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President's Council Minutes, 1975.

Folder 13

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President's Council Meeting, January 6, 1975

Present: Messrs. McNamara, Knapp, Alter, Adler, Baum, Bell, Benjenk, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Nurick, Shoaib, Weiner, von Hoffmann, Kearns

Mr. McNamara mentioned the upcoming Development Committee meeting, He said that the meeting would discuss different interest subsidization proposals including the Third Window.

He then turned to the Bank's Financial Policy paper. The paper analyzes the adequacy of Bank capital in relation to the Bank's risk-carrying capacity. This capacity should be quantified in total and by country. This would require a portfolio analysis. Mr. Cargill said that he had circulated a paper on portfolio evaluation and was awaiting comments from CPS, DPS and other interested Departments. He said that the tone of the paper was pessimistic. Mr. McNamara said that he did not think there was any need to be pessimistic. The Bank has not even begun to touch its risk-carrying capacity. For instance the Bank would be able to raise $2 billion per year in the U.S. market today which is up from $400 million just a few years ago. Messrs. Knapp, Cargill, Shoaib and Damry would poll the EDs on their views on the paper.

Mr. McNamara stressed the need to economize in preparing the FY76 Budget. He felt that we were not cost-conscious enough in the Bank. As an example, he mentioned a rather unimportant meeting in Malaysia to which the Bank planned to send three staff members. He also emphasized that supervision had first priority and that all attempts to reduce the budgetted allowance for supervision should be avoided. Reductions in budgetted allowance for supervision would only be acceptable if carefully justified in writing. On the other hand he was willing to increase the budgetted allowance for supervision in FY76 if this was deemed justified.

Mr. McNamara thought that the number of sector studies and economic studies initiated in the Bank were more than we are able to absorb. The number of these studies should therefore be kept at the FY75 level in FY76.

With respect to staff compensation, he hoped it would be possible to have an increase comparable to the increase in the cost of living. The influence of tax changes in the U.S. on the total cost of staff compensation should be investigated.

Mr. McNamara said he would meet with the EDs representing OPEC countries at 9:30 a.m. to discuss a possible increase in OPEC capital subscription from 4% to 15%. The IMF would only increase OPEC quotas from 4% to 9% but Mr. McNamara felt that the Bank should aim at a total OPEC capital subscription of 15% if the OPEC countries were interested. Mr. Cargill would prepare a table showing the influence of an increased OPEC capital subscription on other countries. In answer to a question from Mr. Benjenk, Mr. McNamara said that, although the voting power of the OPEC countries would be increased, he would resist all efforts to reduce the number of Board seats for the African and Latin American countries. He said that there were in fact two issues here, namely, the number of votes and the number of Board seats. Of the two, the number of votes was the most important.

Mr. Cargill mentioned that he would see Mr. Edward Simmons of the First National City Bank in New York. Mr. Simmons is very knowledgeable on oil problems and would be coming to Washington next week. He suggested that interested PC members meet with Mr. Simmons, Mr. Clark and himself for lunch.

Mr. Chadenet said that the quality of the American Express Travel Service had been steadily coming down. He had written the Senior Vice President in New York to complain. Mr. McNamara asked Mr. Chadenet to prepare a statement of gross income and net income of American Express. On the basis of these figures, Mr. McNamara would then discuss with American Express.

Mr. Chenery mentioned that the Annual Report on External Research was now available and suggested PC members to read it.

SB
January 7, 1975

President's Council Meeting, January 13, 1975

Present: Messrs. McNamara, Knapp, Alter, Adler, Baum, Bell, Benjenk, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Shoaib, Weiner, Nurick, von Hoffmann, Kearns

Mr. McNamara said that Mr. Simon had called during the weekend to tell him the U.S. would ratify IDA. A letter of ratification was under preparation by Mr. Bradfield in Treasury. Messrs. Nurick and Gaud should contact Mr. Bradfield about the letter. Mr. McNamara urged PC members not to talk about the ratification in the Bank or to the press.

On Friday January 10 Mr. McNamara had met with Messrs. Waldheim, Boerma, Peterson and Hannah in New York. Three subjects had been discussed:

(a) World Food Council--Mr. Boerma was opposed to Mr. Maurice Strong's candidature for Executive Secretary since he felt that the Secretariat might become independent from FAO. In fact the Secretariat would report to Mr. Waldheim and the General Assembly. There was, however, agreement that Mr. Hannah would serve as Interim Executive Secretary and plan the first meeting before July 1975.

(b) World Food Fund--The meeting of the Fund would be deferred until bilateral negotiations were so advanced that a meeting would be worthwhile. Mr. McNamara supported Mr. Hannah as a suitable negotiator but was not quite sure that this had been acceptable to the other participants.

(c) Consultative Group on Food Production and Investment--As explained in the Bank's letter to Messrs. Boerma and Peterson in December, the Bank would take the lead for the Consultative Group in consultation with UNDP and FAO. The participants agreed that Mr. Ed Martin would be a suitable candidate for chairman. Mr. Waldheim had said that Mr. Martin would be a "perfect man" for the job. Mr. McNamara had enquired with State Department over the weekend whether there would be any U.S. opposition to Mr. Martin. State Department had been pleased with Mr. Martin's nomination. Mr. McNamara was confident that both the other OECD countries and the Third World would support Mr. Martin's candidacy. Mr. McNamara asked Messrs. Baum and Chenery to prepare a work program for the Consultative Group.

Mr. McNamara had heard that a so-called Group of 9 consisting of the EDs for developing countries had been organized within the Bank under Dr. Sen's chairmanship. He asked Mr. Damry to contact Dr. Sen for further information.

Mr. McNamara had a meeting on Thursday, January 9, with Messrs. Witteveen and Costanzo to talk about the forthcoming Development Committee meeting. Mr. Costanzo had accepted the IBRD position on the future work program. The following work program had been suggested by the Bank.

(1) a. Longer-term development requirements of low-income countries for external funds to support reasonable rates of growth;

b. Recommendations for meeting these requirements on appropriate terms; and

(2) Improving the access of medium- and higher-income countries to world capital markets.

Mr. McNamara would meet with Messrs. Witteveen, Bedie and Costanzo on Tuesday, January 14, to discuss this work program and he and Mr. Stern would seek support from the delegations for the Bank's position. Mr. McNamara said that he was still worried about the outcome of the Development Committee meeting and felt that it had been badly prepared. Mr. Knapp asked whether Mr. Costanzo had retreated with respect to the other points on the work program proposed by him. Mr. McNamara said that he had and that there would be no discussion of, for instance, the need for an information system and food problems, items which rightly belonged in other forums. With respect to the Third Window, Mr. Costanzo would not undertake any independent solicitation of funds. Mr.Weiner asked if the U.S. Trust Fund proposal would be discussed. Mr. McNamara replied that there was not enough support for the proposal to have it discussed in the Development Committee but it would be discussed in the Interim Committee.

Mr. McNamara was very concerned about late payments on Bank loans and asked what could be done about it. Mr. Knapp suggested the establishment of a revolving fund and Mr. McNamara agreed. Mr. McNamara asked Mr. Cargill to designate a senior person under his aegis who should prepare a monthly report on late payments to Messrs. McNamara, Knapp and Cargill. Mr. McNamara said that he was not so concerned about the absolute amounts involved but rather about the possible psychological impact on the Bank. He said that the UN international agencies were facing increasing opposition. He referred to an article in the January 11 New York Times where the Bunche Institute analysis had shown that political consideration was taken into account for UN staffing and that U.S. citizens, because of the loyalty procedures, allegedly were subservient to national policy. In this situation the Bank had to watch its reputation very carefully. Mr. McNamara said that the problem of late payments should be discussed again in July in the PC.

Mr. McNamara turned to the question of compensation and taxes. He urged Mr. Chadenet to talk to the IMF and asked Mr. Chenery to appoint one of his staff members to help Mr. Chadenet on the very difficult question of influence of U.S. taxes on staff compensation. One possible way to treat a U.S. tax reduction would be to have U.S. employees keep the rebate and compensate non-U.S. employees accordingly. Mr. Chadenet said that this would be very difficult to accept, particularly for European members who, in their home countries, were accustomed to full compensation for price increases. Mr. McNamara asked Mr. Chadenet to compare the compensation policies of several European governments. He found that there was a good argument for indexing Bank salaries but that the chances of getting this through the Board would be near zero.

Mr. Baum asked about lending to OPEC countries in view of the articles in the Washington Post during the past week. Mr. McNamara said that the articles were factually incorrect and damaging. Mr. Chenery suggested that, since we cannot apparently change the image, we might want to change the policy. Mr. McNamara said that we were working on the problems in connection with offset lending and that the richer OPEC countries would probably no longer be considered for this type of lending. He was well aware, however, that this would meet with opposition in OPEC countries, Venezuela being a case in point.

SB
January 16, 1975

821/13/3

President's Council Meeting, January 20, 1975

Present: Messrs. McNamara, Knapp, Alter, Adler, Baum, Bell, Benjenk, Cargill, Chadenet, Chenery, Damry, Husain, Shoaib, Weiner, Qureshi, Nurick, Hoffman, Wright, Kearns

Mr. McNamara reported on his meeting with the Indian Minister of Finance, Mr. Subramaniam. It had been a very enlightening meeting, particularly as concerns India's agricultural problems. Due to lack of fertilizer, bad weather conditions and deteriorating quality of seeds, food production was 10 million tons below target in 1974. The Indians projected that exports could increase by 9% per year during the Fifth Plan Period. Mr. McNamara thought that this would be impossible and asked Mr. Chenery specifically to look into export possibilities when he visited India in February. There was no doubt that India was in much worse shape than both the Indians and the Bank so far have been willing to admit. In fact with present performance in India, there was no solid foundation for an IBRD program and it would take hard efforts from both the Indians and our side to establish such a program.

Mr. McNamara also reported on the recent Development Committee meeting. The meeting had been disappointing. Part I countries had taken a hard line and particularly the U.S., Germany and Japan had shown reluctance to support the Third Window. The U.S. would not support the Bank lending program. Mr. Chenery asked whether the U.S. would support the Third Window if it did not have to contribute towards it. Mr. Knapp said that the U.S. was against any additional program including the Third Window. Mr. McNamara said that the Dutch Minister of Finance, Mr. Duisenberg, had suggested to operate the Third Window for a year on voluntary contributions.

Mr. Cargill asked whether Mr. Al-Hamad had spoken on behalf of all OPEC countries. Mr. McNamara replied that Mr. Al-Hamad had said so but that there was some difference of opinion among OPEC countries. Mr. McNamara would go to the Middle East some time in the future but, before leaving, he wanted Mr. Cargill to prepare a table showing the envisaged capital subscription with a 15% OPEC share. The table might be prepared in two steps:

(a) an increase from present level to 10% for OPEC countries, with the entire increase coming out of the share of Part I countries and hence no reduction on LDC shares; and

(b) an increase from 10%-15% where the reduction would be shared equally by Part I and Part II countries.

In preparing the table it should be an objective neither to reduce the Board seats of Latin American and African countries nor eliminate the permanent seat of Japan. Mr. Nurick said that it would take a long time for the IMF to act on the increase in shares since this required amendments to the general agreement. He therefore suggested that the Bank should not wait for the IMF. Mr. McNamara agreed.

The Development Committee had given the Bank the following three assignments to be discussed in the Board and then presented to the Development Committee's June meeting in Paris:

(a) a study of the capital requirements of developing countries to maintain a reasonable rate of growth in per capita income for the remainder of the decade;

(b) a study of the desirability of creating a special trust fund; and

(c) a study of the concept of Third Window lending by the Bank.

The assignments should be completed within 60 days and Mr. McNamara asked Mr. Chenery to prepare a note on how to achieve this. Mr. McNamara asked Mr. Damry to send the press communique to all PC members.

Mr. McNamara reported that Mr. Martin had accepted the position as Chairman of the Consultative Group on Food Production and Investment and will start his work in the beginning of February. Mr. McNamara had asked Mr. Martin to contact Mr. Hoffman on allocation of office space, Messrs. Boerma and Peterson on the work program and to make an outline for the first meeting and of the future work program. Possible fields of study for the Consultative Group could be worldwide fertilizer needs and a country study for India. The first meeting would take place before the first of July.

Mr. McNamara said that Mr. Witteveen would visit the Middle East in the first week of February to raise funds for the special account of the oil facility. He asked Messrs. Cargill and Shoaib to coordinate their fund-raising efforts from OPEC countries with the IMF.

Mr. Chadenet reported on Tarbela. Preventive work was well underway but it had been discovered that two gates in Tunnel One were in bad shape. He urged PC members to read the article in the January 4 Economist on Japan. Mr. McNamara asked Mr. Hoffman to distribute the article to PC members.

