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President's Council Minutes, Jan. - May 1978

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822/3/1

President's Council Meeting, January 5, 1978

Present: Messrs. McNamara, Knapp, Baum, Bart, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Gabriel, Hopper, Husain, Kearns, Krieger, Qureshi, Rotberg, Wapenhans, Weiner, de Silva, Miss Han

Congressional Oversight Hearings

Mr. Cargill reported on his talks with the American University team presently conducting an analysis of Bank projects for the Clarence Long Committee. One of the professors had expressed the view that the impact on the poor of traditional Bank projects had been underestimated and had questioned the usefulness of exact target numbers (e.g., number of families reached) rather than indicating orders of magnitude in project reports. Their report was due by the end of January 1978 and would feed into the Oversight Hearings. However, they had been asked to produce a second report, based on field visits, in 12-15 months' time which would then feed into the continuing work of the Oversight Committee.

Travel Policy

In introducing his paper on Operational Travel Policy, dated December 23, 1977, Mr. Chadenet said that (i) the Bank was becoming increasingly isolated from other institutions which were moving away from firstclass travel, (ii) the perception of staff was that the Bank was caving in to outside presure; he would nevertheless recommend to act now and to avoid dealing simultaneously with both compensation and travel policies later this year, (iii) although a differentiation by rank would be unanimously supported by member governments, he recommended the mode of travel to be determined by the Bank's specific work requirements, (iv) the paper did not mention exceptions due to health, which would obviously be granted, and (v) Concorde travel was a controversial issue with staff; views ranged from recommending abolishment of Concorde travel on image grounds to favoring Concorde travel as a business-like approach.

Mr. Baum commented on (i) staff reaction, (ii) criteria to be used, and (iii) recommendations. As to staff reaction, he said that staff members consider firstclass travel a critical part of the package of working conditions. A shift in policy would be considered a "unilateral" change in employment conditions and be perceived as resulting from outside pressures. Staff recognize, however, that a change is necessary. As to criteria, Mr. Baum said that (i) cost savings should not be used as the primary consideration because intangibles such as health were involved, (ii) the argument of increased comfort of economy travel was viewed with skepticism; firstclass travel was considered important, not because of its comfort, but because of the facilities provided in airports, i.e., because it facilitated travel, (iii) stopovers should be justified solely on health grounds and should not be traded against class of travel, (iv) it was impractical for staff to take a rest day upon arrival, and (v) there should be a better differentiation in categories of travel, e.g., north/south versus east/west or day versus night travel. Finally, with regard to his recommendations, Mr. Baum said that (i) he would go beyond Mr. Chadenet's recommendations in tightening up authorized stopovers, (ii) he accepted Mr. Chadenet's approach of differentiating by frequency of travel (after three trips), but he would introduce the additional criterion of number of days in travel status, (iii) he would make the principle more explicit that firstclass travel would be allowed when economy travel was not available on reasonable terms, and (iv) he would delete Concorde travel because the image costs were not worth the benefits.

Mr. Qureshi agreed with all the points made by Mr. Baum on staff perception. He emphasized that staff considered firstclass travel a real benefit which was part of the total benefit package. Stopovers were considered as means to maintain contacts with home countries and families and entered the choice of the area to work in. The Bank would have to come to all economy travel eventually but it would be untimely and unwise to act now through a piecemeal approach. Such an approach would, on the cost side, lead to the same reactions from staff as a change to an economy-all policy but would, on the benefit side, not yield the intended benefits in terms of improvements in Bank image.

Mr. Clark said that it would be disastrous to be seen as yielding to American pressure without tangible returns. This would further infuriate the staff and add to the already bitter anti-Americanism which is in danger of leading to a North/South split in the staff. Any change in travel policy should be presented truthfully as modernization and moneysaving and not as a diminution of privilege, nor as following other institutions. Firstclass travel was established in the pre-jet, pre-jumbo age and needed review to secure maximum efficiency cost-consciously. In making the change downwards from firstclass, the Bank should obtain from the main airlines some privileges at least for frequent travelers, e.g., to check in at firstclass, have seats in the first section of economy, etc.

Mr. Wapenhans said that (i) the cost-savings argument should not be played and that the quid pro quo should be clearly shown to the staff, (ii) a limited firstclass policy would not help with the Bank's image, (iii) any change should be introduced and interpreted as an over-all change in the compensation package, and (iv) it was simply unacceptable to travel economy in certain parts of Africa because of totally inadequate ground facilities. In response to a question by Mr. McNamara, Mr. Wapenhans said that he would recommend to deal with the travel policy issue in combination with an over-all change in compensation policies even if such changes turn out to lead on average to a reduction of the compensation package.

Mr. Bart said that (i) management in changing the Bank's travel policy at this point in time would give away one of the prime cards for the difficult coming negotiations with member governments, particularly the largest shareholder, (ii) the tendency of decreasing productivity would probably increase under the proposed policy because staff members would take their full rest stopovers, etc., and (iii) staff considered it primitive to suppress people from taking annual leave at their cost. Mr. Clark agreed that there should be no penalty imposed on stopping in the home country.

Mr. Krieger referred to his memorandum (dated January 4, 1978) and said that there was no similarity between the Bank and the institutions listed in Annex 1 of Mr. Chadenet's paper. In almost all of these institutions, only staff at the different management levels traveled extensively. Staff at the working level were assigned to field branches. The proposed policy put the burden on the lower levels. He proposed that, in order to improve the image of the Bank, management and not necessarily staff should travel economy.

Mr. Husain agreed with Mr. Krieger that other organizations were different because they were not highly centralized in their operations. Management should not illude itself that cost was the issue as suggested by the paper. Staff have not acted as mercenaries; they do not take stopovers and travel at night and weekends. It was essential to be honest with the staff if the Bank had to yield to outside pressures, mainly from its most important shareholder. Staff morale was very brittle at the moment; the 1967 change in travel policy had led to a rude confrontation between the President and the staff. He recommended that, as a first step, all members of the PC should travel economy and let the staff choose. If travel policy had to be changed, it should take place as part of a change of the over-all compensation package, or after the compensation issue had been settled; it would probably have to lead to an all-economy solution.

Mr. Chaufournier agreed with the descriptions of staff perception given by the other RVPs. Changes had to be made and economy-class travel had to be introduced as a general rule. The proposed changes would not get the Bank any credit and would only encourage critics to go further. A spirit of cooperation on the issue would have to be created between management and the staff. Staff could be convinced. There was the example of a division which had decided to travel economy because of their budget constraints. Mr. McNamara agreed that staff was very dedicated and that the majority of staff members could have been convinced to travel economy if management had started five years ago to work on the issue.

In summarizing the majority view, Mr. Gabriel said that sooner or later the Bank would have to adopt an all-economy policy with a few exceptions on frequency and health grounds. In response to Mr. Qureshi's suggestion of introducing offsetting benefits to staff, he said that these benefits should be targeted to those staff members who were giving up something. He emphasized that the conditions in the field granted to staff members were better than in most other institutions (e.g., no per diem system).

Mr. Hopper said that the main concern of responsible management should be how to facilitate the work of the staff in the field. He pointed to the alarming results of medical reports on the problems of adjustment between time zones; this issue should be considered in greater depth. The paper showed a lack of sensitivity to the problems of intraregional travel (e.g., in Africa) and other particular circumstances. With regard to timing, he said that it was better to have only one depressive package and to take the flack only once.

Mr. Broches enquired whether any ED had shown sensitivity to the issue. Mr. McNamara replied that this had not been the case but that several EDs had objected at earlier times to the President traveling economy and that the majority of EDs seemed to favor a travel policy based on the customary rank criteria.

In summarizing, Mr. McNamara said that no conclusion could be reached today. As a next step, the proposed change in policy should be discussed with the IMF and then with the Staff Association. He suggested that PC members commit their views to paper and circulate them to the other PC members. He expressed his concern about the apparent lack of adherence to the rule of a maximum of 90 days of travel per year. He asked Mr. Chadenet to prepare a paper by March 1, 1978, on (i) the Bank's policy as to maximum length of travel per year, (ii) the experience in implementing that policy, and (iii) any proposed changes.

CKW
January 10, 1978

822/3/2

President's Council Meeting, January 9, 1977

Present: Messrs. McNamara, Knapp, van der Tak, Bart, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Gabriel, Hopper, Husain, Krieger, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Kearns, Haq, and Miss Hann

Travel Policy

Mr. Chadenet reported briefly on several changes in the proposed new travel policy which were now being worked out, based on the comments received at the PC meeting on January 5. It would now be proposed that all-economy would become the policy with exceptions being granted according to certain criteria of health; frequency of travel to the long zone (with the long zone remaining unchanged); long absences; long non-stop flights; and conditions of intraregional travel. The administration of such exceptions would be left to the Regions and to the individual staff members.

Budget Guidelines

Mr. McNamara said that P&B would distribute guidelines for the FY79 budget to all budget center directors this week. The non-operational departments should review these guidelines and direct their comments to Messrs. Cargill and Gabriel. In view of the more complex issues faced by the operating departments, he would like to have a meeting on January 16, immediately after the PC meeting, with the RVPs and Messrs. Knapp, Baum, Cargill and Gabriel.

