the Second Replenishment were fully committed, as planned, by June 30, 1971. Because the Third Replenishment had not been ratified by the U.S. Congress by that date, as of July 1, 1971 IDA was without further commitment authority. The IDA lending program, planned at \$930 million for FY '71, would have come to a complete halt had not steps been taken to obtain emergency relief.

2. In April, 1971, anticipating that the situation would develop as it did, McNamara obtained Secretary Connally's approval of the following statement which McNamara transmitted to the Bank's Executive Directors:

"At the present time there appears to be virtually no chance that the necessary IDA legislation will have been passed by the U.S. Congress by June 30th. I have, however, discussed the matter with the Secretary of the United States Treasury who has assured me:

(a) that President Nixon continues to attach the greatest importance to the replenishment of IDA at the agreed level and will use his influence to the full to secure the passage of the legislation -- the Administration expects passage not later than December 31st, 1971;

(b) that, in the meantime, the U.S. Administration would strongly welcome any steps which other Part I countries are able to take to ensure that IDA is not left without further commitment authority by July 1st next."

3. The Governments of Australia, Canada, Denmark, Finland, the Federal Republic of Germany, Japan, Kuwait, the Netherlands, Norway, Sweden, the United Kingdom, and Yugoslavia have already acceded, or stated their intention to accede, to McNamara's request that they make advance contributions of a portion of their Third Replenishment pledges. As a result of these actions and the acceleration of the transfer of \$110 million of Bank profits to IDA, it is expected that IDA will have sufficient funds to continue operations through December 31 of this year.

4. If by December 31, 1971 the Congress has not ratified the Third Replenishment agreement, IDA's operations will stop. The development programs of such major countries as Indonesia and India, to which IDA is such a major contributor, will be severely penalized and there will be a serious danger that the Third Replenishment agreement, in the negotiation of which the U.S. was such an interested party, will be torn apart. If that were to occur, the U.S. would have lost one of the major means by which it shares the burden of development aid with other nations (60% of the resources of IDA are contributed by countries other than the U.S.). Furthermore, the President has repeatedly emphasized that a shift toward support of multilateral aid, with greater participation by other nations, is a major element of his new foreign policy -- the termination of IDA operations would be a severe blow to achievement of that objective.

October 5, 1971

489/4/90

2412 Tracy Place, N.W.

Washington, D.C. 20008

October 4, 1971

Michigan Department of Treasury
Corporation Division
P.O. Drawer C
Lansing, Michigan 48904

Gentlemen:

Enclosed is a copy of a report filed with you last week. Mr. McNamara now recalls that he failed to enclose the filing fee check. Therefore, he is refiling the report, along with the check.

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. McNamara

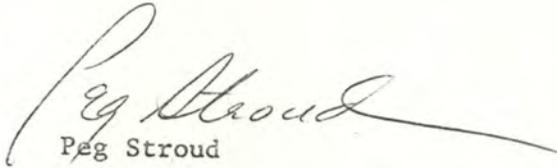
Enclosures

489/4/89

September 28, 1971

Marko:

Mr. McNamara has asked that this magazine
be ordered for our office, please.


Peg Stroud

POLITICS today

WASHINGTON, D.C.

PLEASE ENTER MY SUBSCRIPTION TO POLITICS TODAY FOR 1 YEAR.

- CHECK ENCLOSED - \$30 PURCHASE ORDER ENCLOSED - \$36
 BILL ME - \$36 BILL MY ORGANIZATION - \$36

NAME _____

POSITION _____

ORGANIZATION _____

ADDRESS _____ street

city _____ state _____ zip _____

I would like to read about:

TODAY PUBLICATIONS & NEWS SERVICE

THE CRISIS IN IDA

489/4/88

1. Funds provided IDA by the Second Replenishment were fully committed, as planned, by June 30, 1971. Because the Third Replenishment had not been ratified by the U.S. Congress by that date, as of July 1, 1971 IDA was without further commitment authority. The IDA lending program, planned at \$930 million for FY '71, would have come to a complete halt had not steps been taken to obtain emergency relief.