SB
January 21, 1975

President's Council Meeting, January 27, 1975

Present: Messrs. McNamara, Knapp, Adler, Alter, Baum, Bell, Benjenk, Broches, Cargill, Chadenet, Chenery, Damry, Shoaib, Weiner, Kearns, Merriam, Wiehen, Wright, Qureshi

Mr. Broches reported on his trip to India to attend the International Law Association meeting. He said that he had been impressed by the openness of the Indian press. There had been heavy rainfalls in northern India around New Year's and the outlook for the 1975 harvest was now promising. Mr. McNamara said that we had to pay more attention to India in the Bank, both in terms of time, manpower and money. The Delhi Office will be expanded. Mr. Chenery will go to India and analyze the country's export performance. Mr. Chenery should have a copy of Mr. Picciotto's food production projections for India before leaving. There is presently a difference of 10 million tons of grain between Bank projections and Government projections. Mr. Chadenet asked whether the Indians were still touchy with respect to Bank interference. Mr. McNamara confirmed that this was the case and said we still had to establish proper working relationships with India. Mr. Weiner wondered whether this would not entail an increase in the country economic work for India and Mr. McNamara confirmed this.

Mr. McNamara said that Mr. Hoffman would function as liaison officer for the consultative group on food production and investment. He asked Mr. Baum to keep in contact with Mr. Martin and Mr. Yudelman about the work program and keep the PC informed. He said that food production will be a constant problem and that the world needs an intelligently founded food program. He felt that there would be support for such a program in the U.S. The U.S. Department of Agriculture had published an excellent report on the world food situation and prospects through 1985. Mr. Walters from the Bank had worked as a consultant on the study and had done an exceptional job.

Mr. McNamara said that he had met with a working group after the Board discussion of the Financial Policy Paper to plan the future work program. With respect to the Third Window, he felt that it could only be established on the basis of voluntary contributions. In his talks with potential donors, such as The Netherlands, Scandinavia and the U.K., he had stressed the following three points:

(a) Only a one-year commitment was required now.

(b) The envisaged lending program was $1 billion but the Third Window would open when sufficient contributions were available for $500 million lending.

(c) Lending would be additional.

Mr. McNamara hoped that the Window could open in the beginning of FY76. Mr. Bell said that the Third Window could give rise to a substitution effect so that additional lending would in fact go to countries like Brazil and Mexico. Mr. McNamara said that this should be avoided since there would be no voluntary contributions for a program of this kind. He realized that there was a creditworthiness problem for Third Window lending to countries such as India and Tanzania. It was the function of the portfolio evaluation unit to analyze this.

Mr. Broches said that the LDC EDs apparently had not understood the increased risk argument in the Financial Policy Paper. Mr. Alter supplemented by saying that several of the LDC EDs believed that we could call on the guarantee funds. Mr. McNamara said we had to talk to the EDs who believed this and tell them that this would not be possible.

Mr. Chadenet reported that Mr. Denis Perfrement of the South Asia Transportation Division had lost his right arm in an accident last Friday. Mr. Weiner said that another staff member in that Division had suffered a heart attack. He enquired whether the Bank had any contingency planning for such emergencies. Mr. McNamara said that rearrangements of Transportation staff should be looked into by Mr. Chadenet.

Mr. Benjenk said that he was working on the phasing out of the Iranian program. He foresaw problems with charging the Iranians for technical assistance, since the Venezuelans had received technical assistance without charge.

Mr. Chenery said that an urban development policy was emerging from the Urban Transport Sector paper and the Housing paper. Mr. McNamara said that we were moving forward in recognizing the problem but not in finding solutions. He said that more evaluation should be built into our urban projects.

Mr. Bell said that the cost per project had been understated in FY75. Mr. McNamara said that Mr. Cargill was analyzing this problem and its implications for the future.

SB
January 28, 1975

821/13/5

President's Council Meeting, February 3, 1975

Present: Messrs. McNamara, Knapp, Alter, Baum, Bell, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Shoaib, Weiner, Qureshi, Kearns, Schulmann

Mr. McNamara said that Mr. Kochman had left for Saudi Arabia, Qatar, Abu Dhabi and Kuwait, that Mr. Shoaib would be leaving to visit the same countries later this week, and that he, himself, might visit them in early March. The purpose of all the visits was to discuss a possible OPEC increase in subscribed capital, support for the Third Window and the FY76 borrowing program. Mr. McNamara asked that copies of Mr. Kochman's brief would be sent to all PC members.

Mr. Chaufournier reported on his meeting with FED in Brussels. The Fourth Replenishment had not been finalized but it appeared that $4 billion would be available for five years starting January 1, 1976. Mr. McNamara asked Mr. Schulmann to revise Standard Table IXe to include past and future FED programs in current and real prices by country and per capita. Mr. Husain said that a large number of African countries now had become members of FED, including Somalia. During his stay in Brussels, Mr. Husain had promised to share country information with the FED and to have new discussions with the FED within two months.

Mr. Chaufournier said that there had been great disagreement in Paris on how to coordinate the aid to the Sahel countries. The Chairman of DAC had been urged to talk to the Interstate Commission of the Sahel countries on how and under whose aegis coordination should take place.

Mr. Husain reported on his talks with Mr. Klackenberg and others in Stockholm. The Swedes had alleged that the Bank was trying to dissuade Tanzania from its villagization program. Mr. Husain felt that he had convinced the Swedes that the Bank had no such intention but he acknowledged that we had a public relations problem with Sweden. Mr. Clark said that the same was the case in England, particularly with respect to lending to Chile. Mr. McNamara said that the LDCs had to defend the Bank's image. He suggested that Mr. Jamal in Tanzania be persuaded to issue a statement about the Bank's relationship with Tanzania.

Mr. McNamara said that the former Minister of Planning in Somalia had visited him last Friday. There were now 285,000 refugees from the drought in Somalia and five million animals have died. Mr. McNamara had promised that the Bank would participate in a rehabilitation program along with other donors to the extent of $8 million from IDA over a one-year period.

Mr. Baum reported that Ed Martin would start his work on the consultative group on food production and investment today. Mr. Baum would report further to the PC next Monday.

Mr. Chenery said that a memo had been prepared for the Board and PC members on his alleged conflict of interest. Mr. McNamara said that full disclosure on such matters was necessary and that it was extremely important to avoid appearance of conflict of interest. He said that he himself filed an annual statement of his and his family's net worth with the Secretary's Department for inspection by all Board members. His income tax statement was also available for the EDs on request. Mr. McNamara concluded that we have not been sensitive enough to the appearance of conflict of interest and that he was sad that certain individuals in the U.S. Treasury and State Department and in the Bank had tried to tarnish Mr. Chenery's reputation. Mr. Chenery told the PC that he would abide by the decisions of the Rules of Conduct Committee.

SB
February 5, 1975

President's Council, February 10, 1975

Present: Messrs. McNamara, Knapp, Alter, Bell, Benjenk, Broches, Cargill, Chaufournier, Clark, Damry, Husain, Stern, Weiner, Kearns, Schulmann, van der Tak

Mr. McNamara reported that Mr. Martin had started his work for the Consultative Group on Food Production and Investment last Monday. Mr. Martin had been in contact with Messrs. Boerma, Peterson and others. He was working closely with the UNDP and the FAO. LDC consultative group members would be elected as for CGIAR. Donors would participate as interested. The first meeting was scheduled for mid-May. The Consultative Group would report to the World Food Council in June. The U.S. was interested in food production and technical, political and financial support could be expected from their side. Mr. Weiner wondered how the work of the Consultative Group would fit in with the Bank's operation program. Mr. McNamara explained that Mr. Yudelman would establish food production plans for the main grain producers among the LDCs. From these plans required assistance from us and other donors would be derived. Mr. McNamara was worried that we at present seemed to be financing food production without any solid plan or framework. Mr. Weiner said that he would like to be briefed on the working program of the Consultative Group before visiting FAO.

Mr. McNamara said that Mr. Cargill's work would be the center of interest in the coming weeks. This work included such difficult items as funding of the Pension Plan and Staff Compensation.

Mr. Clark said that the Moyers interview had been very well received and enquired whether the transcript could be distributed. Mr. McNamara did not feel that the transcript should be distributed, at least not in its present form.

Mr. Bell said that a notice of the Consultative Group meeting for Laos was being distributed and that a Consultative Group meeting for South Vietnam might be coming up. He wondered whether something should be published about the CG meeting for South Vietnam. Mr. McNamara said that, since the preparation for a possible CG meeting for South Vietnam was in such a preliminary stage, this would not be appropriate. He would like to meet with Messrs. Knapp and Bell before publishing anything.

Mr. Benjenk said that Mr. Isbister apparently was misinterpreting our lending policy towards high-income countries. Mr. Damry said that this would be clarified when the summary of the Financial Policy paper discussion would be published within two weeks.

SB
February 11, 1975

821/13/7

President's Council Meeting, March 3, 1975

Present: Messrs. Knapp, Baum, Benjenk, Broches, Chaufournier, Clark, Damry, Weiner, HAdler, Krieger, Votaw, Schulmann, Clarke, Gabriel, Qureshi

In response to a question from Mr. McNamara, Mr. Baum said that he had no news on the possible increase in the U.S. contribution to CGIAR.

Mr. Weiner reported on his trip to Sri Lanka and Rome. In Sri Lanka he had very forthright discussions with the Government on the agricultural sector survey and the economic report in preparation for the aid group meeting. The Government had no answers to the important policy questions raised in the two reports, but now at least they had an independent view from the outside on which to base their statement for the aid group meeting. Mr. McNamara asked Mr. Weiner to check whether a food production plan had been established for Sri Lanka. Mr. McNamara said that these food production plans were now in preparation for several countries. They would not be distributed to the CGFPI but Bank management and Mr. Martin would discuss them. Mr. Weiner said that it was his impression that the FAO Cooperative Program would like to be more directly involved in formulations of lending programs. Mr. Baum added that Cooperative Program was not dissatisfied with the relationship but did feel like a small brother vis-a-vis the Bank.

Mr. Benjenk asked whether the technical assistance paper would be discussed before Mr. McNamara's departure. Mr. McNamara said he would like to meet with Messrs. Knapp, Benjenk, Krieger, Baum, Adler and Hoffman on this Tuesday at 4:00 p.m. Mr. Benjenk also said that he would meet with Mr. Ansari to discuss the borrowing program in Iran.

Mr. McNamara said that he would leave on his trip to the Middle East on Thursday morning and return to the Bank on March 17. The purpose of the trip was to discuss increase in subscribed capital, the Third Window and borrowing programs with the Governments of Kuwait, Saudi Arabia, Qatar and Abu Dhabi. He added that Mr. Gaud had reported that the OECD countries seemed somewhat more interested in the subsidy fund for the Third Window.

Mr. McNamara asked Mr. Clarke to distribute the paper on Staff Compensation to PC members.

Mr. McNamara asked Mr. Gabriel about the paper on the Pension Plan. Mr. Gabriel said that the paper was ready and he was expecting the actuary's comments this week. Mr. McNamara asked Mr. Gabriel to look into the effects of the recent changes in the stock market on the Pension Plan and in particular to examine the effect of an increase in the Dow Jones Index to 1,000 in the next year.

SB
March 4, 1975

President's Council Meeting, March 17, 1975

Present: Messrs. McNamara, Adler, Baum, Broches, Chadenet, Chaufournier, Chenery, 821
Clark, Damry, Krieger, Weiner, Shoaib, von Hoffmann, H.Adler, Bart, Votaw,
Knapp

Mr. McNamara reported on his trip to Kuwait, Saudi Arabia, Qatar and Abu Dhabi. Since the rate of oil production had declined, there was a certain depressed mood in the four countries. Revenues were below expectations. Skepticism existed towards new aid programs. Four subjects had been discussed:

a. OPEC increase in subscribed capital;

b. Third Window;

c. Borrowing Program for FY76; and

d. Bank Technical Assistance to Saudi Arabia and Abu Dhabi.

There had been acceptance and support for all these items in the four countries. Mr. McNamara was, however, concerned about the large technical assistance program that the Bank was now to undertake in Saudi Arabia. The Saudis planned to invest \$50 billion over the next five-year period. He doubted that such a massive program could be carried out, and that the Bank might be blamed for failure to do so. It was absolutely essential to have a senior person in charge of the resident office to be established in Riyadh. Such a person needed technical competence and great diplomatic skill. It would be his task to help implement the technical assistance program and establish good relations with the Saudis. Mr. McNamara had been very impressed by the Governor of the Saudi Arabian Monetary Agency. All in all it had been a satisfactory trip.

Mr. Clark asked who was blamed for the decline in oil production. Mr. McNamara said that an article in Harper's magazine for March was widely discussed in Saudi Arabia and the Saudis tended to blame the decline in production on the U.S. He urged all PC members to read the Harper's article. The oil companies were also blamed for the decline in production.

Mr. Baum asked whether Mr. McNamara had enquired about support for agricultural research. Mr. McNamara said that he had not raised this question.

Mr. Broches asked whether SDRs would be used for future borrowing. Mr. McNamara said that this had been suggested to the countries. A discussion of the weakness of the dollar followed. Mr. McNamara asked Mr. Adler to write a small note on how much of the oil surplus funds were still invested in £.