Statements of Financial Holdings

Mr. Broches reminded PC members that the statements of financial holdings were due this month.

Basic Needs

Mr. Haq said that three initial lessons had been learned in conducting the desk studies on Pakistan and Turkey. First, basic needs objectives did not conflict with broad development objectives and did not lead to bad economic policy; in the case of Pakistan, for example, the growth rate could even be higher under a basic needs objective. Second, there are reallocation possibilities in any system --both on the consumption and investment side; in Pakistan, $5 billion could be reallocated on the investment side. Third, progress would have to be achieved in an incremental fashion and not as a quantum jump. The international study showed that (i) more ODA was necessary, (ii) the distribution of ODA had to be different and be directed more towards the poorest segments of society, and (iii) the recurrent cost implications were more significant than the investment requirements.

Mr. Husain said that the country work program on basic needs had been agreed with the Regions; in his Region, emphasis would be placed on Indonesia. In his view, further desk studies would probably not be very useful except for further developing the required tools and techniques. It was more important for the basic needs approach to lead to a long-term direction of the Bank's economic work. He questioned why, if a basic needs approach were more economic than traditional policies, such a policy would require additional ODA. Mr. Haq replied that the additionality came in because of the time period assumed for meeting basic needs.

Mr. Clark said that he was worried about the hostile UN reaction (mainly from the G-77) to the basic needs approach. It was argued that this was an OECD/DAC and World Bank concept which constituted a cop-out of the industrial powers to do less. There was also irritation of the MICs that the Bank was moving into this direction to their disadvantage. It should be argued that the basic needs concept did not differ much from Mr. McNamara's poverty approach in 1972-73 and that it constituted a short-cut to abolish poverty rather than a short-change of the LDCs. With regard to the Bank, he agreed with Mr. Husain that the new approach should provide long-term direction for the Bank's economic work and should not lead to a short-term crash program. Mr. McNamara agreed that there was opposition in the UN and the argument that this was the rich countries' substitute for an NIEO. With regard to the concerns of MICs, he said that 80% of IBRD lending went to these countries; they would be the main beneficiaries of a capital increase.

Mr. Chaufournier also favored country studies to improve the Bank's economic work for two reasons: (i) such studies would more likely provide the necessary answers and (ii) they would put away with suspicions and ensure that the approach was not imposed upon countries. Mr. McNamara agreed; according to comments on the Pakistan desk study, the political action necessary to introduce the new approach was unobtainable.

Mr. Qureshi said that (i) Pakistan and Turkey had poor economic policies and were therefore two very poor cases to be studied; (ii) the basic needs approach could provide focus to poverty-oriented programs as to the specific type of actions required and as to the tactical issue of how to label and present them, and (iii) opponents of the approach argued that excessive emphasis on distribution would result in a lower rate of growth; these potential trade-offs had to be clearly addressed. Mr. Stern argued that desk studies would be useful to define country profiles showing to what extent basic needs had been met. Such profiles could be used as a screen to assess and direct the economic work program and lead to an economic policy and planning dialogue with countries, which would be left with the choices. Quick analyses were easily misleading.

In response to a question by Mr. Chaufournier, Mr. Haq said that basic needs were not a strategy and not contrary to modernization and industrialization but simply an approach to subject every policy to the basic needs test. It was a way of thinking rather than a final conclusion. Mr. Stern replied that it was not honest to say this; there were clearly alternatives; particular kinds of priorities had to be set, choices to be made, and it did not follow that there would be no cost implications in terms of economic growth.

Mr. McNamara agreed that (i) a profile to which degree basic needs had been met would constitute a useful tool which was presently not available, and (ii) it was possible that the use of resources for meeting basic needs might reduce economic growth; there was no evidence on this and DRC and others should work on probing the effects on the economic growth rate of alternative basic needs approaches. A host of questions could be asked if such a profile were branded on one's mind. He asked (i) to proceed with the work program as planned; however, he would like to raise some questions with Mr. Haq (e.g., on the selection of small countries); (ii) Mr. Haq to produce a quarterly progress report on the Bank's basic needs work starting April 1, 1978; the report should also comment on other important developments in this area, e.g., to what extent the economic reporting system included these considerations, developments on the international scene, etc., and (iii) the international implications of the basic needs approach should also be addressed in the World Development Report and in his next Governors' speech.

CKW
January 12, 1978

President's Council Meeting, January 16, 1978

822/3/3

Present: Messrs. McNamara, Knapp, Baum, Bart, Broches, Cargill, Chadenet, de la Renaudiere, Karaosmanoglu, Gabriel, Hopper, Husain, Kearns, Lerdau, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Miss Han, Mrs. Boskey

India

Mr. Stern reported on his recent visit to India. The general political situation continued to be fluid and complex. In particular, there had been a massive change in the relationship between the Central Government and the States because of the demise of the Congress Party. The Janata Party still had to establish itself at the local level. With regard to the frequent charge of indecisiveness and drift within the new government, he found the situation not nearly as bad as advertised. In the ministries of the economic area, principal secretaries had never been as competent as now. However, there was an obvious split between the gerontocracy and the younger professionals. The former looked on development in a romantic and anachronistic way, favoring prohibition and opposing an open economy, profitmaking and industrialization. Despite these difficulties, the basic economic decisions have been right. The situation of the balance-of-payments, foodgrain reserves, oil and gas production, and inflation looked reassuring. Emigrant remittances were now larger than foreign aid inflow. There were no major areas of disagreement between the Government and the Bank on planning. Although the new industrial policy was still mostly rhetoric, it was dealing with employment generation and geographic decentralization. Finally, he mentioned several innovative and highly successful activities which were receiving government attention: (i) the dairy program which had benefitted from Bank support and was now to be extended to all India; (ii) the guaranteed work program in Maharashtra; and (iii) the Bank-supported agricultural extension approach of Mr. Benor, which was now in great demand from other states. In summary, the great opportunity for major advance and development still existed; the resource constraint was essentially absent. In about one year's time, a conclusion could probably be drawn on whether this opportunity had been lost or taken advantage of.

Mr. McNamara called the attention of RVPs to the papers on (i) the Maharashtra-guaranteed work program, (ii) the dairy program and (iii) Benor's agricultural extension work.

World Development Report

Mr. Stern briefly reported on the present status of the work on the World Development work, which would be discussed by the Board on January 17. This work fell into four broad categories: (i) the review of country experiences to assess the efficiency and impact of past policies and to define the prospects in the areas of emphasis of the report (e.g., analyses on sub-Saharan Africa, South Asia and MICs); (ii) an analysis of a number of cross-cutting issues (e.g., determinants and consequences of population growth, the impact of migration, and food security problems and various aspects of capital flows and international trade); (iii) studies relating to the various aspects of poverty, i.e., the basic needs approach, etc.; and (iv) an improvement of the analytical framework, i.e., the development of a projection model which operates in a fully consistent accounting framework. Further, a statistical annex was being prepared which would provide data on economic and social indicators in a sufficiently concise manner so that it could be used as a ready reference tool by the busy executive. It was intended to keep the circulation of the large number of substantive papers to a minimum because they would be integrated into the main report to only a very limited extent and in order not to affect the World Development Report prematurely through criticism.

Mr. McNamara said that the World Development Report was scheduled to be circulated to the Board in June for discussion in July and then to be submitted to the Development Committee for consideration immediately before or during the Annual Meeting. A PC discussion of the draft report would be scheduled around April.

Capital Increase

Mr. McNamara reported on the informal meeting of EDs on borrowing and financial ratios which took place on January 10. There had been an encouraging statement by the main underwriters on future borrowing prospects which was used by Mr. Rotberg in his introductory statement to the Board. There was some disagreement in the Board on appropriate financial ratios, e.g., Mr. Janssen argued that the interest coverage ratio should not be below 1.20. Management had successfully replied that one should not look at a single ratio but rather at several different indicators (e.g., if net income were rising and there were large liquid holdings, an interest coverage ratio of below 1.20 was acceptable). The next meeting of EDs would be on February 16 and would deal with voting power and Board representation. This would probably be a difficult discussion. On representation, in order not to reduce the three seats of the Africans and Latin Americans, it might be necessary to add one seat. He did not expect the U.S. to oppose this. On voting he did not see a possibility to increase the voting power of LDCs at this point in time as demanded by the Nordic countries on ideological grounds. Japan would also press for a larger vote. Further, a paper was being prepared on the statutory lending limit; this was a critical issue because borrowing prospects could be affected by an amendment. Mr. Rotberg held this view. The issue had been pressed by Mr. Looijen and discussion of the paper in the Board would be scheduled for late February or early March. He called the attention of PC members to the excellent paper prepared by Paine Webber on Bank borrowing.

Compensation and Income Taxes

Mr. Chadenet reported that the study on taxes would be distributed to PC members later this week. Mr. McNamara said that he would meet with Messrs. Witteveen and Kafka on January 17, mainly to ask for weekly meetings of the Kafka Committee to resolve the issues of principle. Unless the Committee moved faster, management could not expect to be able to make a decision in about six months' time. A decision on a cost-of-living increase would have to be made against this background in March 1978. Mr. Chadenet said that there was no meeting of minds and no agreement on principles in the Kafka Committee. The Committee would therefore only present a tentative study on principles. Because of the lack of agreement on principles, the Big Five had now decided not to extend the consultants' study into stage 2, i.e., to analyze the arithmetic consequences of different options; however, he considered the general confusion to be useful because it showed the complexity of these issues.