2. In April, 1971, anticipating that the situation would develop as it did, McNamara obtained Secretary Connally's approval of the following statement which McNamara transmitted to the Bank's Executive Directors:

"At the present time there appears to be virtually no chance that the necessary IDA legislation will have been passed by the U.S. Congress by June 30th. I have, however, discussed the matter with the Secretary of the United States Treasury who has assured me:

(a) that President Nixon continues to attach the greatest importance to the replenishment of IDA at the agreed level and will use his influence to the full to secure the passage of the legislation -- the Administration expects passage not later than December 31st, 1971;

(b) that, in the meantime, the U.S. Administration would strongly welcome any steps which other Part I countries are able to take to ensure that IDA is not left without further commitment authority by July 1st next."

3. The Governments of Canada, Denmark, Finland, Japan, Kuwait and the United Kingdom have already acceded to McNamara's request that they make advance contributions of a portion of their Third Replenishment pledges. The Governments of Germany, Norway, The Netherlands and Sweden are expected to act favorably on his request within the next sixty days. As a result of these actions and the acceleration of the transfer of \$110 million of Bank profits to IDA, it is expected that IDA will have sufficient funds to continue operations through December 31 of this year.

4. If by December 31, 1971 the Congress has not ratified the Third Replenishment agreement, IDA's operations will stop. The development programs of such major countries as Indonesia and India, to which IDA is such a major contributor, will be severely penalized and there will be a serious danger that the Third Replenishment agreement, in the negotiation of which the U.S. was such an interested party, will be torn apart. The President has repeatedly emphasized that a shift toward support of multilateral aid, with greater participation by other nations, is a major element of his new foreign policy -- the termination of IDA operations would be a severe blow to achievement of that objective.

5. Therefore, McNamara asks that Secretary Connally:

a. In his remarks next week to the Governors of the Bank and Fund, repeat the President's support of the Third Replenishment agreement and his intention to secure ratification of that agreement by December 31, 1971.

b. Urge Congressman Patman to arrange for the Third Replenishment bill to be reported out of the House Banking and Currency Committee (Congressman Gonzalez's Subcommittee reported favorably on the bill to the full committee some weeks ago).

c. Telephone Senator Fulbright to urge that he initiate hearings on the Third Replenishment legislation in the Senate Foreign Relations Committee.

489/4/87

September 20, 1971

Dr. James A. Perkins
Chairman of the Board
International Council for Educational
Development
522 Fifth Avenue
New York, New York 10036

Dear Dr. Perkins:

Mr. McNamara thinks you may wish to read
the enclosed document before you meet with him
on October 7. He would, of course, like you
to keep it confidential.

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. McNamara

Enclosure - draft of Prof. John Lewis' report on trip to Pakistan

Cpt. Con.

489/4/86

September 13, 1971

Board of Regents
University of California
Berkeley, Calif. 94720

Gentlemen:

Mr. Robert S. McNamara has asked me to send you the enclosed check in the amount of \$3,333.00 which represents his third and last installment of his pledge to the Roger Heyns Memorial.

Yours truly,

(Miss) Margaret S. Stroud
Secretary to Mr. McNamara

Enclosure

489/4/85

August 12, 1971

Dear Harvey:

I fear Paul Doty may have been more specific than I intended him to be in committing me to meet with the Academy next spring. Nothing would give me more pleasure than to do so. However, my travel plans are so dependent upon the convenience of the political leaders with whom I meet that it is difficult for me to accept specific speaking engagements several months in advance. May I therefore reconsider the matter later this year when I can predict with more accuracy when I will be out of the country?

Many thanks for the invitation.

With best wishes,

Sincerely,

Robert S. McNamara

Dr. Harvey Brooks
President
American Academy of
Arts and Sciences
280 Newton Street
Boston, Mass. 02146