Mr. Chenery asked whether the several Arab funds were operational. Mr. McNamara said that this was the case for the better-established ones but that the Saudi Arabian Development Fund wanted Bank technical assistance to get organized and to invest its surplus funds.

Mr. Krieger enquired about the communiqué from the OPEC/Algeria Summit where it was mentioned that the OPEC would take an increased role in the international financing institutions. Mr. McNamara said that, in the countries visited, nobody knew what this implied.

Mr. Chenery reported that the computer had broken down. Mr. McNamara asked him to have a report written on the matter and send a copy to Mr. McNamara.

Mr. McNamara asked Mr. Damry to distribute the WHO Health paper to all PC members.

SB
March 18, 1975

President's Council Meeting, March 24, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Broches, Cargill, Chadenet, Chaufournier, Clark, Damry, Krieger, Shoaib, Weiner, Stern, H.Adler, Bart, Clarke, Votaw, Kearns

Mr. Chadenet reported on the COSCOM meeting last Thursday. He said that the discussion could be illustrated by two extremes. On the one hand, the U.S. wanted a moderate increase tapered with a cutoff for senior personnel defined as anyone with an income of $30,000 or above. On the other hand, Mr. de Groote argued for a generous increase consistent with the analysis in the compensation paper and actions of other international organizations. Mr. McNamara did not sense any strong support for these extremes. Many Directors felt that a salary increase should be tax tapered with an undefined cutoff in the upper ranges of Bank personnel. Mr. Knapp said that it was interesting to observe that the LDCs had been split on the salary question. Some had argued that it was inappropriate to pay high salaries for people whose job it was to help the poor; others that good quality staff should be paid whatever necessary. This latter concept had been very strongly argued by Mr. Razafindrabe. Mr. McNamara said that the excellence of the Bank was at least in part due to relatively high salaries. However, the premium which had existed at Bretton Woods did no longer exist and this could have dangerous consequences for the future. Salary increases were always politically sensitive. It was very likely that IDA4 appropriations in the United States would be in trouble next year due to the Bank's salary policy. He hoped that the U.S. would be consistent in its approach to salary increases in international organizations. Recently the U.S. had voted for the UN salary increase which accepted indexing of salaries and a productivity increase of 5%. A memorandum for consultation with the IMF and presentation to the Board would have to be prepared by the end of this week. Mr. McNamara said that compensation should not be discussed with the staff at this stage.

Mr. Clarke said that the estimated cost for the Christmas Party in 1975 would be $100,000. Several alternatives existed to the traditional Christmas Party. An after-dinner dance would reduce the cost by about $20,000; the hospitality allowance for Department Heads could be increased; the party could be abolished and the savings used for charity, or the party could simply be abolished. The Staff Association was against a referendum since the staff was split about 50-50 on the issue. Mr.Baum said he favored an after-dinner dance charging $7.50 for entrance. Mr. McNamara questioned whether it was right for an organization dedicated to development to spend $100,000 on a party, amounting in fact to $50 per head of attending staff members. He requested Messrs. Chadenet and Clarke to work on the problem.

Mr. Chadenet suggested that office space at the Sheraton Park during the Annual Meeting should be kept to an absolute minimum. Most meetings could take place at Headquarters or in the hotel rooms of the Delegations. Mr. McNamara asked Mr. Chadenet to send a brief note on this to PC members.

Mr. Broches reported that Australia had signed the ICSID Convention.

SB
March 25, 1975

President's Council Meeting, March 31, 1975 821/13/10

Present: Messrs. McNamara, Knapp, Adler, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Shoaib, Weiner, von Hoffmann, Twining, Votaw

Mr. Twining summarized his memorandum of February 20, 1975, on Bank Group security which had been distributed to PC members. Mr. McNamara said that we faced three security problems: loss of confidential information; loss of physical property; and attempts to gain hostages. Mr. Twining said that there were many petty thefts in the Bank. Personal search of the night-cleaning personnel would be necessary to reduce it. Mr. McNamara felt that this would not be worth it. Mr. Krieger enquired about the security in the Bank's conference rooms where negotiations with governments took place and in Mr. McNamara's office. Mr. McNamara asked Mr. Krieger to check with Mr. Twining about the need for a guard or receptionists in conference rooms. With respect to security in his own office, he found that present arrangements were sufficient. He stressed that, should he be taken hostage, he would not allow any ransom to be paid. Mr. McNamara concluded that present security arrangements were adequate.

Mr. McNamara said that the paper on Long-Term Capital Requirements of Developing Countries would be distributed the same day. The paper presently concluded that the external capital required to sustain modest growth targets is beyond the capacity of present financial institutions. The export-earning capacity of LDCs would have to be increased. Mr. McNamara would like to discuss the paper on Wednesday, April 2, at 11:30 a.m. The paper would be discussed in the Board on April 15 before being sent to the Development Committee for discussion at its June meeting.

Mr. McNamara said that last Saturday he had cut the number of Bank staff to attend a meeting with five outside consultants in Tangiers from eight to four. He asked PC members to be sensitive to the image problem in connection with missions. He said that we should never send more than the necessary people and we should always choose the least-cost answer in both financial and human terms. We are living in a difficult period and should watch our expenditures carefully. It was not only the U.S. that was critical of the Bank in this respect. Both Japan and Germany were taking a careful look at our budgets. Mr. Cargill said that we were possibly going too far in cutting office space at the Sheraton-Park during the Annual Meeting. Mr. McNamara said that, although this might be so, it was worth it making an attempt to lean over backwards to cut costs.

No decision had yet been taken on whether the Chile Agricultural Project would be presented to the Board the following day. At least six Executive Directors would not vote in favor of the project. Mr. Krieger felt that we should go ahead with the project. Mr. McNamara said that the deferral of the Paris Club debt rescheduling might damage Chile's creditworthiness. This was very important since the Bank's approach to the project was to justify it solely on economic grounds.

Mr. Husain reported briefly on his trip to Zaire and Sudan. He said that Zaire, with an external debt of about $3 billion, was now virtually bankrupt. During his visit, he had asked President Mobutu to establish a month-by-month plan for the balance of payments and budget. The Bank's planning team had not been involved in managing the crisis but would be so from now on. Mr. McNamara said that it was questionable whether the Bank Group should continue its lending program to Zaire. Mr. Husain said that Sudan had suffered from decline in cotton prices. He said that, although Sudan had better human resources than Zaire, proper priorities had not been established. An able Minister of Finance had recently been appointed. Sudan had obtained a $200 million loan from the Saudi Arabian Monetary Agency on very unfavorable terms and for undefined purposes. Mr. McNamara said that corruption evidently had been involved in obtaining this loan. Mr. Husain concluded that the main question in many African economies was whether the people would still allow the independence establishment to reap the economic benefits, such as was now the case in Zaire, Sudan and Kenya. Mr. Chenery added that the Long-Term Capital Requirements paper did not mention the type of internal mismanagement that Mr. Husain had just described. Mr. Cargill said that the Bank had been criticized for taking an uncritical approach. Mr. Chenery said that internal measures to be taken by the LDCs would be included in the revision of R477.

SB
April 1, 1975

President's Council Meeting, April 14, 1975

Present: Messrs. McNamara,1/ Knapp, Adler, Baum, Bell, Benjenk, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Shoaib, Weiner, von Hoffmann, Alter, Gabriel, Kearns, Nurick, Sommers

Mr. McNamara asked Mr. Chenery to distribute the note on Urban Poverty for the Annual Meeting Speech to the PC and Senior Staff members.

Mr. Sommers briefly summarized his paper on Board documentation. Mr. Benjenk said that the Appraisal Report could not be only an internal document. We have information obligations towards our borrowers and co-financers. He felt that we should stick to the present system.

Mr. Husain asked what was wrong with the present system. Mr. Sommers said that there had been general agreement among both Project and Program staff that the present system should be changed. Mr. Baum said that the Appraisal Report serves a variety of masters and this has led to a very unsystematic series of annexes. Mr. Knapp said that scarce manpower was being wasted on drafting and redrafting the Report. Mr. Sommers added that the Board does not think that the present papers are the right ones for decision making. Mr. Shoaib said that, in view of the Board's opinions, we should cut out the Appraisal Report. Mr. Baum said that the Appraisal Report was our most important vehicle for technical assistance to our borrowers and that, furthermore, the Report was reviewed in many Part I countries, such as the National Advisory Council in the U.S., and the Foreign Aid Departments in the U.K. and Germany.

Mr. Weiner said that reports were often improved by what had falsely been called "editing and unnecessary polishing." As an example he mentioned the Long-Term Capital Requirements paper which certainly was improved by the policy discussion which had taken place. He admitted, however, that there was a large duplication between the Appraisal Report and the President's Report. He felt that the suggestion in the tentative conclusions would not lead to savings in manpower. He therefore felt that we should improve the present Appraisal Report. Mr. Chaufournier said that he was in favor of the majority view in the Sommers' Report. If that were not accepted, he would favor the present system. Mr. von Hoffmann said that only by cutting down the amount of paper can we see whether it is indeed required. He offered that IFC could be a guinea pig in this respect cutting down IFC Board documentation to roughly 6-8 pages.

Mr. Chenery said that updating was not required as often as the suggested four month in the tentative conclusions. The constant updating leads to the need for updating missions and these are a waste of time. We should not forget that we are a long-term lending institution and that developments within four-month periods usually have very little influence on long-range forecasts.

Mr. Husain felt that the Operational Vice Presidents should have been consulted before reaching the tentative conclusions. Mr. Benjenk said that it was necessary to think more thoroughly about the recommendations in the Sommers' Report and the tentative conclusions. Mr. Knapp agreed and concluded by asking Mr. Kearns to prepare a paper showing the rationale for the tentative conclusions.

1/ Mr. McNamara left the meeting at 9:44 a.m. after which Mr. Knapp chaired the meeting.

SB
April 16, 1975

Record Removal Notice

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 13	1770826

Document Date	Document Type
April 22, 1975	Minutes

Correspondents / Participants

Subject / Title
President's Council Meeting, April 21, 1975

Exception(s)
Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	24-Feb-17

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 13	1770826

Document Date	Document Type
May 6, 1975	Minutes

Correspondents / Participants

Subject / Title

President's Council Meeting, May 5, 1975

Exception(s)

Prerogative to Restrict

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Shiri Alon	24-Feb-17

President's Council Meeting, May 12, 1975

Present: Messrs. McNamara, Knapp, Adler, Benjenk, Broches, Cargill, Chadenet, Chenery, Clark, Damry, Husain, Shoaib, Qureshi, Goodman, Kirmani, van der Meer, van der Tak, Wiese, Wright

The meeting first discussed the draft paper on Bank Program and Budget. Mr. Shoaib enquired how the figure of 7% real growth had been determined. Mr. McNamara said that this was indeed difficult to rationalize. The most important factor influencing our growth was inflation and, with present high rates of inflation, it was impossible to control real growth within one percentage point. He pointed to the "lag" and "price" deflators in the paper and said that he had instructed Mr. Adler to include deflators in all master tables from now on. The real constraint on our expansion was our ability to borrow. Mr. Chenery said that our problem was that the Articles of Agreement had been conceived in an environment of no inflation. Other institutions, however, had learned to work in an inflationary environment and so could we.

Mr. Kirmani asked whether our disbursement record could not be improved. Mr. McNamara said that this was beyond the scope of the program paper. He did, however, agree that the disbursement estimates in our loan documents were not realistic. This confused the borrowers and gave us a bad record. He asked Mr. van der Tak to talk to Mr. Baum and prepare a note for discussion between himself, Mr. Knapp and Mr. Baum.

Mr. Husain said that about $6 million had been allocated for the cooperative programs. He wondered whether these programs were in fact cost-effective. Mr. McNamara said that these programs were at times managed poorly but they did give access to a large pool of knowledge. Mr. van der Tak said the programs were being examined by Mr. Kearns. Mr. McNamara said that Mr. Kearns' Terms of Reference should probably be broadened, and he asked Mr. van der Tak to contact Messrs. Baum and Knapp about this.

Mr. Husain said that the salary allocation for FY75 had not been spent. It seemed that certain units were over-budgeting. Mr. Adler said that this was an error in estimate rather than in performance. Mr. McNamara asked Mr. Chadenet to prepare a back-up note on the matter.

Mr. van der Meer asked whether sufficient account had been taken of the possible need for 30 projects for the Third Window. Mr. McNamara said that this had not been done at this time.

Mr. Benjenk felt that the statements on technical assistance to Venezuela were unclear. Mr. McNamara agreed and said that this reflected the situation.

Mr. Broches said that the envisaged expansion would lead to a need for an increase in capital subscription or an amendment of the Articles. Mr. McNamara said he would discuss this problem in the Annual Meeting speech. He hoped to have the speech ready by the beginning of July for discussion with PC members. Personally he favored amending the Articles. He said that he had instructed Mr. Adler to study how an increase in capital subscription would be avoided by lowering our commitments or, alternatively, how an increase could be postponed for 2-5 years. This study was being done in nominal as well as real terms. He asked Mr. Adler to contact Mr. Chenery and prepare a note on the IBRD share in total development finance.