Mr. McNamara agreed that confusion was better than agreement on the wrong principle. A competitive compensation study was both necessary and time-consuming. He asked the PC members to keep the tax study confidential. INTELSAT, in acting on a similar matter, had discovered that the required adjustment was very substantial and had decided to phase it in over ten years.

CKW
January 17, 1978

822/3/4

President's Council Meeting, January 30, 1978

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Damry, Gabriel, Hopper, Husain, Kearns, Krieger, Qureshi, Rotberg, Stern, Wapenhans, Merriam

Visit to Egypt, Saudi Arabia and Kuwait

Messrs. McNamara and Benjenk reported on their visit to Egypt, Saudi Arabia and Kuwait.

Mr. Benjenk pointed to Egypt's poor economic situation in recent years with regard to foreign debt, growth and management of the economy; in early 1977, the country was on the verge of bankruptcy. Implementation of Bank projects was seriously delayed. However, the improvements achieved over the last year by Dr. Kaissouni's economic team were impressive. Debt arrears had been cleared up; more reasonable exchange rates had led to substantial workers' remittances, foreign exchange earnings from the Suez Canal, petroleum and tourism had increased; and some progress had been made on pricing policies (25 out of 88 products had been liberalized). The 1977 growth rate is estimated at 7%. Implementation of the important drainage project had lately been remarkably improved. A Five-Year Plan had been drawn up which was not very realistic but whose first tranche for 1978 was workable. On the investment side, completion of ongoing projects receives priority. Finally, a unit in the Prime Minister's office now effectively monitors project implementation.

Mr. McNamara said that the population growth rate of 2.58% was alarming; however, there were now fair prospects for a more successful second population project. As to the management of the economy, there was still serious fragmentation of the decision-making process. But the progress made under Dr. Kaissouni's able leadership has been remarkable. If peace were achieved, President Sadat would have to deal with strong expectations and pressures to see peace transformed into higher consumption levels. The country needed substantial new aid commitments for the next years. He discussed new commitments for 1978 in Saudi Arabia and Kuwait; the general political reaction was favorable but the technical reaction was critical. The discussions in Saudi Arabia and Kuwait were satisfactory; there were good prospects for further IDA contributions and increased borrowing in Saudi Arabia.

Compensation

Mr. McNamara said that the report of the Big-Five Consultants recommended the private sector as reference; there would be disagreement on this in the Joint Committee (JC) and probably no decision. He had therefore asked Mr. Kafka to (i) agree at their next meeting on a set of alternative principles, (ii) hire consultants to collect the necessary data for evaluating the impact of the alternative principles, and (iii) inform the two Boards that action could not be completed before about six months from now. He would then urge Mr. Witteveen to join him in recommending a full cost-of-living increase in March, and if no action was obtained from the JC, to work directly with the Boards on the issue. He would meet with the Bank Board members of the JC on this.

Travel

Mr. Baum urged the PC to deal with the staff perception that management had capitulated on the travel issue and was not defending the staff on the tax and salaries issues in order to maintain good relations with Congress. Mr. Chadenet said that unfortunately all the behind the scene actions could not be explained to the staff. Mr. Benjenk said that there was no problem in explaining the compensation battle but the travel policy was perceived as the lamb to be sacrificed, without pressure from the Board. Mr. McNamara asked the PC members to explain to their staff that (i) strong action was taken by management to deal with the issues, and (ii) management was opposed to a reduction in salaries.

Mr. Stern said that lack of sensitivity had created the staff perception that everything was under attack: travel, taxes and compensation. Premature consultation with the Staff Association had muddied the waters without benefit. Tactically, action on the travel issue should have been deferred until decisions on taxes and compensation could be made. Mr. McNamara disagreed. The travel issue would otherwise soon have been raised in the Board. On taxes, however, he had told Mr. Blumenthal that the issue would only be dealt with in conjunction with the compensation package. In response to a comment by Mr. Cargill, he said that he was not prepared to say today that some substantial sections of the staff were overpaid. Staff should be aware that he was fighting the U.S. Government and should either have confidence in management or get a new management. It was impossible to run this institution without staff confidence. Staff support and unity among management were required for the extremely difficult times ahead.

Mr. Knapp said that he supported Mr. Chadenet's travel policy proposal and that he favored to act on it now. Action on travel will restore confidence in the soundness of management. Mr. McNamara said that emphasis had to be on fundamentals, namely, staff compensation. He had told Mr. Fried that he would resign if compensation policies were adopted which do not retain and attract high-quality staff, and if such policies were adopted only to assure Congressional appropriations. Staff compensation and capital increase would probably pose less problems if the Bank had paid a dividend of, say, $1 billion over the last 10 years; this possibility was worth considering.

Tourism

Mr. McNamara asked the PC to convene on Wednesday, February 1, at 9:30 a.m., to discuss the issue of whether the Bank should terminate its lending for the tourism sector.

CKW
February 6, 1978

822/3 15

President's Council Meeting on Tourism Lending, February 1, 1978

Present: Messrs. McNamara, Knapp, Cargill, Chaufournier, Qureshi, Baum, Gabriel, Karaosmanoglu, Rotberg, Broches, Kearns, Hopper, Krieger, Damry, Husain, Benjenk, Stern, Chadenet, Tolbert, Mrs. Boskey

Mr. McNamara asked the PC members to address three questions:

(a) Does development of the tourism sector contribute to economic and social progress?

(b) Does the Bank contribute significantly to the development of the tourism sector?

(c) Does the Bank through its other lending activities make a more important contribution than through tourism lending?

Describing the examples of several Mediterranean countries, Mr. Benjenk said that the answer to the first question was definitely yes. The second question was more difficult to answer. Unlike in its activities in the population sector, the Bank has not yet applied a tourism test to countries. He was not enthusiastic about Bank projects aimed at superstructure development (e.g., in Yugoslavia) but there were other Bank projects which contributed significantly to the sector (e.g., in Tunisia). Bank projects should be directed at infrastructure rather than superstructure development. As to the third question, in several countries tourism was essential for survival and nothing could be more important than Bank involvement in its development. Mr. Husain said that, if activities were considered in isolation, the point could always be made that the Bank made an important contribution. In view of scarce resources, however, only the third question was important. He had no doubt that the Bank's other activities were more important in terms of lending and policy dialogue with governments. He then commented critically on the Bank's involvement in the development of tourism on Bali. Mr. Damry said that the EDs might discuss the relative priority of tourism development in their country reviews. Some EDs had criticized that in some countries higher priority was given to tourism than warranted. Mr. Wapenhans said that tourism was of great significance for development in a limited number of countries; in those cases, tourism activities should receive priority.

Mr. Qureshi said that this discussion was also important for IFC; the Bank's contribution to date has been much more important than IFC's involvement in the sector. He favored infrastructure rather than superstructure development. The economic contribution of tourism was very important. However, the Bank was weakest in finding a conceptualization for establishing intersectoral priorities. This and the limited amounts involved made it impossible to answer the third question. Tourism, like population, was a controversial area, but controversy should be no reason for being cautious. The Bank should be involved if the sector met the stringent tests of need and lack of alternative sources of financing. Mr. Chaufournier said that, in view of the differences between countries, it was impossible to generalize about the tourism sector. In some small countries in West Africa, tourism was the most important source of off-farm employment. Bank intervention had changed tourism policies from import-intensive activities to economically and socially more meaningful operations which were linked with the other sectors of the economy. However, there was ample room for improvement. Mr. Karaosmanoglu said that there were positive and negative aspects of tourism development. The sector provided the most direct link to foreign exchange earnings of a country. However, problems were posed by the creation of an inadequate composition of consumption and by the economic cost of subsidizing tourists from rich countries in order to improve the balance-of-payments. As to the second question, the Bank could play a role in disciplining the use of resources in those countries which have decided to develop the sector anyway. Mr. Krieger agreed with Mr. Benjenk's answer to the first question. Staff had been hesitant to present tourism projects. In view of the enormous growth potential of the sector, the Bank should do more. In several countries and areas of his Region, tourism was the only feasible activity (e.g., on certain Caribbean islands and in Baja California).

Mr. Baum said that the answer to the first two questions was yes. The Bank was capable of making a significant contribution both through sector and projects work. As to the third question, he agreed with Mr. Qureshi that there were no criteria for evaluating shifts at the margin. There was a tourism image problem in the Bank which led to staff reluctancy and to a stop-and-go program. A decision on the issue of termination was needed soon for budgeting purposes. Mr. Stern said that the wrong questions were addressed. Tourism was obviously of importance for many developing countries and represented an increasing share of economic activity in those countries. There should, therefore, be no image problem. The only issue was Bank priorities; i.e., how many sectors could the Bank deal with in its expanding lending program. In the case of tourism, the Bank was pushing on a swinging door. There was a trend towards tourism development in LDCs anyway and the Bank's contribution was only marginal in terms of policy direction and projects work. He did not understand the issue of intersectoral priorities; management decisions were never made in marginal economic terms. The Bank's contribution to tourism was much less essential than in other sectors where the policy dialogue was difficult, the technology unknown, etc. Maybe the Bank was best in whatever it touched, but the Bank was not alone in this world and should also look at its comparative advantage. There were a number of other sources for tourism lending (e.g., Regional banks). Most projects contained in the Five-Year Lending Program could be considered fillers and superstructure-oriented. Mr. Gabriel supported Mr. Stern's point of view; the Bank needed to focus its activities and establish priorities. Mr. Chadenet argued for an intermediate solution. A division in CPS, e.g., in transportation, could be established which would consist of a small core group of tourism experts to consult on tourism components of infrastructure projects and to maintain a policy dialogue with countries. It would be undesirable not to use further the expertise acquired.

Mr. McNamara emphasized that the current deliberations on whether to terminate tourism lending did not reflect on the quality of the work of the staff and management of the tourism department. It was only an issue of Bank priorities. He asked Mr. Knapp to make--upon his return from Jamaica--a proposition on how to decide.

CKW
February 9, 1978

822/3/6

President's Council Meeting on Operational Travel Policy, February 6, 1978

Present: Messrs. McNamara, Baum, Benjenk, Broches, Chadenet, Chaufournier, Clark, Damry, Gabriel, Hopper, Husain, Karaosmanoglu, Kearns, Krieger, Parmar, Rotberg, Stern, Wapenhans, Twining

Mr. McNamara asked Mr. Chadenet to deal with the issues raised by Mr. Jaycox during this morning's Department Directors' Meeting, namely, the confidence gap which has developed between staff and management. He felt that two major points contributed to that gap: (i) the compensation issue, and (ii) the staff perception that he had caved in to U.S. pressure. He emphasized that he had so far not lost a single battle with the U.S.; however, he could not communicate to staff that management was fighting the U.S. Government. Mr. Benjenk said that staff were concerned about the bottom line of negotiations; i.e., whether management would be willing to make concessions on compensation in order to obtain IDA funds and an IBRD capital increase.

Mr. McNamara said that this morning's DDM had not produced further evidence on the travel policy issue. He thought the policy should be changed and should be changed now. The PC seemed to be divided mainly on the question of the appropriate timing of such a change. There had been sufficient discussion of the proposed changes. However, he was still concerned about the exceptions and particularly the problem of managing them. Mr. Chaufournier recommended to act after the decision on the cost-of-living increase was known to the staff. Mr. Clark argued that the decision should be made now and be announced soon. The burden of explaining the move as their own decision should be put on the PC members in order not to create the impression that the decision had been forced upon the PC by Mr. McNamara. Mr. Wapenhans argued that, in order not to lose the support of the Directors and Division Chiefs, some of their suggestions should be introduced into the proposal. Mr. Husain urged that the exceptions should be defined as clearly as possible and their administration should not be left to the Vice Presidents but to the Division Chiefs. The number of exceptions should be further reduced. As to the timing, Mr. Baum recommended to decide on travel as close as possible to the decision on the cost-of-living increase; if the full cost-of-living increase was obtained, there would be an offsetting impact; and if such an increase was not obtained, the staff would be penalized only once.

Mr. McNamara asked for a vote on whether the exception for speed should be eliminated. The majority was for elimination. Mr. Chadenet said that the elimination of the speed exception made it easier to arrive at the final proposal to be acted upon. This also ended the controversy on Concorde travel.

Mr. McNamara asked Messrs. Broches and Damry to advise him on the authority of management versus Board to act on this change in travel policy.

CKW
February 7, 1978

822/3/7

President's Council Meeting, February 6, 1978

Present: Messrs. McNamara, Baum, Broches, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Krieger, Parmar, Rotberg, Stern, Wapenhans, Benjenk

Arrangements for Annual Meetings

The meeting discussed the draft Review of Arrangements for Annual Meetings, prepared by the Secretaries of the Fund and Bank, dated January 27, 1978.

Mr. Damry said that it was proposed to reduce the number of plenary meeting days by one; the plenary would thus last from Tuesday through Friday and make room for other activities, such as the Development Committee on Monday. Although a surprising number of EDs had argued that the second Washington meeting could be dropped, it was proposed to continue with meetings on a yearly basis. Mr. Chaufournier favored reducing the formal part of the Annual Meetings by one day in order to make more time available for other activities. Mr. McNamara agreed. However, the paper should omit consideration of which meetings would be held on which day; this had not to be decided at this point.

Mr. Husain said that the Annual Meetings afforded an excellent possibility to build up support in times of attack on the Bretton Woods institutions. With regard to the invitation of Special Guests, Mr. Stern said that the Bank should be liberal at the margin; it cost the Bank very little to have a large number of Special Guests and these guests valued it highly. Mr. McNamara agreed. He said that he was skeptical whether there should be any significant changes as to the size of delegations and the number of Special Guests. He was increasingly aware of the enormous benefits of bringing these 5,000 people together and of the magnificent opportunity for LDC representatives to meet bankers during the Annual Meetings. There was no serious image problem with the Special Guests. Mr. Rotberg said that the Special Guests problem only existed for the EDs of the U.K. and Japan because they felt responsible for choosing the few representatives to be invited from about 300 banks. Mr. McNamara said that the Board should state that it was not its business to choose the attending Special Guests. Mr. Damry said that he would try to get rid of the deadwood in the list of Special Guests and only replace guests to be invited rather than to expand the list.

With regard to the Chairman's reception, the majority of PC members voted for continuation.

Travel

Mr. McNamara said that this morning's Department Directors' Meeting would deal with the proposed changes in operational travel policy. He asked the PC members to convene after that meeting to discuss these changes.

Lending Program

Mr. McNamara asked Mr. Stern to consult with the Operating Vice Presidents this week on the FY78 lending program, with a view to IDA overruns, realistic lending levels for IBRD and project processing schedules for the remainder of the year.

Compensation

Mr. Chadenet reported on Mr. McNamara's meeting with the members of the Kafka Committee on Saturday, February 4. The Committee was still moving in circles on the principles to be established. Mr. McNamara said that he had asked the Committee for three different actions during their present round of meetings: (a) to agree on a set of alternative principles; (b) to determine the data requirements for evaluating the impact of these alternative principles, and to agree on who should collect this information; and (c) to report to the Boards on the time required for arriving at a final recommendation. The time estimates presently ranged from four weeks to one year. Management would probably have to take interim action on the cost-of-living review. He would recommend a full cost-of-living increase effective March 1, and probably meet the opposition of a large number of EDs. Since there was a serious problem of credibility, the consultants to collect the necessary data should not be recruited from one country only. He would not let the Joint Committee fumble with the destiny of 6,000 dedicated staff; he would only accept results which ensured that the Bank could continue to attract, motivate and retain staff of the required quality.

Tourism

In response to a question by Mr. Chaufournier, Mr. McNamara said that he would not take further action until he had received Mr. Baum's draft memorandum to the Board. He admitted that he had decided prematurely after last week's PC meeting.

CKW
February 7, 1978

President's Council Meeting, February 13, 1978

822/3/8

Present: Messrs. McNamara, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Husain, Lari, Parmar, Rotberg, Stern, Wapenhans, Weiner

Compensation

Mr. McNamara said that he expected the IMF to agree to putting forward a joint recommendation for a full cost-of-living increase across-the-board, effective March 1. Since the cost-of-living index would become available on March 22, the paper containing this recommendation should be reviewed by the PC on February 27, and be distributed to the Board on February 28 for discussion on March 28. In response to a question, he said that the full offset should probably apply to gross salaries, but he asked Mr. Chadenet to review this issue and check the record of past years. He had consulted with the Joint Committee on the issue of the cost-of-living increase and had found reluctance to add an increment to a foundation which is in question; there would be very substantial controversy in the Board. However, management was not to blame for the delays in the deliberations of the Kafka Committee and, since there was no evidence at this point in time that salaries were excessive, staff should not suffer an erosion in real income. In response to a further question, he said that Mr. Chadenet would review the actions taken by other international and European institutions on cost-of-living compensation in the recent past.

Mr. Chadenet reported on the present status of the work of the Kafka Committee. There were now two schools of thought: one arguing that IMF/IBRD compensation should be determined by reference to a basket of the compensation packages of best-paid civil services on the one hand and the private sector on the other, with 50% weight given to the private and 50% to the public sectors; and the other school arguing that IMF/IBRD compensation should be based exclusively on private sector comparators. It had been agreed to ask two firms of consultants to look into the compensation packages of the Canadian, U.S., and German civil service and of 20 U.S., 5 German and 5 Brazilian quality firms of the private sector. The Joint Committee would try to report by June 1978 which meant that the consultants' study would have to be completed by May and that the consultants would have only about one month to do what he expected to take about one year. Mr. McNamara said that the Board then needed about two months to consider the proposal, i.e., a decision would not be possible before August 1978. A host of complex issues would have to be addressed which made the proposed timing difficult to adhere to (e.g., the compatibility between salary structures of different international organizations, the implications of possibly applying a gross formula for U.S. staff members, the Pension Fund, etc.). The Joint Committee had now set up a subcommittee in order to meet more frequently. It was a major and promising change that the issue was now being approached on a professional rather than a political basis.