Mr. McNamara said that he would only ask the Board to approve the lending program for FY76. The lending program for the remaining years of the five-year period would serve as a basis for work load scheduling and advance financial planning for the next 12 months.

Mr. Husain said that, during the discussion of the Chile project, Mr. Janssen had alleged that the Bank withheld lending to Tanzania and Sri Lanka for political reasons. He felt it would be useful to refute Mr. Janssen's allegations when the next Tanzania project would go to the Board on May 29. Mr. McNamara agreed.

Mr. McNamara said that the Board Meeting for June 10 would be rescheduled for June 9 because of the Development Committee meeting. He said that he was unwilling to ask the Board to consider more than 10 projects a week. We would have to improve our own performance before asking the Board to increase the number of projects considered per week.

Mr. McNamara asked PC members to advise him in advance of their travel plans.

SB
May 13, 1975

President's Council Meeting, May 15, 1975

Present: Messrs. McNamara, Knapp, Adler, Bell, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Clark, Damry, Husain, Shoaib, von Hoffmann, Clarke, Stern, van der Meer, van der Tak, Wiese

Mr. McNamara said that the Board would approve his compensation proposal as previously presented to the PC except that several Directors favored a cutoff point at \$38,500. Particularly the U.S. was against any automatic increase above \$38,500, but three other Directors would go along with the U.S. and vote against salary increases above this level. Furthermore, three Directors who had hoped that Management would propose a cutoff would abstain. Altogether they represented 125,000 votes or roughly 45%. Fifty-eight staff members would be affected by the cutoff. Out of those 29 presently receive salaries below \$38,500 but they would get less than the envisaged 7% increase. The IMF had voted against the cutoff and would not reconsider the matter. There was therefore a possibility that parallelism between the two organizations would be affected. The U.S. had made a strong statement in the Board. Not only would support be eroded in Congress but executive support for 4IDA and 5IDA would be reduced if Management went ahead with its proposal. Some Directors who believed that top salaries should not be adjusted for cost-of-living increases had indicated that merit increases would be an acceptable alternative.

Mr. Shoaib felt that parallelism with the Fund was vital and should be preserved at all cost. Mr. Knapp wondered whether the U.S. would not oppose merit increases at the top. Mr. McNamara did not think so. Mr. Clark asked what the Bank would gain from the U.S. by accepting the cutoff. Mr. McNamara said that a U.S. vote in favor of the compensation proposals would indicate general support of the Bank and support of the salary structure. Mr. Stern felt that the cost of precedence could be high. Mr. McNamara didn't worry about precedence but about the possibility of being dependent on the political situation in a member country. Pressures on the Bank's personnel policy had been exerted in the past but he had always resisted them. Mr. van der Meer asked what the implications for the future could be. Mr. McNamara said that he could not imagine that the IMF and the Bank would move substantially different in the future. After some further discussion, a vote was taken. Five PC members voted in favor of a cutoff at \$38,500; 14 voted against. Mr. McNamara said that he would present his decision to the Board at 9:00 a.m. the following morning.

SB
May 16, 1975

President's Council Meeting, June 2, 1975

Present: Messrs. McNamara, Knapp, Adler, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Shoaib, Goodman, Kearns, Bart, Kirmani, van der Meer, van der Tak, von Hoffmann, Nurick

Mr. Chenery reported on his trip to the Hague Symposium on the new international economic order which had been held in time for the preparatory meeting on June 16 for the Seventh Special Session of the General Assembly in September. Mr. Chenery had presented a paper along the lines of the Capital Requirements paper. He had suggested an aid-trade target which had been well received. The problem with the NIEO was that it consisted of assertions not based on analysis. No responsible analytical paper had been produced. The outcome of the Symposium was a rather moderate position. Mr. McNamara asked Mr. Chenery to send him the summary paper for the Symposium.

Mr. McNamara said that the NIEO and related subjects were very much debated at the moment. He referred not only to Mr. Kissinger's speeches but also to statements of the Prime Minister of Belgium, Prime Minister of Italy, and Chancellor Schmidt at the NATO Summit Meeting. The most important subjects were commodity financing and investment in raw materials. There was not a solid stance behind these ideas in the U.S. Disagreements existed between the State Department and the Treasury. Mr. McNamara had asked DPS to study commodity financing and CPS to study investments in raw materials. Mr. Chenery said that the UNCTAD panel on indexation had been misinterpreted in the newspapers to saying that the terms of trade of the LDCs had not deteriorated. What in fact the panel had studied was the price of a basket of commodities, compared with a basket of manufactured goods. In this comparison, no deterioration had been observed for the period 1960-1973. Individual countries certainly had suffered worsening of their terms of trade. Mr. Krieger said that the point was not so much the worsening of the terms of trade as the fluctuation in export prices. Mr. McNamara said that this was the reason why it was worthwhile to examine stabilization of commodity prices within the long-term trend as determined by market forces. At the time of the Pearson Commission, the Board had been opposed to commodity financing, but the mood was now entirely different. He hoped that the Development Committee would move forward on this subject, along the lines of the proposed financing for the Tin Council.

Mr. Nurick said that he had received a draft of the statutes for the Agricultural Fund from Mr. Hannah. An ad hoc meeting on establishment of the Fund would take place in July and he would attend. He felt that it was now fairly certain that the Fund would come into being. Mr. Knapp wondered whether the Fund was more than "a bookkeeping exercise." Mr. McNamara said that there would be real transfers from the Fund if it came into being. He thought that chances for this were 50-50. He had been upset by the statement of the Indian representative to the Agricultural Fund meeting in Geneva, who had stated that the Bank was not the right organization to help implement the Agricultural Fund projects. He asked Mr. Nurick to write a note about this and Mr. Clark to carefully watch the suggested procedures for the Agricultural Fund.

Mr. McNamara said that 4IDA was in deep trouble, particularly because of the possible Swiss referendum on contributions. He asked Mr. Goodman to watch the 4IDA Replenishment carefully and report quarterly to Mr. Knapp and himself.

Mr. McNamara said that the first chapter of the Annual Meeting speech had been drafted. He gave Mr. Chenery a copy and asked him to comment. He would have the full first draft by June 20 and would then give the PC ten days to comment.

Mr. McNamara referred to the Program Review Meeting for Brazil where he had stated that, from now on, there would be limitations on IBRD money. Brazil could very likely absorb more than the agreed program and probably deserved more on the basis of performance but there were simply not enough funds available.

Mr. McNamara asked Messrs. Shoaib, Damry and Goodman to get the views of the EDs on the Bank's Budget and Program for the June 19 Board discussion. He asked them to take a look at the note by Mr. Cheek suggesting that a group of "wise men" examine the work of the Bank.

There would be a PC meeting on June 9 at 9:00 a.m.

SB
June 3, 1975

821/13/17

President's Council Meeting, June 16, 1975

Present: Messrs. McNamara, Adler, Baum, Bell, Cargill, Chadenet, Chaufournier, Clark, Damry, Husain, Krieger, Shoaib, Weiner, Nurick, Tims, Wapenhans, Kearns, Qureshi

Mr. McNamara reported on his trip to the Interim and Development Committee meetings in Paris. The Interim Committee had come very close to an agreement on gold, exchange rates and quotas. However, since France and the U.S. disagreed on exchange rates, the package had fallen apart. Studies and negotiations will now take place before the Interim Committee meeting on August 30 and 31. In Mr. McNamara's opinion, chances are better than 50-50 that a package deal will be agreed upon then. Mr. Nurick added that there was very little discussion of quotas in the Interim Committee. IMF lawyers were unwilling to predict agreement on quotas at the Annual Meeting and did not believe that a final agreement could be reached before the Interim Committee meeting in January 1976.

The Development Committee meeting had been characterized by a very constructive atmosphere. The OECD countries were very conscious of the needs of the LDCs, both in terms of aid and trade. There had been strong support for the six points of action in Mr. McNamara's statement, namely additional balance of payments support, longer-term development assistance, re-examination of bilateral aid levels, emphasis on lower income countries, expansion of World Bank and regional bank lending to levels consistent with their capital structures and the availability of funds, and expansion of trade. It was particularly encouraging that the middle- and higher-income LDCs had not objected to giving priority to the poorest. In his summary statement to the Committee, Mr. McNamara said that he felt there was nearly unanimous support for the establishment of a Third Window whose prime beneficiaries would be the poorest countries. Eleven donors had offered contributions and four more hoped to be able to do so. The Third Window should be established quickly even if there were not enough subsidy funds for $1 billion lending. He also felt that the Committee would support a proposal from him to the Board for transfer of FY75 income to the Subsidy Fund. However, the U.S. objected to the last proposal.

Difficulties had been encountered when drafting the communique on Friday morning. The U.S. was unwilling to support a real increase in 5IDA, buffer stock financing and additionality of Third Window lending. Mr. McNamara said that we would have trouble on 5IDA but that there was a good chance that the OPEC countries would contribute. The Third Window could be considered as a bridging operation for this purpose.

Mr. Nurick said that we would have some work to do on the proposal for a multilateral guarantee fund to increase access to capital markets. Mr. McNamara said that the best way to increase access is to increase IBRD and regional banks lending program. Mr. Myhrer from the Paris Office had enquired what the Bank's position was with respect to a multilateral guarantee fund. Mr. McNamara asked Mr. Clark to cable Mr. Myhrer saying that the Development Committee was considering the proposal.

Mr. McNamara said that the discussion of the Bank's Program and Budget had been postponed to June 24 at the request of an Executive Director.

Mr. Damry asked whether the Prospects for Developing Countries paper would be ready for a Board seminar on July 2. Mr. McNamara did not think so.

cc: Mr. Knapp

SB
June 17, 1975

821/13/18

President's Council Meeting, June 23, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Cargill, Chadenet, Chenery, Clark, Damry, Husain, Shoaib, Weiner, von Hoffmann, Kearns, North, Nurick, Wapenhans, Wiese, Wright

Mr. Chadenet referred to his June 6, 1975, memorandum on the Christmas Party. There were three options: to continue the Sheraton party; to have 10 large parties on the second floor in the Bank complex; and to give the Vice Presidents a hospitality allowance of $7-$8 per staff, and have the Vice Presidents decide whether they wanted the party in the Bank, at home, or at Bretton Woods. Nobody was in favor of continuing the Sheraton party. Mr. Weiner said the cross-departmental contacts that possibly took place at the Sheraton party would be lost. Mr. McNamara said that this did not happen at the party and other means, such as Mr. Yudelman's meetings with Agricultural staff, should be used to overcome fragmentation. Mr. Chenery said that the Staff Association should be strongly involved in planning the parties. Mr. McNamara agreed. It was decided that Mr. Chadenet would send a note to all Vice Presidents asking them to submit their plans in writing to him, thus ensuring that staff would be treated equitably throughout the Bank.

Mr. McNamara said that Mr. Knapp would chair the Board Meeting on June 26 and that there would be only one Board Meeting in the week of June 30.

Mr. McNamara distributed copies of his address to the Board of Governors. He said that the speech served at least two purposes. It informed opinion makers, editors, and political leaders in both Part I and Part II countries about the Bank's philosophy and program. The distribution of 25,000-50,000 copies, mostly on request, indicated that it served this purpose well. At the same time, it was a formulation of the Bank's program on which it was important to know the Vice Presidents' opinion. He therefore asked the PC to submit their comments by Friday, June 27. He hoped that PC members would concentrate their comments on whether they found misstated facts, unreasonable projections, postulated relationships that did not exist, and unwise policies. Line-in, line-out corrections were also appreciated but not as essential. Mr. McNamara said that he basically addressed two issues in the speech: the foreign exchange crisis and fundamental development problems. With respect to the foreign exchange crisis, Bank action, such as expansion of lending program, Third Window, 5IDA and Capital Structure, were discussed. The development problems dealt with were Rural Development and Urban Development. The studies on Urban Development in DPS/CPS had now progressed to the point where it was possible to go public on the issue. Mr. McNamara asked PC members to keep the speech fairly confidential at this stage. It was all right to discuss it with associates but it should not be distributed around the Bank.

SB
June 24, 1975

821/13/19

President's Council Meeting, June 30, 1975

Present: Messrs. McNamara, Knapp, Baum, Cargill, Chenery, Damry, Shoaib, Weiner, Kearns, von Hoffmann, HAdler, Lerdau, Merriam, Nurick, Schulmann, Votaw, Wapenhans, Wright

Mr. McNamara said that he was worried about the influence of the breakdown in the World Food Council on the CGFPI. In his opinion the Agricultural Fund could still be established with the support of Iran, Saudi Arabia and the U.S. He would like Messrs. Hoffman, Yudelman and Martin to report when they return from Rome.