Mr. Chadenet said that he would frequently report to the PC on developments and that confidentiality was essential. In response to a question, Mr. McNamara said that staff should only be told that (i) the compensation problems were studied on a professional basis and (ii) that this analysis was time-consuming so that the Joint Committee was not expected to report before June 1978.

Mr. McNamara said that assurance of the credibility of the consultants to do this study was important and that therefore a non-U.S. firm had to participate. In response to a question, Mr. Chadenet said that the 20 U.S. private sector firms were to be selected by the consultants together with the Joint Committee; the Bank would provide advice. Mr. McNamara emphasized that they had to be high-quality firms. He felt that in past compensation studies too much emphasis had been placed on banks. Banks were mainly bookkeeping operations and non-bookkeeping functions were performed only by high-level staff; these bookkeeping functions were paid much less than compensation levels in industry. Mr. Rotberg said that no securities or investment banking firms had ever been chosen for any compensation study.

Travel

Mr. Chadenet reported on his consultations with the Staff Association. At the Staff Association meeting on Thursday night, there had been unanimous opposition to any change in policy. There was a communication problem between PC members and their staff because the delegates had been unanimous in their perception that all PC members except the President and himself were opposed to a change in policy. He felt that there was a correlation between the degree of unhappiness expressed by the staff of the different Regions and the degree of commitment to the proposed change shown by the different PC members. Mr. Husain warned that extreme resolutions of the Delegate Assembly could harm the institution and the negotiating capacity of the President. He proposed that the Vice Presidents meet with their Staff Association delegates. Mr. McNamara considered this an excellent idea and asked the PC members to do so. Two channels of communications with the staff were needed: the Staff Association and the President's Council; the PC should be the primary channel. In view of the delegates' perception that PC members were opposed to the change, it could not be overemphasized that very serious problems on compensation lay ahead, that management was only partically in control of compensation procedures, and that internal unity was required in a time of outside pressures.

Mr. Hopper said that the staff members urging moderation were concerned about the fact that the 90 days or three trips rule would lead to a permanent firstclass group and a caste system. Mr. McNamara said that Mr. Chadenet was analyzing this issue.

In response to Mr. Chaufournier's point that the timing of the change was very important and that sufficient time should be allowed for discussion and consultation with staff, Mr. McNamara said that management had to assume responsibility for the timing decision. He wanted to use the decision on travel for his fight for the full cost-of-living increase. Today such a recommendation would be voted down by the Board. He had already forced the JC to agree to proceed with a careful study and to mention a date of reporting to the Board, thereby admitting that action on compensation was not imminent and that an interim cost-of-living increase might be justified. Mr. Baum said that he was concerned about the possible scenario of the Big Five Finance Ministers agreeing on the issue among themselves during a coffee break. Mr. McNamara said that the safeguard against such a move was the agreement to base any recommendation on a professional foundation.

Statement by Clarence Long

Mr. McNamara quoted from a recent statement by Mr. Long: 'McNamara is an engaging fellow but I become unfuriated every time he feeds me the line about the number of families that will be helped by one of those World Bank multimillion dollar projects. Those figures are always a bunch of baloney, and, while some people buy that line, I don't." He urged the PC members to be very careful with the figures used in Bank project reports and he asked Mr. Baum to make sure that data are adequate. Apparently Mr. Long had got this view from Professor Weaver, who, in turn, had heard this kind of statement from Bank staff.

Mr. McNamara asked Mr. Clark to circulate Mr. Bergsten's speech to the IDC and External Relations' report on this meeting.

Japan

Mr. Cargill reported on his recent trip to Japan. Although the Japanese Government was still asking for some technical clarifications, Japan would politically go along with the mainstream in deciding on the capital increase. Mr. McNamara said that this meant Japan would adhere to the U.S. position. Mr. Cargill said that the Japanese Government felt under pressure from the U.S. on the compensation issue and argued in favor of a travel policy allowing senior staff to travel firstclass and junior staff to travel "where they belong." Voting rights, i.e., Japan's status in the Bank and IMF, was a serious issue and, if unresolved, would probably affect IDA and the capital increase.

Human Rights

Mr. Clark said that a mission of the U.S. Government had recently toured Europe to get an agreement on human rights policies. Mr. Cargill said that the U.S. was in a state of complete confusion on human rights and that this mission could not be considered a success. Mr. McNamara disagreed; the mission was at least partly successful in terms of agreeing with European governments that something should be done on human rights. He mentioned that the passing of the IMF Supplementary Facility Bill had been postponed in Congress and that it would probably only go through if a human rights formula were attached.

Mid-Year Budget Review

In response to a question by Mr. Benjenk, Mr. McNamara said that the French and German EDs had voiced criticism at last week's Mid-Year Budget Review. Mr. Cassou had argued that all trends were deteriorating but could be proven wrong in a point-by-point analysis. It was actually coincidence that the Bank came out as well as it did in meeting projected performance levels. The disbursement model had undoubtedly its weaknesses but it could not be argued that overcommitments were responsible for these disbursement shortfalls. Nobody could convince him that the needs of the LDCs allowed the Bank to cut back on its commitment levels. The fierce criticism of some EDs reflected mainly their present annoyance at the U.S. position on several crucial issues facing the Bank.

CKW
February 14, 1978

822/3/9

President's Council Meeting, February 15, 1978

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Husain, Lari, Qureshi, Wiehen, Weiner

Mr. McNamara informed the PC members of his meeting with the 20 EDs (February 14) on the U.S. position on the IBRD Capital Increase. He read the text of the statement made by Mr. Fried to the PC.

Mr. McNamara said that the U.S. Administration was in principle forthcoming on the capital increase but had problems with Congress. The important points of Mr. Fried's statement were that the US (i) was not able to adhere to the present schedule of the capital increase; (ii) supported a real growth of IBRD commitments of 5% per year and a capital increase enabling the Bank to meet that target; (iii) could not enter into constructive discussion with Congressional leaders on the capital increase until correcting action on compensation was taken or convincingly rebuffed; (iv) could not make a commitment to the capital increase until progress was made in introducing human rights criteria into Bank lending; (v) supported, as an interim measure to avoid disruptions, a lending program of $6.8 billion for FY79; and (vi) was of the opinion that there was a broad consensus for a substantial capital increase and that it would be possible to complete action on such an increase within the required period of time.

Mr. McNamara said that, from an operating point of view, it was now important (a) to tie down the $6.8 billion program for FY79; (b) since the U.S. was now in line for a 5% commitment growth rate, to firm up the position of the other governments; (c) since the compensation issue was now well handled on a professional basis, to push through the cost-of-living increase; and (d) to produce a thoughtful paper on how and whether to introduce human rights considerations into the operations of international institutions. This staff paper on human rights should be prepared for management although the EDs had been opposed (19:1) to the Bank doing anything and had asked the U.S. to propose how to deal with these complex issues; it was therefore essential that confidentiality was maintained on the preparation of this staff paper.

In response to a question by Mr. Baum, Mr. McNamara said that staff should be told that the U.S. (i) was not able to make a formal commitment to the capital increase before FY79, (ii) supported a 5% real growth rate of commitments, and (iii) would not take a formal position until the compensation and human rights issues were resolved.

CKW
February 27, 1978

President's Council Meeting, February 27, 1978

822/3/10

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Nurick, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Picciotto, Husain, Lerdau, Qureshi, Stern, Wiehen, Weiner

Compensation

Mr. Chadenet reported that (i) the Joint Committee had selected Hewitt Associates of Chicago, a consulting firm specializing in compensation matters, to survey the compensation of other organizations in the U.S., Brazil, Canada, France, and Germany in order to quantify the implications of alternative approaches; Hewitt would be assisted in France by Andre Vidal and in Germany by Kienbaum Unternehmensberatung; he considered Hewitt to be a very professional firm; (ii) in agreement with the IMF, the full cost-of-living increase would be proposed to the Board this week; and (iii) at last Friday's Staff Association meeting on the changes in travel policy, some delegates had been pressing for a work stoppage on Tuesday at 3:00 p.m.; the resolution did not allow negotiations with management until the terms of reference were better defined; however, the resolution was finally passed in a way which allows the necessary cost-of-living discussion with the Staff Association.

LDCs' Mistrust and Misunderstanding of the Bank's Role

Mr. Husain said that in the last 30 years the Bank had operated in an environment of broad consensus on policies. Continuation of this consensus was becoming more illusive because of several factors: (i) the sharpening confrontation between North and South, e.g., in the trade area; (ii) the different development experience of the various LDCs over the last 30 years (e.g., the rapid development in Latin America and East Asia versus unsatisfactory development in South Asia) which led to different government positions; and (iii) the large and increasing size of the Bank, both in absolute and relative terms, combined with the fact that the developed countries were channeling a larger part of their resources through the Bank which--as a natural consequence--led to attempts at larger political control. These factors affected the Bank's activities: (a) the day-to-day work with LDCs, (b) the over-all policies of the Bank, and (c) the Bank's relations with the UN and other institutions with strong LDC representation.

As to the day-to-day work with LDCs, there was a strong perception of LDC governments of the Bank's growing professionalism and commitment to development, but also of the Bank's vulnerability to outside pressures; the need to make tactical concessions to obtain funds (e.g., for IDA) was seen by many LDCs as a pattern of continuing compromises (e.g., in the case of the palm oil loan to Indonesia and the loan to Laos). With regard to the Bank's over-all policies, the Bank was considered by LDCs to be an intellectual leader in major areas of development. However, the danger of intellectual arrogance had to be kept in mind. The Bank's increasing involvement in issues of management of countries and in the political and social field (e.g., on income distribution) required a far broader dialogue with LDC policy makers than in the past. The Board was frequently not the appropriate forum for such a discussion because its LDC representatives had a conflict of interest, namely to be policy makers and representatives of countries needing funds at the same time. Further, there was increasing need for a dialogue beyond the circles of government, i.e., with intellectuals in LDCs, as the Bank already maintained in the U.S. and Europe. As to the Bank's relations with the UN, management had to enquire why there was tension between the Bank and UNCTAD, G77, etc. The Bank considered the G77 as a political representation but it was difficult to distinguish between political and economic issues in the context of the North/South dialogue.

Mr. McNamara asked Mr. Husain for his specific recommendations for Bank action. He agreed that the Bank should develop closer relations with the intellectual leadership in LDCs. He asked Messrs. Clark and Karaosmanoglu to develop a proposal. With regard to the G77, there were frequently conflicting views between the Governors of the Bank and the IMF on the one hand, and the representatives of the G77 on the other. He was not sure what the Bank could do about this. Mr. Husain replied that there was a misconception in the North-South dialogue that the Bank was associated with the North more than with the South, e.g., on trade and commodities. The Bank should adopt a more aggressive approach of educating the G77. Mr. McNamara said that Mr. Jack Clarke would keep the Bank better informed about the North/South dialogue and would also keep the G77 better informed about the Bank. In pressing for increased capital flows and in its trade policy statements, the Bank had a pronounced pro-South policy position.

Mr. Clark urged the Bank to emphasize that it had both a political and a development strategy. The problem with the North/South dialogue was that the South felt that the Bank was associated with the North and the North felt that the Bank was associated with the South. It should be clearly stated that the Bank was following an approach of mutual interest, i.e., in the interests of the South and the North. The North/South dialogue had remained a confrontation, with the North attempting to build defenses; there had been very little attempt to identify areas of mutual interest. The Bank had to be aware, however, that a strategy of mutual interest would probably lead to accusations of hypocrisy and to being considered as a false friend by both sides. Staff had to be educated on this mutual interest strategy and detailed policy statements on crucial North/South issues (e.g., debt and trade) had to be worked out.

Mr. McNamara summarized that (i) possibilities for strengthening the relations with intellectual leaders in LDCs through formal and regular contacts should be explored by the Clark/Karaosmanoglu paper; (ii) a better intelligence and understanding of the attitudes of LDC political leaders acting on development should be developed by Mr. Jack Clarke; and (iii) Bank staff, and particularly junior staff members, should avoid politicizing meetings of North/South fora and purely political controversies; he had asked Mr. Clark to set up a system of instructing attending staff.

Mr. Chaufournier agreed with Mr. Husain's statements. The Bank had to improve its relations with organizations which the LDCs considered as "their" political fora. In order to appear to listen more, the Bank should invite more frequently speakers from developing countries. At present most seminars and lectures were given by representatives from developed countries. Mr. Stern said that there was a financial disincentive to invite LDC speakers because of high travel costs. Mr. McNamara emphasized that this should not prevent anybody from bringing in an intellectual leader from a developing country to lecture on points of importance to the Bank. He would be willing to pay for such visits from the contingency.

Mr. Stern said that the Bank's contribution to the North/South dialogue ought to be to provide more of an analytical base for the political leverage of LDCs which was wasted on peripheral issues. The Bank should be careful about its representation in large fora; such events posed the dilemma that the Bank could not be analytically sound and politically appealing at the same time. Mr. Karaosmanoglu said that the Bank, by its nature, had to keep a balanced position on important issues. The LDCs did not complain because of differences in position between them and the Bank, but because they believed that the Bank did not fully understand their position. Since representatives of LDCs tended to be exclusively concerned with their immediate pressing problems, more than first line official contacts were needed. Other organizations spent more effort on inviting LDC intellectual leaders for broad exchanges of views. To be useful contacts had to be developed at different levels in an informal fashion. LDC leaders frequently expressed informal views on the Bank which differed from their official announcements. Mr. McNamara said that the Bank could not tolerate a situation where leaders expressed views on the Bank in the political fora which differed from the views expressed in their contacts with Bank representatives; the Bank had to urge governments to silence such opponents.

Mr. Knapp agreed with Mr. Clark's emphasis on a strategy of mutual interest. Also, the Bank had not done enough to educate the makers of political choices rather than only fellow professionals. Mr. Stern said that the Bank's publications program was too much research-weighted and designed to inform the world of the Bank's intellectual leadership rather than to appeal to policy makers. It would be attractive to the latter to learn about the Bank's lessons of operational experience, e.g., which project designs worked and how to reach the intended beneficiaries. Mr. McNamara agreed. The Bank's publications program had to be greatly improved over the next years to make the Bank's wealth of information and experience available to policy makers and thus to inform the supporters of the Bank. Papers had to be persuasive and not alienating.

Quantifying Targets of New-Style Lending

Mr. Baum said that great effort had been spent on developing measurements of absolute and relative poverty; standards and reporting procedures had been designed and frequently base-line surveys were carried out before project implementation; emphasis was placed on monitoring and evaluation. The staff was repeatedly urged to be realistic in quantifying project objectives; nevertheless there was cynicism among staff as to the reliability of the figures used. This unease of staff was due to several factors: (i) the quantification of project targets was subject to a large margin of error and involved a cascade of assumptions; even the best estimate was not very good; (ii) results tended not to be comparable and staff were uncomfortable about aggregation of figures; and (iii) there was a small but growing problem of double-counting due to the overlapping of projects. Mr. Stern said that aggregated data were always less convincing; such data should only indicate orders of magnitude and show the right direction; however, they were often used differently. The present methodology was not too bad for the stated purposes of aggregation. Mr. Chaufournier said that illustrations of the impact of individual projects on people had more impact with critics and were far more convincing than aggregated numbers.

Mr. McNamara said that different people respond to different things. The Bank had to be able to say that it permanently and significantly increased the incomes of X people. Obviously account had to be taken of the fact that such estimates had a range. The Bank needed to put the targets and accomplishments of its work into terms which convinced people. It was important to gain the support of the staff for the methods used and the results of producing the required data. How to aggregate and generalize was an important issue. He asked the PC members whether they believed in the aggregation of figures related to the Bank's poverty work. Mr. Picciotto replied that he did not believe in such aggregation because of the weakness of the present methodology. Mr. McNamara said that in that case the Bank had to try to find the means to aggregate. He asked Mr. Baum to develop such a methodology for aggregating figures related to the Bank's poverty work. He asked Mr. Clark to prepare a list of examples, illustrating the impact of new-style projects. Finally, he asked Mr. Knapp to distribute to the PC the papers on the Bank's poverty lending performance in specific countries which had recently been prepared at Mr. Fried's request.

cc: Mr. Clark

CKW
March 2, 1978

President's Council Meeting, March 13, 1978

922/3/11

Present: Messrs. McNamara, Knapp, Baum, Paijmans, Nurick, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Picciotto, Husain, Kearns, Lerdau, Qureshi, Rotberg, Wapenhans, Weiner

The Bank's Public Image

Mr. Clark reported on recent efforts to improve the Bank's public image in the U.S. First, it was planned to use the EDs as proponents; several appearances had been scheduled in places such as Chicago and Los Angeles. The EDs would sign a letter on Bank salaries which would be used when the New York Times would carry an article on the issue. Several other press activities were planned for the EDs. Second, a number of press and TV activities were scheduled for Mr. McNamara. There would soon be an article in Newsweek, an interview with Leonard Silk from the New York Times, and an ABC program on the Bank's President which would probably partly be filmed in the field. Third, several meetings with Congressmen and Senators were scheduled for Mr. McNamara. This week he would have breakfast with the House Select Committee on Population and he would meet with a group of Senators next week. There was a certain unwillingness to learn in Congress and education of Congressmen and Congress staff was difficult. Mostly it had to be done on a personal basis. Fourth, other activities included local press seminars at the time of the Annual Report, preparation of a pamphlet on Bank activities, assisting the Washington Post in its endeavor to produce a series on the LDCs over the next year, and the continued use of press tours as a useful instrument to transmit a favorable view of the Bank. He urged PC members not to believe that the Bank's image in the U.S. was bad; the salary issue was the "sore thumb." For example, the favorable Bergsten statements should not be forgotten in the light of Clarence Long's attacks. The Bank strategy aimed at a low profile explanation of the Bank in this country. He reminded the PC members who planned public appearances that up-to-date briefing notes were available, a list of "dirty questions" had been prepared, and brief examples of new-style projects were available.