Mr. McNamara said that the program and budget had been approved last Tuesday. However, there was some confusion as to what the word "approved" meant. For the budget it should be interpreted as meaning that we would not knowingly go beyond 1% to 2% increase. For the borrowing program, we would stay within the limit approved and otherwise go to the Board for further approval before negotiation. With respect to the program, the Board approved the required manpower to carry out a certain number of projects but not a specific amount. We had a financial overrun in FY75 which probably would not be repeated in FY76. The situation should, however, be watched carefully and the Board should be informed whenever the envisaged 145 IBRD projects would go beyond $4.7 billion plus 10%. Mr. McNamara asked Mr. Cargill to keep Table 1c up-to-date on income, disbursement and commitments. All covering memoranda for President's Reports should indicate whether the loan amount was different from the one stated in the CPP. Mr. McNamara asked Mr. Schulmann to distribute the input/output table as a standard table to PC members. Instead of a mid-year review, which now would only be a few pages to be circulated, he had promised the Board papers on capital markets and the Bank's capital structure. The capital structure paper would be difficult to prepare. Three options could be contemplated: to keep capital and Articles of Agreement as they are which would put a ceiling on Bank lending in nominal terms of $3.5 billion; to increase subscribed capital by 50%-100% (this would be difficult for the US where authorization and appropriations bills in both Houses were probably required); and to change Bank capital structure along more conventional lines for financial institutions. Mr. Nurick said that the selective capital increase now contemplated would make a general capital increase more difficult. Mr. McNamara agreed. Mr. Nurick did not think that appropriation was necessary in the U.S. Mr. McNamara asked him to check on this.

Mr. Wright enquired about the influence of the Third Window on the lending program. Mr. McNamara said that, at this point, it was too early to establish a lending program for the Third Window since the contributions to the Subsidy Fund were still uncertain, and it was not known whether the Third Window would be additional.

Mr. Chenery said that the Prospects Paper for the LDCs was being finalized. The paper would be distributed on July 7 for a Board seminar on July 22. The paper emphasized the need for internal as well as external action in the LDCs. Mr. McNamara said that the paper provided a useful background for many Bank policies. The outlook for ODA was very bad. The present 0.33% of GNP might go down to 0.23% of GNP by 1980.

Mr. McNamara said that we were facing problems in several countries. He mentioned Argentina, Colombia, India, Korea, Thailand, Uganda and the East African Community.

Mr. McNamara thanked the PC for comments on the Annual Meeting speech. He said that everybody had agreed that urban development should be discussed with the Governors. Numbers and figures in the speech would be checked carefully by both CPS and Finance.

SB
July 1, 1975

821/13/20

President's Council Meeting, July 7, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Benjenk, Cargill, Chadenet, Chenery, Clark, Damry, Krieger, Shoaib, Weiner, Kearns, von Hoffmann, HAdler, Nurick, de la Renaudiere

Mr. McNamara said that we might face a problem with the press on our alleged attitude of discrimination towards Jewish nationals. He said that he did not like to discuss the subject but that we now had to face it. Everybody knew that performance, attitude and dedication were the only important elements for an individual's career in the Bank. We had done well in the Pakistan-India conflict but the Jewish question kept coming up. Mr. Watson of the Washington Post had called Messrs. Alter, Bell, Chadenet and Weiner about a week ago to enquire about discrimination against Jews in the Bank. He had been satisfied that there was no such discrimination. However, Mr. Rowen of the Washington Post had opened the subject again and talked to Mr. Benjenk. Mr. Benjenk reported that Mr. Rowen had asked him whether he was being pushed out of the Bank. Mr. Benjenk showed him his letter in answer to the allegation in Foreign Policy that he was being forced to take sabbatical leave. The letter stated that he had asked for sabbatical leave before the oil crisis in 1973, that he had good relations with the Arabs as shown by his recent participation in the opening of the Suez Canal, and that Israel was being phased out according to the same general policy applied to Finland and Ireland, among others. Mr. Rowen had then enquired about Messrs. Alter, Bell and Goodman and about Mr. McNamara's relationship with Mr. Witteveen. He had also intimated that the Bank played with figures for the OPEC countries. Mr. Benjenk had answered these allegations but he was not sure that Mr. Rowen was convinced. Mr. Benjenk further said that he had been called by Mr. Al-Atrash who had confirmed the Arab confidence in him. Mr. McNamara said that Mr. Rowen obviously had inside information and that this was sad since the outside problem was an image of an inside problem. He said that PC members should listen to staff which had doubts about our attitude and bring it to his attention. Mr. Clark felt that there was not a growing feeling of possible discrimination within the Bank but that the Bank reflected the split between the U.S. Treasury and State Department on the oil issue. Mr. Benjenk said that we had never yielded to the Arab boycott of Jewish suppliers. With respect to visas for Saudi Arabia, no staff member had been forced to give the required information if he did not want to. Mr. McNamara said that he would like to discuss the visa issue with Mr. Chadenet.

Mr. McNamara said that Mr. Kearns' work on Board procedures and loan documentation should be reactivated.

Mr. McNamara was concerned about the possible influence of the breakdown in the World Food Council on the CGFPI. He asked Mr. Baum to contact Messrs. Martin and Yudelman and then talk to him about it.

Mr. McNamara reported briefly on his visit to the meeting of the Aspen Institute for Humanistic Studies. He had been very impressed by the Empress of Iran. The Iranians were concerned about the forthcoming Special General Assembly. Mr. Clark said that he had observed the same concern in the DAC meeting. There was a split in Europe between the Dutch and Scandinavians on the one side and the Germans on the other. Mr. McNamara said that he would talk to Mr. Cheysson and Mr. Moynihan in the coming week.

Mr. McNamara said that he would like to discuss conflict of interest with Mr. Chadenet and Mr. Sommers.

Mr. Clark said that there had been no problems between the Bank and Mainland China in ECOSOC.

SB
July 8, 1975

821/13/21

President's Council Meeting, July 14, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Krieger, Shoaib, ~~Weiner~~, Kearns, von Hoffmann, HAdler

Mr. McNamara was concerned about the potential overrun in FY76. Mr. Knapp said that he had repeatedly told the Operational Vice Presidents to watch this very carefully but clearly defined criteria and a control system for allocation was required. Mr. Adler said that he was working on this and might have a paper by the middle of the week. Mr. McNamara said that it was unlikely that there would be an overrun in projects in FY76. As a matter of fact, the margin between the regional programs and the Bank-wide program was thinner than usual. The problem was the dollar equivalent of the program. We had not planned commitments in dollars so far but from now on we would have to. Mr. Baum said that we should plan both projects and the dollar equivalent but that projects should have the highest priority. Mr. McNamara agreed. Mr. Chaufournier mentioned that, in the present inflationary situation, bids for project components were often much higher than anticipated, but as long as other donors were willing to go ahead with a high-priority project it was difficult for the Bank to say no because of the price increase. Mr. McNamara said that we shouldn't do so but rather cut the amounts for other projects and tell the country in advance that there were limitations on our resources. Mr. Shoaib said that the LDCs considered our program as a minimum and we should be careful not to talk about limitations too widely. Mr. McNamara said that he was dismayed that the LDCs had not said so in the recent Program and Budget discussion. In any event, the Third Window would increase somewhat the available resources. If the Third Window were not additional, Mr. McNamara would be opposed to it.

Mr. McNamara mentioned the curious effect of the commitment deflator on the FY74 program. The FY74 commitments were $3.2 billion, but when measured in constant FY74 dollars by the commitment deflator they were equivalent to $2.4 billion. This was of course because the commitment deflator takes the future into account but it would still be somewhat difficult to explain to people. He therefore asked Messrs. Adler and Chenery to look into the matter and provide a simple written explanation.

Mr. Baum said that the CGFPI would meet in the Pan American Health Building in Washington in the week of July 21. There was some concern about the meeting after the fiasco of the World Food Council meeting in Rome but Mr. Martin was handling the situation very well. A fertilizer study and a study of global resources for food investment would be presented at the meeting. Furthermore Mr. Yudleman would give an oral presentation of the Bank's 15-country study on food needs. The representation would be one-third OECD, one-third OPEC and one-third LDC. However, it might be difficult for OPEC to fill its quota this time. Two meetings per year were planned. The fertilizer study showed that there would be a rough balance between supply and demand in 1980. The study recommended that production facilities be established closer to markets and better distribution ensured through extension and credit. Mr. McNamara asked PC members to read the fertilizer study and then discuss at a future meeting.

Mr. Clark reported on the UN reorganization study. Implementation of the study was in deep trouble. The Preparatory Committee would not meet until August 18, barely two weeks before the Special General Assembly. The Algerians were against the study and were very active. The reason for their opposition was mainly that they had not participated in the Expert Group which prepared the study. There was also opposition from both the Europeans and the LDCs to replacing Mr. Peterson as Administrator for UNDP with Mr. Morse. The result might be that Mr. Peterson would stay on the job.

Mr. Baum asked whether the recent capital increase in IDB would influence the possibility of an IBRD capital increase. Mr. McNamara did not think so but asked Mr. Broches to examine the covenants of IDB and report to him.

Mr. Chenery said that the Prospects for Developing Countries would be discussed in a Board seminar on July 22. There was a staff meeting on July 16 to discuss the paper and he invited PC members to participate.

SB
July 15, 1975

821/13/22

President's Council Meeting, August 25, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Benjenk, Broches, Cargill, Chaufournier, Clark, Husain, Krieger, Shoaib, Weiner, Stern, Kearns, Twining, von Hoffmann

Mr. Twining summarized the Board discussion on August 19 with respect to purchase or rent of an office building. It had been decided to sign a memorandum of intent with George Washington University. The EDs had favored purchase rather than long-term lease. Mr. McNamara said that we should attempt to purchase the property from GWU. Before entering negotiations, however, a careful financial analysis should be prepared. He requested Mr. Twining to make such an analysis in association with Mr. Cargill and P&B. The analysis should be submitted to Mr. McNamara.

It was decided to postpone the September 9, 1975, Board Meeting since only one project was scheduled for presentation on that day.

Mr. Cargill reported that the two-year central bank issue was selling well. $258 million had been subscribed so far. Major subscribers were Saudi Arabia $50 million, Libya $30 million, and Germany $20 million.

Mr. von Hoffmann informed the PC about the proposed IFC capital increase. At present IFC had only $50 million left for equity investment and a $250 million borrowing capacity. The Corporation would run out of equity capital in FY77 and borrowing capacity in FY78 if present trends were followed. A $320 million capital increase, to be paid in four instalments in FY78, was sought. The response among potential contributors to IFC's capital increase had on the whole been good. The U.S. was sympathetic and had hinted that IFC might go further into mineral financing. Mr. McNamara said that the U.S. should be requested to define its proposal more clearly. This could probably be done after the Simon and Kissinger speeches at the forthcoming Annual Meeting and Special General Assembly. Mr. von Hoffmann planned to circulate a Board paper in the end of September for discussion in October 1975.

Mr. Clark said that the IBRD/IDA and IFC Annual Reports had received good press coverage in both the U.S., the U.K. and Japan.

Mr. McNamara said that coordination among IFC, Industrial Projects and DFC would be required for financing or urban development. Mr. Mason had submitted a report on the World Bank Group and private enterprise some time ago. He asked Messrs. Baum and Cargill to read the report. Other PC members should think about the coordination for later discussion.

SB
August 26, 1975

821/13/23

President's Council Meeting, September 4, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Husain, Clark, Shoaib, Kearns, Weiner, Krieger, Hoffman, Stern

The Council met to discuss Mr. McNamara's concluding remarks to the Annual Meeting.

Mr. McNamara said that he wanted to concentrate on four matters: the Third Window, VIDA, an expansion of capital of IFC, and a selected increase of the Bank's capital. Mr. Adler said that it would be useful to mention that the U.S./OPEC controversy and the difficulty of quota allocation should not interfere with long-term aid flows. Mr. Clark said that a reference should be made to the Special Session of the UN General Assembly. Mr. Stern said that the change of attitude, particularly in the U.S., towards the LDCs should be mentioned.

Mr. McNamara said that the Third Window would be initiated as soon as $100 million had been paid in and that he would say that this was inadequate and should be increased.

With respect to VIDA, Mr. McNamara said that countries should recognize that inflation should be fully offset and an increase in real terms should be included. Hence we should aim at the same percentage of GDP for donor contributions to VIDA as was originally intentioned for 4IDA. He said he would talk about VIDA in principle rather than mentioning specific amounts. Mr. Stern said that it should be mentioned that VIDA required support, both by its traditional donors and by those countries which have benefited from major increases in their national incomes and in their foreign exchange reserves. Mr. Chenery said that need for VIDA followed from the Bank's diagnosis of the situation in the LDCs. There had been strong agreement amongst speakers on the diagnosis.

On IFC Mr. McNamara would say that he had sensed a strong support for a capital increase.