Mr. McNamara referred PC members to the recent Blumenthal and Bergsten speeches. They documented that there was stronger support by Treasury than ever before and they provided useful information. He asked Mr. Clark to get together with Mr. Damry as soon as possible in order to ensure that the EDs' letter on compensation would be ready to go out by Wednesday night. The letter would not prejudge the results of the Kafka Committee if it focused on the fact that salaries were paid by LDCs, that the Bank needed competent people, and that the issue was under study by a professional group. Further, he asked Mr. Clark to consider and to consult with Messrs. Yudelman, Hopper and Stern on whether Inderjit Singh's background paper to the WDR on small farmers in South Asia should be published. It provided information and evidence to counter Clarence Long's attacks on the Bank. Mr. Long's recent letter to the Baltimore Sun was disgraceful.

Staff Salaries

Mr. Chadenet reported on the work of Hewitt Associates. A list of U.S. firms had been selected on professional grounds and did not include the "mid-West drugstore" on which Mr. Cross had insisted. They were now looking into comparable skills at the Bank. They aimed at presenting their report by May or June but they would not compromise quality in order to meet the deadline.

Mr. McNamara said that the Kafka Committee had now formed a subcommittee which consisted of the local members and met frequently. Hewitt was proceeding in a professional way. It would take months after completion of the Hewitt report to introduce judgment into the results. It was therefore impossible to predict the final outcome. In view of this, Mr. Witteveen and he recommended a full cost-of-living increase effective March 1. However, a number of governments objected; management might have to consider changing the recommendation from 7% on net to 7% on gross. At present the 7% recommendation would be voted down and the most likely compromise would be a 3%-4% tapered increase. He would fight hard to prevent such an outcome. Among others it would further compress salary grades at the higher levels.

Mr. Cargill said that the restlessness of staff on this issue was getting extraordinary. If the cost-of-living increase recommendation would be turned down completely, the staff would not take this as a decision to wait for the recommendations of the Kafka Committee but rather as an indication that salaries were too high. Mr. McNamara agreed that such an outcome would prejudge the Kafka Committee. However, his recommendation would not be completely turned down. He reminded PC members that Mr. Blumenthal had stated for the first time that salaries would not be cut. He was aware of staff concerns but the time required to arrive at a final conclusion could not be shortened.

New Telephone System

Mr. Husain said that the new telephone system caused far more inconvenience to professionals than justified by the alleged cost-savings. Regional management had not been consulted. Mr. Qureshi agreed. He urged not to inflict little disturbances on the staff at the present point in time. Mr. McNamara said that management had to recognize that there would be a long period of difficulty ahead and that it had to work together to avoid friction. He asked Mr. Chadenet for a paper which would give the advantages and the cost of the new system as compared to the old services, and spell out the alternatives under the new system.

CKW
March 15, 1978

President's Council Meeting, March 20, 1978

Present: Messrs. McNamara, Knapp, Baum, Paijmans, Broches, Cargill, Chadenet, Chaufournier, Karaosmanoglu, Merriam, Damry, Vergin, Picciotto, Husain, Kearns, Lerdau, Qureshi, Rotberg, Stern, HAdler, Weiner

Cost-of-Living Adjustment

Mr. Chadenet reported on the meeting of EDs in Executive Session on March 16 to hear the views of the Staff Association on the proposed cost-of-living adjustment. Mr. Chatenay had presented an excellent statement, pointing, inter alia, to the threat of a growing politicization of the Bank. The representatives of the Staff Association were then confronted by the EDs with four questions: (i) Why not taper? (ii) How did the Staff Association relate to the various actions taken by staff along nationality lines? (iii) Were there already difficulties in recruitment? (iv) Was there a threat of unionization? The representatives of the Staff Association responded that they did not favor any tapering, that the national actions of staff were deplorable, that there were not yet any increased problems of recruitment, and that the majority of the staff rejected unionization attempts. After the representatives of the Staff Association had left the room, there was an informal discussion covering a number of different areas. In a long statement, Mr. de Groote said that the future of the Bank was endangered by the U.S. position on salaries and that the countries friendly to the U.S. should oppose this position. In response to a question by Mr. Franco, Mr. McNamara then read from those passages of the Coopers Lybrand and TPFC report which dealt with the issue of whether Bank staff was overpaid or underpaid. He pointed to the several incorrect statements and quotations from the report by the U.S. Government in its cable-letter sent to U.S. Embassies for their lobbying efforts against the Bank and Fund proposed cost-of-living adjustments with other governments. In response to other questions, Mr. McNamara had then pointed out that it would take the Kafka Committee and Bank and Fund managements many months to deal adequately with the entire spectrum of compensation issues. The Bank had just provided the Kafka Committee with a list of 14 issues which had to be dealt with. In concluding his report to the PC, Mr. Chadenet said that Mr. Cross was extremely worried by the incorrect statements in this Treasury cable to U.S. Embassies.

Mr. McNamara reported that the EDs' meeting had also dealt with the timing of further capital increase discussions. He had stated that there were no penalties to the Bank's activities if there was an up to 3-9 months' delay, because the U.S. supported the continuation of the Interim Plan; that the U.S. was committed in principle to a 5% real lending growth for future years; and that the U.S. could not discuss a formal decision in the near future because of the human rights and salaries issues. Mr. Damry said that three EDs had been pressing to resume the capital increase discussion over U.S. opposition but that Mr. McNamara had convinced them that nothing could be gained from such an approach.

Mr. Chadenet added that Mr. McNamara had also referred to the human rights issue and had distinguished between civil and economic rights. Mr. McNamara said that he had mentioned his recent luncheon with Vice President Mondale and Secretary Blumenthal to the EDs. Vice President Mondale had promised to get in touch with the Senate and House Subcommittees to gain their support for the mark-up for \$2.25 billion. In response to a question by Vice President Mondale as to the likely problems to be encountered in dealing with Congress on this issue, he had mentioned human rights and discussed the distinction between civil rights and economic rights.

Mr. Chaufournier said that TPFC had apparently been influenced by the U.S. Government. He enquired how management could ensure against this. Mr. McNamara replied that such consultants should be fired and that this happened in the case of TPFC. There was no indication that the new consultants (Hewitt) were influenced by the U.S. Mr. Chaufournier said that--as Mr. McNamara had reported to the PC--the U.S. had been asked by an informal meeting of EDs on human rights to present a paper on their human rights position by March 1. Where was that paper? Mr. McNamara replied that the U.S. had not been able to prepare such a paper. He had told Vice President Mondale that there was not a single thoughtful piece of paper on the human rights issue available in the U.S. Government. Vice President Mondale and Secretary Blumenthal seemed to agree that the IFIs should not be used for human rights purposes; an increasing number of individuals in the U.S. Government shared the view that these policies should be pursued bilaterally. The Bank should get these individuals to coalesce and quietly and informally pressure the U.S. to withdraw its position.

IDA

Mr. Husain enquired about the effects of possible delays in IDA appropriations. Mr. McNamara said that in the past ten years the timely processing of IDA lending had never been affected. A possible U.S. default on IDAIV would not have any operational impact in the next 3-4 months; in the long run, however, it would be disastrous and tear IDA apart. Delays in IDAV appropriations could lead to a renegotiation of the entire Agreement. In his meeting with Vice President Mondale and Secretary Blumenthal, it was agreed (i) to get the key people in Congress together, (ii) to try to push the $2.25 billion through the mark-up stage, (iii) that the Vice President and Mr. Blumenthal would deal with the Subcommittee members on a one-by-one basis, and (iv) that the President and Vice President would support the vote by organizing meetings in the White House which he (Mr. McNamara) would also attend. The White House now very strongly supported the Bank. The Administration would also try to get the procedures on contingent liabilities changed so that the callable capital would not have to be appropriated. This would probably come through only in the long run and might benefit the general capital increase.

Minerals and Energy Lending Program

Mr. McNamara said that a minerals and energy lending program had been presented to the Board in May 1977. Progress on this program had been reviewed by the PC in December 1977 and he had now received another progress report from Mr. Baum. This report showed that (a) seven coal and non-fuel minerals projects had been dropped during the last 90 days, although, as the report pointed out, the projects were available; and (b) that sector work had been cut because P&B had argued that the Bank could not afford it. Mr. Baum said that, because of CIEC, the Bank's minerals and energy program had received worldwide attention. In December 1977, Mr. McNamara had argued that the Bank should do more than reflected in the progress report. The oil and gas program was in good shape, although more could be done. The seven coal and non-fuel minerals projects could go forward. With present P&B guidelines, the sector work could not be increased. Mr. Cargill said that this was not a problem of Regions dropping projects, but a question of budget priorities. Mr. Stern said that the major CIEC interest was in oil and gas. Coal should receive second priority and presented some country problems. Minerals should receive third priority and the Bank should build a larger pipeline. Mr. McNamara emphasized that the Regions were planning too thin a program. If it were in the interests of the countries to have this program proceed, the discussion should focus on whether these activities would be a substitute or an addition in the lending program. He asked Mr. Knapp to pursue the issues raised.

G-iv Visa

Mr. McNamara said that the regulation affecting G-iv Visa holders' work permissions would be substantially liberalized. Messrs. Vance and Blumenthal had strongly supported this.