On the selective increase, Mr. McNamara would say that he had sensed a strong support for continuing 30 years of parallelism with the Fund. Some countries had been concerned that their share would diminish. He said that, although this was important, it could be handled after agreement had been obtained on the selective increase, along with other details. The Board might have to be expanded to accomodate these concerns. Mr. Krieger said that many LDCs did not understand the need for a capital increase, or the Bank's crucial role as an intermediary in capital transfers. Mr. McNamara strongly agreed and said that it was absurd for the Development Committee to spend time on studying access to capital markets when the most efficient channel for capital transfers, namely the Bank, was in jeopardy. LDC delegations should be strongly urged to lobby for a capital increase with the OECD countries.

SB
September 8, 1975

821/13/24

President's Council Meeting, September 15, 1975

Present: Messrs. McNamara, Knapp, Alder, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Husain, Krieger, Shoaib, von Hoffmann, Diamond, Hoffman, Kearns, Kirmani and Miss Han

Mr. Hoffman reported on the UN Special Assembly. He said that two documents would be forthcoming: a consensus document and one specifying where and when the remaining issues were to be resolved. The U.S. and Germany had so far not been able to agree with the rest on a declaration of intent on the .7% GNP target for aid and on the SDR link. On a question from Mr. McNamara, Mr. Hoffman said that the .7% target would in practice only apply to DAC countries. Of specific interest to the Bank were clauses on IDA and the special Capital Increase. There was some doubt whether the IDA clause would remain in the consensus document. Mr. McNamara asked Mr. Hoffman to call Mr. Grenfell immediately on this and, in case there were problems with the IDA clause, Mr. McNamara was prepared to go to New York. Mr. Knapp wondered what had happened to the commodity issue. Mr. Hoffman said that something similar to the STABEX would be in the consensus document. Mr. McNamara asked Mr. Hoffman to send the U.S. Working Paper from the Assembly to all PC members.

Mr. Knapp said that Messrs. Yudelman and Sella would go to the IFAD meeting in Geneva later this week. He suggested that Messrs. McNamara, Baum, Hoffman and himself would meet to resolve outstanding issues. Mr. McNamara agreed. One of the issues was that the OPEC countries wanted the IFAD to undertake project lending, whereas India and Pakistan wanted the fund to be a mere paying agency.

Referring to the fact that only one project was scheduled for Board presentation on September 23, Mr. McNamara asked the RVPs to watch project processing carefully. He said that delays in presentation, due to staff not being present or government delays, were not acceptable. Mr. Cargill said that he had talked with the RVPs on project processing and the outlook for FY76. Present estimates indicated that there would be a $500 million overrun in FY76. Mr. McNamara stressed the importance of having a relationship between the number of projects and the dollar amount. Any solution to our program difficulties would have to include such a relationship.

Mr. Chenery said that the DAC meeting on capital requirements for developing countries would take place on September 24 in Paris and that he would attend. Mr. McNamara said that the same matter would be discussed at the Tidewater Conference on September 27 and 28 in Germany which he would attend. He therefore asked Mr. Chenery to call him on September 25 to report on the Paris meeting.

Mr. Shoaib said that it might be an idea to have a Chairman's lunch on Monday afternoon of the Annual Meeting instead of the Chairman's reception and dinner.

Mr. McNamara said that a system had to be established for preparing completion reports. He received a monthly table from Mr. Shoaib which indicated that the completion reports were not being processed adequately. Mr. Baum said that the quality of completion reports was often a problem. Mr. McNamara agreed and said that the preparation of completion reports should not be postponed even under the pressure of project processing, since we had budgetted for both.

SB
September 16, 1975

821/13/25

President's Council Meeting, September 22, 1975

Present: Messrs. McNamara, Knapp, Adler, Benjenk, Broches, Cargill, Damry, Husain, Krieger, Shoaib, Weiner, von Hoffmann, Hoffman, Kearns, Kirmani, de la Renaudiere, Twining, van der Tak, Wapenhans

Mr. McNamara said that the Chenery conflict of interest case now had been resolved. He would inform the U.S. Treasury in writing the same morning. Mr. Chadenet had been asked to study the general implications of the Chenery case for other staff.

Mr. McNamara said that Mr. Stern had been appointed to monitor the Bank's work in relation to the "Kissinger Plan" and the "UN Resolution." He would also serve as a primary contact with the U.S. Government on these matters.

Mr. McNamara said that he would go to the Ford Foundation meeting in New York on September 23, see the Colombian President in Washington on September 25, and leave for the Tidewater Conference and a meeting with Chancellor Schmidt in Germany on September 26. He would return to the office on September 30 in the afternoon.

Mr. McNamara said that he had decided to lift the ban on employment of spouses. He asked PC members to watch the implementation of this policy very carefully and ensure that spouses met the standards that were applied in general to Bank staff. Mr. McNamara had intended to limit the new policy to G(iv) visa holders but had reluctantly agreed on the insistence of Mr. Chadenet and the Staff Association to apply it to all. He had asked for a semi-annual report on employment of spouses from Mr. Clarke.

The base program for FY76 had now been developed. Mr. Adler had been asked to modify the program to take account of the Third Window. It was not yet clear when the Third Window would open but, if Kuwait came up with its contribution in October, it was likely that commitment could start on November 1. Mr. McNamara asked Mr. Damry for a copy of Governors' statements at the Annual Meeting on the Third Window.

Mr. McNamara asked PC members to ensure that no staff members worked unreasonable amounts of overtime. Even when a staff member was willing to work large amounts of overtime, this might still not be reasonable and it was PC members' responsibility as managers to judge whether overtime was unreasonable and change the work schedules accordingly.

Mr. McNamara asked PC members to help him avoid using his name inappropriately. He said that his name should only be used in writing, when he knew about it, and when decisions were phrased in his way.

SB
September 24, 1975

President's Council Meeting, October 6, 1975

821/17/26

Present: Messrs. McNamara, Knapp, Adler, Baum, Broches, Chadenet, Chenery, Clark, Damry, Krieger, Weiner, Stern, Wapenhans, de la Renaudiere, Goodman, Kearns, Please, Votaw, von Hoffmann

Mr. McNamara reported on the Tidewater Conference. He had discussed 5IDA with national aid officials from Germany, the Netherlands, Sweden, the U.K., Switzerland, the U.S. and Japan, besides several high-ranking international civil servants. The U.S. had exaggerated ideas with respect to possible OPEC contributions to 5IDA. A figure of 25% had been mentioned. This was way out of line since the six potential OPEC donors had a GNP equivalent to 5% of total OECD GNP and their GNP per capita was about half of OECD GNP per capita. Mr. Pronk had sharply attacked the U.S. view on OPEC contributions. It was not clear at this stage what OPEC's response would be to 5IDA. The whole issue was clouded by the present talks on several funds and the Shah's plan. Mr. McNamara had also talked to Chancellor Schmidt and stated that 5IDA should fully offset inflation and provide for a real increase in lending. Mr. McNamara had referred to Mr. Genscher's speech in the UN Special Assembly and said that it would hurt the donors' credibility if they backed away from promises made in the Assembly.

Mr. Stern said that the Trust Fund would be established in the IMF before the January meeting of the Development Committee. The Trust Fund would be financed by profits on gold sales. One-third of the gold would be directly distributed to member countries in accordance with their quotas. Selling the remainder at a market price of $160 an ounce would give profits of approximately $2 billion. However, the gold market was thin now and the market price substantially below $160. Countries with per capita incomes of less than $360 would be eligible, but the IMF definition of LDCs was somewhat odd since it included OPEC countries. The possibility of using the gold profits for backing the issuing of Trust Fund bonds had also been discussed.

Mr. Stern also explained the present status of the Compensatory Financing Facility in the IMF. Two proposals were being discussed: a U.S. proposal where export short-falls would be calculated in nominal prices, and a IMF staff proposal where the calculations would be made in real prices. The U.S. proposal could lead to an annual use of the Facility of about 200 million SDRs; the staff proposal would lead to substantially higher amounts.

Mr. von Hoffmann mentioned the IFC Seminar on Eurocurrency. The Eurocurrency market continued to be a major source of finance for the more creditworthy and higher-income LDCs, such as Mexico and Brazil. It was somewhat odd, however, that the market would go on expanding its lending to LDCs, while the banks had limitations on their capital. Mr. McNamara said that we did not have a clear intellectual grasp of the Eurocurrency market. He said that better understanding of the market should be developed within DPS, IFC or the Vice President-Finance Office.

Mr. McNamara said that P&B, after discussions with the RVPs, would shortly send him a paper on FY76 programming. He said we faced a major problem on FY76 and asked the RVPs to give top priority to this problem.

Mr. McNamara asked RVPs to ensure that EDs were adequately informed of routine Bank business in their countries.

Mr. Broches wondered about the status of the IFAD. Mr. McNamara said that Mr. Yudelman would report on this at the Department Directors Meeting but that it was already evident that IFAD would become an institution and that pressure was being exerted to use program lending instead of projects. It was worrisome that IFAD might eat into 5IDA.

SB
October 7, 1975

President's Council Meeting, October 13, 1975

Present: Messrs. McNamara, Knapp, Adler, Broches, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Shoaib, Stern, Wapenhans, Weiner, Qureshi, Goodman, Kearns, Kirmani, Lerdau, van der Tak

Mr. McNamara mentioned Mr. Rowen's article in the Washington Post the same morning. He said that he had already met with some staff members on Friday afternoon on the letter from Congressman Obey and that we would develop an approach to the letter over the next week or so.

On a question from Mr. McNamara, Mr. Stern reported that the meeting of consumer and producer nations in Paris was a preliminary one to develop an agenda for a full meeting later in the year.

Mr. McNamara had learned that the Bank was not always responsive enough to Canadian interests. This had come up during a discussion of 5IDA with Canadian authorities. He asked PC members to be duly responsive to the legitimate interests of such countries as Canada, the Netherlands and Norway, which might be leaders in 5IDA. Mr. Knapp said that the problem with Canada was probably related to lending in the Caribbean, including such items as IDA and Third Window allocation. We were now going ahead with the loan to the Caribbean Development Bank which might improve matters.

Mr. Clark said that Maurice Strong had become head of the Canadian Government Energy Corporation and would resign his job at UNEP at the end of the year. He would most likely be succeeded by either his deputy or the Peruvian Ambassador to Austria. Mr. McNamara said that Mr. Strong would continue to be interested in aid problems and could be a useful contact for the Bank in Canada.

Mr. Stern reported on a meeting of the Development Committee's Working Group on Access to Capital Markets. A multilateral guarantee fund had been discussed by a group of high-caliber experts. The fund would include a lead guarantee by which the capital-supplying country would provide a 100% guarantee but have recourse to the multilateral guarantee fund. Mr. McNamara said that, if the problem for the LDCs was only the transition from project lending to general access to financial markets, then it would be easier to use the regional banks and the IBRD than to establish a new fund. Mr. Stern agreed.

Mr. Clark said that the DAC countries would meet on October 16 to discuss IFAD. Mr. Yudelman would attend the meeting. Mr. McNamara said that he was concerned about the fragmentation of development assistance effort which could occur through establishment of the above-mentioned multilateral guarantee fund, IFAD and the UN Special Fund.

Mr. Chenery said that Reports 477 and 802 would now be institutionalized in the sense that a yearly report would be forthcoming. The format would be flexible, including a general part and some special topics for each year. This year the special topics would be debt problems and internal resource mobilization, and perhaps food problems. Mr. Chenery would send an outline of the report to Mr. McNamara and the Regions for comment.

Mr. McNamara said that the Advisory Panel on Population was getting started. He hoped to revise the Bank's population program in view of the advice obtained from the Panel.

SB

October 14, 1975

821/13/28

President's Council Meeting, October 20, 1975

Present: Messrs. McNamara, Knapp, Baum, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Shoaib, Stern, Wapenhans, Weiner, Qureshi, Goodman, Kearns, Kirmani, Nurick, Schulmann

Mr. Chadenet said that Mr. Adler was doing well and probably would be out of the hospital by Wednesday.

Mr. McNamara said that he had met with each Region on the FY76 program over the past week. P&B had now made a summary of the program which looked reasonably good. The summary will be known as the Revised Regional Lending Program as of September 30, 1975. Standard Table 1(c) would be revised to reflect the new program.

Mr. Knapp said that he would meet with the appropriate EDs to discuss detailed procedures for the Third Window. These procedures could not be approved before the end of November 1975. Mr. McNamara said that the Third Window in any event would not be operational until Kuwait had allocated money for the Interest Subsidy Fund.

Mr. McNamara said that he would like to meet on October 24 with Messrs. Knapp, Baum, Damry, Weiner, Shoaib and the RVPs to discuss Board reactions to the Operations Evaluation Study.

Mr. McNamara said that he would go to the ACC meeting in New York on October 21 to discuss among others the follow-up action to the Special Assembly.

Mr. McNamara said that he had received a draft of the Capital Structure paper. The paper outlined the three possibilities open to the Bank: (a) to cut lending which was unacceptable; (b) to increase capital subscriptions; and (c) to change the Articles of Agreement. The paper would be distributed on October 22 to PC members for comment by October 24. Board action should take place before the Development Committee meeting in Jamaica in January 1976.

Mr. Goodman said that Mr. Richard Lynn from Mr. Kearns department was making an organizational study of the financial groups in the Bank. He asked PC members to cooperate with Mr. Lynn when he came around to talk to them.

Mr. Baum reported on the DAC meeting on IFAD in Paris. Three principal issues had been discussed: (a) the U.S. had insisted that funds should be exclusively channelled through international financial institutions; this position was supported by all DAC countries except the Netherlands; (b) weighted voting on which there had been no agreement; and (c) amount of contributions needed for triggering establishment; the U.S. had insisted on $1 billion before IFAD could become operational. Mr. McNamara said that channelling the funds through existent international financial institutions was a step in the right direction but would probably be unacceptable to several OPEC countries and the LDCs.

Mr. Baum reported on his trip to FAO and WHO. FAO was in turmoil because of the upcoming elections for the Director-General position. Candidates were traveling widely and making promises. A large turnover in senior-level staff was foreseen. The Investment Center had been moved out of the main FAO complex, contrary to the recommendations of the FAO/IBRD study, to increase direct coordination between the Center and FAO at large. Mr. Baum had been pleased to observe in both FAO and WHO that the development philosophy of the Nairobi speech had penetrated the institutions. Mr. Clark said that the same was evident in the recent U.K. White Paper on development assistance.

Mr. McNamara said that there would be no PC in the week of October 27.

SB
October 21, 1975

821/13/29

President's Council Meeting, November 10, 1975

Present: Messrs. McNamara, Adler, Baum, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Krieger, Shoaib, Wapenhans, Weiner, von Hoffmann, Diamond, Kearns, Votaw, Wiehen

Mr. McNamara reported briefly on his trip to Colombia and Costa Rica. He said that he had useful meetings with the Ministers of Finance and the heads of the Central Banks. There were no serious problems as far as the Bank's lending program was concerned.

Mr. McNamara said that Mr. Ryrie, the British ED, had asked to see him on the IFC Capital Increase. The British were concerned that the IFC Capital Increase might take place before the 5IDA Replenishment. Mr. McNamara said that the Governments could in fact act on 5IDA, IFC Capital Increase and IBRD Capital Increase at the same time if they so wished. Mr. von Hoffmann said that the British did not like to act first on IFC, since this would not fit very well with the recent British White Paper on aid. He said that he had talked to the major shareholders about a $480 million capital increase for IFC in four annual installments. The U.S. wished to act on this in the first half of 1976. The French, the Germans and the Japanese had problems with both the timing and the amount. The Italians, Canadians, Dutch and Saudi Arabians were all in favor. There would be an informal meeting of these eight countries on November 24 in Paris in connection with the IDA Deputies Meeting. Mr. McNamara said that he would prefer to wait until after this informal meeting before sending the paper on the Capital Increase to the Board. He also said that the paper should not indicate a firm amount. If the Europeans agreed in principle to an increase to be paid between 1978 and 1981, he could not see what would prevent them from acting on this in the beginning of 1976.

Mr. Cargill said that we had not yet heard from Kuwait on its contribution to the Third Window Subsidy Fund. There had been no comments on the 5IDA paper for the Deputies Meeting. Mr. Janssen wanted a question/answer seminar on the IBRD Capital Structure paper. Mr. McNamara asked Messrs. Cargill and Wood to contact Mr. Janssen.

Mr. McNamara said that he had met informally with the EDs in three groups before his trip to Latin America. He intended to meet periodically in this informal manner with the EDs, but probably in one group. The first meeting might take place on December 1 or December 3 to report to the EDs on the 5IDA Deputies Meeting and hear their comments.

Mr. McNamara said that Mr. Ryrie probably would raise program lending under the Third Window with him later in the day. He asked Mr. Adler to prepare a table of program lending as percentage of IBRD and IDA lending over the last years.

Mr. Clark reported that the UN Resolution on IDA had passed the Second Committee of the General Assembly on November 7. Mr. McNamara asked Mr. Clark to provide him with more information on the U.S. position.

Mr. McNamara said that he would meet with Mrs. Sigurdsen, the Swedish Minister of Development, the same morning. Mr. Cargill said that Mrs. Sigurdsen had met with several Bank staff members in the past week. Mr. McNamara said that such meetings should be coordinated and he asked that one person be responsible for this in the future.

Mr. Diamond said that the signing of the Bangladesh program credit had been postponed.

SB
November 11, 1975

821/13/30

President's Council Meeting, November 17, 1975

Present: Messrs. McNamara, Adler, Baum, Broches, Chaufournier, Chenery, Clark, Damry, Krieger, Shoaib, Stern, Wapenhans, Weiner, Clarke, Goodman, Kearns, Votaw, Wiehen

Mr. Goodman commented on the forthcoming $750 million bond issue in the U.S. The Bank's three managing underwriters would work on the issue but it would still take a major effort to sell it. The underwriters felt that it was an excellent time to put the issue to the market, since the possible default of New York City had led to a strong market for high-quality securities. The prospectus would be issued after the Board meeting on November 18. Mr. McNamara said that he had met with Salomon Brothers last week in New York to ask them to join First Boston and Morgan Stanley as managing underwriters for the Bank. He had made it very clear to Salomon Brothers that they should not only sell the Bank's bonds but also advise on financial policies and help build the absorptive capacity for World Bank bonds in the U.S. market, from $2 billion a year to $4 billion a year five years from now. Salomon Brothers had said that they were honored to take the job and that they would send a man to Washington for a year to acquaint himself with the World Bank. Mr. McNamara had also met with Morgan Stanley who said that they could do a $600 million to a $1 billion issue but at a very high interest rate. They had recently done a $1.75 billion issue for the Alaskan Pipeline at 10-5/8%. Mr. McNamara had told them that he was not willing to pay that kind of price now. Mr. McNamara said that, with large Bank borrowings in future years, we had to take a sophisticated approach to the market, analyzing carefully who buys Bank bonds and who does not, and then approaching individual buyers to convince them of buying World Bank bonds. All in all, the whole spectrum of Bank financial matters, such as borrowing, capital structure, IDA5 and IFC Capital Increase, needed very sophisticated attention.

Mr. McNamara reported that he had met with Prime Minister Palme alone for about 1-1/2 hours on November 12 in New York. Mr. Palme's primary concern was whether the World Bank efficiently reached the poor and raised their productivity. Mr. McNamara had said that the Bank did exactly that and to underline his point he had sent a letter to Mr. Palme with 10 case studies of rural development projects. From the letter he had extracted a progress report on the World Bank's Rural Development Program which he urged PC members to read along with the case studies. He asked Mr. Damry to distribute the progress report to the EDs and Mr. Clark to think about how the report could be publicized, for instance, by sending it to selected U.S. Congressmen, and having it published in the Congressional Record. Mr. McNamara further asked Mr. Baum to send him copies of all supervision reports of rural development projects and to prepare a semi-annual or annual report on how well we were meeting our objectives in implementing rural development projects. Mr. Baum said that evaluation units were now built into every rural development project and that a data bank on expected yields under different conditions was being prepared. Mr. McNamara asked Messrs. Baum and Yudelman to contact him on this before his December 23 lunch with Agricultural Directors. Mr. Chaufournier said that local people should be associated with evaluation of rural development projects. Mr. McNamara strongly agreed.

The IDA5 Deputies' meeting would start on November 24 in Paris. Mr. Stern had talked to Minister Pronk of The Netherlands during his trip to Europe. The Dutch were willing to support strongly IDA5 and send a high-level official to the meeting.

Mr. Chenery said that a Board seminar on international comparisons of gross product and purchasing power would take place on December 4 at 3:00 p.m. Professor Kravis would be present. The research project on purchasing power, jointly undertaken with the UN and the University of Pennsylvania, was the largest research project of the Bank. The study showed that the ranks and ordering of developing countries with respect to their per capita incomes would change. The study was therefore potentially explosive, since it could have profound effects on eligibility for concessionary financing. Mr. McNamara said that further study should be done before introducing these preliminary results in the Bank's operational data. He said that he would like to attend the Board seminar.

Mr. Broches said that IFC had been mentioned at the economic summit in Paris.

SB
November 18, 1975

821/13/31

President's Council Meeting, December 1, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Nurick, Goodman, Chadenet, Thalwitz, Karaosmanoglu, Hoffman, Damry, Husain, Krieger, Shoaib, Stern, Wapenhans, Weiner, von Hoffmann, Kearns

Mr. Goodman reported in Mr. Cargill's absence on the recent meeting of 5IDA Deputies in Paris. The atmosphere at the meeting had been encouraging and there had been broad but not universal support for the replenishment guidelines prepared by the Bank. Kuwait and Abu Dhabi had talked more about LDC aid needs in general than about IDA. Saudi Arabia had said privately that they would look for guidelines on their contribution from the Bank. The Germans were against the replenishment formula because it looked like indexation. They asked OPEC for a significant contribution. Mr. Moltrecht was privately a supporter of IDA but he had talked about German balance of payments and budget difficulties at the meeting. The Canadians, British and Dutch had made strong supportive statements. The Dutch had privately said that they would support a replenishment of $10 billion. The Scandinavians had also been positive, although Sweden had hinted at a reduction in its share. Japan had been negative. The next meeting of the Deputies was scheduled for February 26, 1976 in London. Mr. Adler added that a lot of things still had to be clarified with respect to 5IDA and that the going would become rougher as time went on. Mr. McNamara said that the crunch issues were the total amount and the burden-sharing. When these had been resolved, the others would fall into place. He said that he would meet with Messrs. Cargill and Goodman to plan further work on 5IDA.

Mr. McNamara asked Mr. Goodman to make a thorough investigation of the OPEC fund based on a levy of 10¢ per barrel of oil. A written statement should be prepared answering such questions as how large the fund would be, who would contribute, where would the donors meet next, would the scheme be for one year or more, etc.

Mr. von Hoffmann reported that he had met with nine potential contributors to the suggested IFC capital increase, namely, the U.S., U.K., Canada, France, Germany, Netherlands, Japan, Saudi Arabia and the United Arab Emirates. The U.S., Canada and the Netherlands had been very positive and so had, somewhat surprisingly, the U.K. Japan wanted to wait with the capital increase and might want to link its contribution to a reduction of its share in 5IDA. Germany would do its share and believed that the French eventually would go along. As a footnote, Mr. von Hoffmann added that Germany might abolish its Ministry of Development after the next election. He concluded that there was general agreement on the amount of the increase and the next step would be a meeting on January 12, 1976, in New York. Mr. McNamara asked Mr. von Hoffmann to send PC members the draft resolution on the IFC capital increase. The resolution would not be presented to the Board until after the January meeting. Japan's role was problematic and he wanted to meet with Messrs. Knapp, Cargill, von Hoffmann and Goodman to plan further work on Japan.

Mr. McNamara said that some misgivings had arisen among Morgan Stanley and Salomon Brothers and Merrill Lynch with respect to the planned $750 million bond issue in the U.S. Mr. Rotberg was working on the problem. Mr. Goodman said that the Saudis wanted to wait with their $100 million ten-year issue until after the U.S. issue had been floated. The price of the Swiss Franc and Deutschemark issues in Saudi Arabia was still under discussion. No response had been received on the Kuwait issue. Mr. McNamara said that the prospects for issuing bonds in the Arab countries were not as good as expected and we would have to rely increasingly on the U.S. market.

Mr. McNamara asked Mr. Hoffman to discuss with Messrs. Clark and Merriam whether the proposed press dinner should go ahead. Mr. McNamara felt that there was no story to tell the press and that the journalists therefore might feel that they were wasting their time or make a story out of a non-story. He asked Mr. Karaosmanoglu to analyze the figures in the forthcoming Atlas and advise whether a story could be based on these new figures. Mr. Stern suggested 5IDA as a story and Mr. McNamara asked him to talk to Mr. Hoffman about this.

Mr. McNamara referred to the New York Times article of November 30, 1975, on the Bank and himself. The article maintained that the Bankwas still closely identified with the U.S. He was very concerned about this and asked PC members to tell him if they felt that this was still the case. Personally he did not think so, since we had taken issue with the U.S. on several occasions, brought down the percentage of Anglo-Saxons on the staff, and made strong efforts to reduce the arrogance and insensitivity of staff towards the member countries.

Mr. Hoffman said that UNDP was facing a cashflow problem. Mr. Peterson had asked for a Special Governing Council meeting on the subject. Mr. Hoffman would present recommendations on Bank reaction to Mr. McNamara this week. Mr. McNamara said there should be no slowup of work for which the Bank was Executing Agency, except with the written agreement of himself or Mr. Knapp. Mr. Baum said that the proposed project preparation facility should not be used to bail out UNDP. Mr. McNamara agreed.

SB
December 2, 1975

821/13/32

President's Council Meeting, December 8, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Broches, Chadenet, Chaufournier, Chenery, Clark, Damry, HAdler, Lerdau, Shoaib, Stern, Wapenhans, Weiner, von Hoffmann

Mr. McNamara said that the $750 million bond issue in the United States had a good chance of being solidly placed but that the market was volatile and fairly crowded. The average cost of the issue could be around 9.05% and this would raise a question about our lending rate. Because of this, the LDC Directors might be reluctant to approve the issue, but they should realize that, if they did not go along with the issue, they might face both a reduction in the Bank's lending program and an increase in the lending rate. Mr. Clark asked whether the high cost would have any influence on our borrowing in other countries. Mr. McNamara said that it would not.

Mr. Damry reported that France, Japan and possibly the U.S. and Mr. de Groote's constituency might oppose a two-step increase in IBRD capital. Mr. Cargill would be spending the day talking to EDs about their position in the Board discussion the following day. LDCs were concerned about a possible voting power loss. Mr. McNamara said that we should not sit idly by and see the voting power of LDCs erode. Mr. Adler had prepared a memorandum on the possible solutions to this problem and Mr. McNamara asked him to distribute it to all PC members. The basic idea was to maintain the relationship among LDCs as it is in the IMF and to maintain the relationship in voting power among Part I countries. Variation could take place between Part I and LDCs.

Mr. Chadenet reported on Mr. McNamara's meeting with officers of the Staff Association on December 5, 1975 (see Memorandum for the Record dated December 8, 1975). There was some discussion of whether personnel files should be open. Mr. Shoaib said that Personnel should assure that staff members were informed of adverse comments made about them. Mr. Stern said that the annual evaluation should be shown to staff members. Mr. McNamara said that there were three issues: (a) monitoring of files for which Personnel was responsible; (b) showing the annual evaluation to staff members which was strongly recommended; and (c) the principal question of whether personnel files should be completely open or not. He left it with Mr. Chadenet to deal with this issue, and raise it in the PC whenever he felt it appropriate.

Mr. Chenery said that he had met in Paris with government officials and others who were interested in the Annual Review which would take the place of Report 802 in the coming years. Participants had felt that the July forecast in Report 802 on OECD growth by now seemed optimistic. Mr. McNamara said that we should realize the danger of making long-range forecasts. We were now reputed to have made an error on the forecast of the 1980 OPEC surplus. Because such forecasts made us vulnerable, he had decided not to publish the long-term commodity forecasts. The new Atlas would show that only a handfull of countries had per capita incomes of less than $100, while a lot had been said in the Governors' Speech of the plight of countries with per capita incomes of less than $100. We should take great care that such revisions which could be interpreted as errors on our part did not damage the integrity and reliability of the institution. If our statistics did not support previous statements, we should be the first to say so. Mr. Clark suggested that forecasts should always be clearly labeled "staff estimates" to avoid them being taken for policy statements of the Bank. Mr. McNamara asked Mr. Clark to ensure that the new Atlas figures were cleared by Messrs. Chenery and Tims before being released to the press.

SB
December 9, 1975

President's Council Meeting, December 15, 1975

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Husain, Krieger, Shoaib, Stern, Wapenhans, Weiner, von Hoffmann, Kearns

Mr. Cargill reported that the $750 million U.S. bond issue had sold very well. The average cost to the Bank was 9.17%. This was fairly expensive but, if we wanted to be in the long-term market, we would have to accept costs of that order. Mr. McNamara said that the underwriters had done a very good job. Due to the cost, we would have to reconsider the lending rate in February 1976. Furthermore the projected average borrowing cost of 8.25% for FY77 was probably unrealistic. Mr. Chenery asked about borrowing from OPEC countries. Mr. McNamara said that we had some difficulties since the advisors to OPEC were not fully aware how governments should deal with the World Bank. One country had suggested splitting the commission fee. Such a suggestion was unacceptable and this type of behavior was contrary to the best interests of the LDCs, since it would increase the cost of money.

Mr. Cargill said that a synopsis of a Board paper replying to questions raised at the December 9 meeting had been prepared. This second paper on capital increase would be mainly clarifying, particularly with respect to voting power. It would stress the urgency regarding a capital increase. Mr. McNamara said that the second meeting on the IBRD capital increase would take place on January 20, 1976. The second paper should be distributed to the Board before Christmas. He asked Mr. Damry to send the concluding comments from the December 9 Board Meeting to all PC members. These concluding remarks should be used when answering questions from the staff. Mr. McNamara said that he might ask some PC members to help contact governments on the IBRD capital increase before Christmas.

Mr. Stern said that the major item for action at the forthcoming Development Committee meeting in Jamaica would be the proposed Trust Fund. The Interim Committee would probably reach an agreement on gold which would permit gold sales for the benefit of the Trust Fund. The Trust Fund was expected to commit about $2 billion over a three-year period. Terms and eligibility criteria for Trust Fund support would be discussed in Jamaica. An eligibility limit similar to IDA's would probably be agreed upon. The U.S. wanted part of the Trust Fund to finance an expansion of the Compensatory Financing Facility. This Facility might commit another $1 billion of additional finance for LDCs. Mr. McNamara asked Mr. Adler to prepare a table showing IMF transfers to LDCs by facility over the period 1968-1978. Mr. Stern said that the following further items were on the Agenda for the Development Committee:

(a) A review of LDC economic situation. The Bank had prepared a paper based on R-802 and the IMF would have its World Economic Survey ready for Jamaica.

(b) Commodities. This had been put on the Agenda as a request from France. Nobody knew what the French had in mind. Mr. McNamara said that he had read the paper on UNCTAD's commodity proposals. He was worried about the proposals to shift prices away from market trends and to index commodity prices. These proposals were unacceptable to the U.S. and could easily lead to confrontation in the UNCTAD meeting in Nairobi. Mr. Stern said that the IMF Compensatory Financing Facility would be underway before Nairobi and it would include neither one of these proposals. Mr. McNamara asked Mr. Clark to prepare a political report on the UNCTAD meetings in Geneva. He should send instructions to Mr. Carriere on this in agreement with Messrs. Chenery and Stern.

(c) Aid targets. A target of .7% of OECD incremental GNP had been suggested. Mr. Stern did not see any need for such a sub-target on ODA. It was hoped that the prepared paper would serve as a basis for a dialogue between OPEC and OECD on ODA.

(d) Programs and resources of international and financial institutions through 1980. The paper showed that total multilateral aid will be larger than bilateral aid by 1980 and that the World Bank Group would provide about 70% of all multilateral assistance. Mr. Stern was afraid that grouping all multilateral assistance could lead to unproductive discussions of lending standards and criteria.

(e) Multilateral Guarantee Fund and legal impediments for access to capital markets. Mr. McNamara said that the major impediment for LDC access to capital markets was the risk perceived by lenders. The Bank could minimize this risk.

Mr. Stern said that Mr. Costanzo had talked to the EDs about the Jamaica Agenda. The Germans and, to some extent, the Japanese had been very negative.

Mr. McNamara said that the future of the Development Committee was uncertain. In view of this he wanted Mr. Stern to continue his liaison work until October 1976.

Mr. Knapp reported on his trip to Germany. He had productive talks with KFW and the Ministry for Economic Development on cooperation between Germany and the Bank. More joint financing than in the past was foreseen. German aid would be concentrated on African and EMENA countries. German aid had been scattered worldwide previously to preempt East German aid. With the more relaxed relations between the two countries, the Germans had decided to concentrate their aid efforts. KFW was now willing to come in earlier in the project cycle. KFW had suggested that the Bank come to their assistance on short notice but this would be difficult. Mr. Knapp did not see Messrs. Appel and Bahr but he had talked at length with Mr. Moltrecht in Mr. Janssen's presence on IDA replenishment and IFC and IBRD capital increases. The Germans could not make any commitment until after the budget had been approved by the end of February 1976. On the other hand, they would want to be approached before the October 3, 1976, election. In general they wanted as much time as possible to pay in their commitments and had referred to the Richards Formula for IFC as an acceptable method for IDA and IBRD increases. Mr. McNamara said that we understood too little about the German budget situation. He asked Mr. Clark to investigate this through Mr. Carriere in coordination with Mr. von Hoffmann. Mr. Knapp said that the Germany Ministry of Economic Development would probably not be abolished under the present Government.

In view of the Board discussion on local cost financing in relation to the rural development project in Brazil, Mr. McNamara asked PC members to watch carefully their proposals for local cost financing in the President's Report. Mr. McNamara did not think that there was any problem for local cost financing to the poorest countries and to sectors such as rural development. The problem rested with countries like Brazil and Mexico and we could probably meet our objectives in these countries without recourse to local cost financing.

Mr. McNamara summarized the situation with respect to the Algeria cement project. The project had been prepared by EMENA with a view to improving policies of industrialization in Algeria. The economic rate of return was about 50%. Mr. McNamara had written the Algerian Minister of Finance on the need for revision of Algeria's industrial policies. The letter had been reworked on Mr. Khelif's request. On reading the President's Report, Mr. Cooper had found the project very poor. Mr. McNamara had given Mr. Cooper a copy of the letter to the Minister of Finance. After a discussion with Mr. Cooper, Mr. Khelif had thought that the U.S.

was against the project on political grounds. This was not the case. The project would be presented to the Board on December 16. Mr. McNamara felt that it had a good chance of being approved.

Mr. McNamara said that Mr. Robert Garner had died of a heart attack over the weekend.

SB
December 16, 1975

President's Council Meeting, December 22, 1975

821/3/34

Present: Messrs. McNamara, Knapp, Adler, Baum, Bell, Broches, Goodman, Chadenet, Chenery, Clark, Damry, Husain, Shoaib, Wapenhans, Weiner, von Hoffmann, Blobel, Kearns, Jaycox, Wiese, Wright

Mr. McNamara said that he and Mr. Knapp had carefully reviewed the Regional lending programs for FY76 and FY77. They had adopted the June 1975 budget programs as the basis for the World Bank FY76 and FY77 programs. This resulted in a total of $10.2 billion for the two years, with an additional $600 million at present for the Third Window. The Third Window was expected to open for operations on January 1, 1976.

Mr. Kearns paper on Urban Poverty Organization was discussed. Mr. Husain enquired about the division of research responsibilities between CPS and DPS. Mr. Baum said that the CPS research was operationally focussed but that there was no overwhelming logic behind the division. Mr. Chenery said that the division of responsibilities shown in the paper was a compromise, but that the manpower requested in the paper was certainly needed. The planned research effort was minimal. Mr. Shoaib asked whether university research should not be stimulated. Mr. Chenery responded that this would be absolutely necessary and that the Bank would have to pay for a large part of outside research. Mr. Bell felt that research should be limited to an analysis of what the Bank and the countries were doing about urban poverty. Maybe the task was not so complicated after all and we could usefully concentrate on job creation. The Bank's effort should be concentrated in the Regions. Mr. McNamara referred to the annual review of the Bank Group Research Program and asked PC members to read it. The report showed the close relationship between research and operations. This close relationship should be preserved for the urban effort and he was not certain that the research program as presently outlined would do this. More emphasis on increasing earning opportunities was required. In any event, Mr. McNamara would not authorize further manpower until after the FY77 budget had been prepared. The long-run staffing needs of the Regions could not be developed until the project and sector work was well underway.

Mr. Wapenhans suggested that the manpower working on heavy industry in the Bank and in the IFC Engineering Departments should be combined and heavy industry work subsequently decentralized to the Regions. Sites and services, small-scale industries and DFC should also be decentralized. Messrs. Baum, Knapp and McNamara strongly disagreed with the suggestion to decentralize heavy industry work. Only about 35 professionals were working in this area and the critical mass would be lost if the group were divided among the six Regions. Mr. Knapp agreed with the need to decentralize small-scale industry, sites and services and DFCs. Mr. Baum said that, due to the inexperience of staff, it would be unwise to decentralize sites and services for another two or three years. Mr. Wright said that DFC had little experience with respect to small-scale enterprises. Everybody agreed and Mr. McNamara said that the thinking in DFC should be reoriented towards increasing earning opportunities in urban areas.

Mr. McNamara asked where the responsibility for work on increasing earning opportunities should be placed in the Regions. Mr. Husain said that this was a function of general economic policy and that the focus of the work, therefore, should be the chief economist. Mr. Baum disagreed and said that the work eventually would come down to projects and that the focus, therefore, should be a reoriented DFC division within the Region. Mr. Chenery said that it was not a question of either/or. The work had both general economic policy and project aspects. Mr. McNamara concluded the discussion by saying that we should learn by doing and that each Region should start doing. In the meantime further thought was required and he asked Mr. Baum to bring the subject of urban poverty work to the PC at least semi-annually.

Mr. Clark said that Bank representatives had met with the UNDP to discuss the status of UNDP-financed projects of concern to the Bank. The UNDP was facing a severe liquidity squeeze and might refuse to authorize new projects of interest to the Bank in the coming year. Mr. Baum said that the UNDP was learning more and more about the situation and that apparently it was getting worse to the extent that the Bank might not be able to undertake essential pre-investment work financed by the UNDP. Mr. McNamara said that in that case we might have to find other solutions. He asked Messrs. Adler, Baum and Clark to examine further the situation.

SB
December 23, 1975