CKW
March 23, 1978

822/3/13

President's Council Meeting, March 27, 1978

Present: Messrs. McNamara, Knapp, van der Tak, Paijmans, Broches, Cargill, Chadenet, Thalwitz, Karaosmanoglu, Clark, Damry, Vergin, Picciotto, Husain, Kearns, Krieger, Qureshi, Rotberg, Stern, Adler, Weiner

Staff Compensation

Mr. McNamara reported on his discussions with Messrs. Witteveen and Kafka on the work of the Kafka Committee. Mr. Kafka had said that he did not expect the Boards to be able to decide before December 1978, but that he could not state that officially. Mr. McNamara emphasized therefore that the cost-of-living adjustment of about 7% should now be granted to the staff; however, there was substantial opposition in the Board. Feelings were running high and, if a vote were to be taken today, the outcome would be negative. Next week's Board discussion might not lead to a decision. In that case staff would have to be notified that the issue was still under consultation. He said that he would accept the solution of not deciding on a cost-of-living adjustment now but agreeing that, if no Kafka Committee and Board action would be possible by July 1, a 7% adjustment would retroactively apply to March 1.

EDs' Letters

Mr. Clark reported that letters on compensation signed by a number of EDs had been sent to the New York Times and the Chicago Tribune.

Absences

Mr. McNamara reported that he planned to visit Turkey from April 9-15. Since Mr. Knapp would also be away, Mr. Cargill would act for him and chair the Board.

CKW
March 29, 1978

President's Council Meeting, April 3, 1978

822/3/14

Present: Messrs. McNamara, van der Tak, Paijmans, Broches, Cargill, Chadenet, Thalwitz, Chenery, Damry, Gabriel, Husain, Kearns, Krieger, Qureshi, Stern, Wapenhans, Weiner, Mrs. Boskey

Cost-of-Living Adjustment and Kafka Committee

Mr. Damry reported that the EDs had met twice during the last week to agree on a compromise solution with regard to the cost-of-living adjustment. A majority wanted to vote for an interim adjustment of 3.5%, emphasizing that they would like to await the results of the Kafka Committee. At tomorrow's Executive Session, they wanted to start out with this compromise. Mr. McNamara emphasized that, unless President's Council members felt differently, he intended to start the meeting with a discussion on his proposal of a 7% increase. However, it was clear that, although 11 EDs were in favor of his proposal, he would not be able to get a majority of votes. The situation would be different if Mr. El-Naggar had not organized the informal meetings of EDs during the last week.

Mr. Chadenet reported on last week's deliberations of the Kafka Committee. Mr. Kafka had stated that the Committee was receding rather than progressing. With regard to the Hewitt study, Mr. McNamara said that he was shocked to learn how superficially the foreign comparators were to be handled. Also, he had heard complaints again that Bank staff were holding up the study. He asked Mr. Chadenet to ensure that delays were only incurred in order to improve quality.

Budget

Mr. McNamara said that he had asked Mr. Gabriel to distribute the budget document to the PC. It was the best budget by far yet. Mr. Gabriel summarized the main features of the budget. He said that the gap between requests and P&B recommendations was smaller than in recent years. However, several minor differences and two or three major ones remained. The settlement of minor differences should be postponed until early FY79. At this point only the major differences should be brought up and agreement be reached in the week of April 17 after Mr. McNamara's return.

Mr. McNamara said that the budget contained 35 manyears for the FY79 program without the corresponding funding for lending. This was a conscious over-budgeting to provide for extra flexibility. Regions had planned a certain level of slippage and standbys; this and the programmed increase in the pipeline led to a certain level of operations for which the manpower but not the lending amounts was provided by the budget.

Mr. McNamara said that the major remaining problem was CPS functional control. After completion of the budget process, OPD and P&B should lay out the means to study the problem. Bank operations required strong functional control but he was not sure whether the present practice was right. The frequent Regional complaints were not justified on principle but possibly on practice. Further, he would like to see increased economic and sector work carried out but the problem was that the Bank was not ready for it in FY79. With regard to budget appeals, differences of up to three professionals should simply be noted for further discussion after Board approval. Only the major differences over staff and program content should be settled now. It was essential that this operating program and its inputs received the full support of the Vice Presidents.

New York Times Interview

Mr. McNamara said that his recent interview with Mr. Leonard Silk of the New York Times contained several strong statements. He asked the PC members to give him their views on these statements because several further media interviews were scheduled. In particular, there were several rather rough statements on the U.S. position on civil rights and compensation as well as on U.S. actions leading to a politicization of the Bank.

CKW
April 5, 1978

President's Council Meeting, April 3, 1978, p.m.

Present: Messrs. McNamara, van der Tak, Paijmans, Broches, Cargill, Chadenet, Thalwitz, Chenery, Damry, Gabriel, Picciotto, Husain, Kearns, Krieger, Qureshi, Stern, Wapenhans, Weiner, Mrs. Boskey

Mr. McNamara said that he wanted the PC to know that he had heard that some of the 11 EDs supporting the 7% cost-of-living adjustment believed that otherwise their country lending programs would be cut. It was not conceivable to him that senior management or staff should have made such statements to the EDs. It showed how high feelings were running. He urged the PC members to report staff and EDs' feelings on the issue to him. Mr. Chadenet expressed his confusion; in his meetings with these EDs, he had rather to restrain them on the 7% adjustment. Mr. McNamara said that management had to act responsible and cooly in these difficult times.

CKW
April 5, 1978

President's Council Meeting, April 17, 1978

822/3/16

Present: Messrs. McNamara, Baum, Benjenk, Broches, Thalwitz, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Lari, Qureshi, Rotberg, Stern, Wapenhans, Weiner

Staff Reaction to the 3.5% Cost-of-Living Adjustment

Mr. Chadenet reported that staff morale, following the negative decision on the cost-of-living adjustment, was very bad. It was to the credit of the staff that its concern went far beyond the compensation issue and focussed on the politicization and the future of the Bank. During the last week, he had talked to staff members chosen at random at all professional levels. The results could be summarized as follows: (i) there was a serious lack of confidence in member governments, the President, PC members and colleagues; in particular, Mr. McNamara was severely criticized because he was not perceived as having fought for the cost-of-living increase; (ii) the majority of those interviewed stated that they were looking for a job outside the Bank; (iii) there was a feeling of complete abandonment; the Public Affairs Department was criticized for its lack of response to outside attacks; (iv) there was a general bewilderment of non-U.S. staff vis-a-vis attitudes of the U.S. Government. The lack of understanding of the mechanics of the U.S. Government led to speculations on the reasons for the U.S. attitude, e.g., whether the reason was a personal vendetta between Clarence Long and the President of the Bank, or whether the White House was trying to replace Mr. McNamara by Bert Lance; and (v) a large number of staff attributed the present problems to the effects of the Bank's rapid growth; they argued that the growth of the Bank was beginning to be perceived as a threat to some of its shareholders because the Bank was becoming almost a sovereign power with respect to its resources, competence and influence. He recommended (i) Mr. McNamara not to address huge staff meetings; but Mr. McNamara to continue to attend Regional Staff Meetings; (ii) to circulate the responses to the press to all staff members; and (iii) to concentrate all efforts on achieving a satisfactory outcome of the work of the Kafka Committee; the Bank could not afford to lose this most important battle. Unfortunately, during its last meeting, the Kafka Committee had retrogressed rather than progressed.

Mr. McNamara said that (i) the present problems would persist; the U.S. controlled only 24% of the vote and it took more than 50% of the votes to get the 3.5% decision through; in other words, compensation was a broader issue involving a number of countries; the compensation study data on non-U.S. comparators would only be available several weeks after the end of June; (ii) there was no broad attempt by the U.S. of politicizing the Bank; this was true only in the case of civil rights and such attempts were now confined to Congress and not any longer made by the Administration; (iii) communication between the Vice Presidents and their staff had to be improved; he could help but could not convene mammoth meetings; one should not hide the problem but also not encourage staff to believe that governments shall act irresponsibly; governments would act in a way consistent to maintain the quality of the Institution; (iv) a letter by the Staff Association to the Presdnet, asking for a reconsideration of the 3.5% increase decision, should be sent to the Board today and be discussed tomorrow in Executive Session; in preparation of the Executive Session, he would like to meet with Messrs. Chadenet and Damry after the PC meeting.

Mr. Qureshi said that his staff in IFC, being next door to the private sector and typically spending about 3-4 years in IFC to increase their market value, were relatively relaxed. However, there was a genuine lack of confidence and comprehension vis-a-vis Mr. McNamara and a widespread feeling that Mr. McNamara was willing to sacrifice staff welfare for continued growth of the Bank. Mr. McNamara replied that the facts did not support this perception. In the case of the 3.5% cost-of-living adjustment decision, he had done all possible politicking before the Board Meeting. However, he could not make open statements to the staff on these details in such a politically charged atmosphere. He asked the Vice Presidents to educate and communicate better with their staff on these issues.

Mr. Stern said that communication was indeed a problem; but the real question related to what should be communicated. It would be wrong to convey that the present problems would go away in nine months' time. It would also be wrong to state that there is no link between growth and these problems. The Bank had become a powerful institution, looming tremendously large in the development assistance field. Each additional step of growth would be politically more painful. Staff were naive and had a narrow welfare concept which related only to their own unpleasant personal situation. The Bank had to be part of the political processes of this world and the old quiet days were over. In order to avoid that one member country forced the Bank to push its own private objectives, the issues had to be put on the table and be openly discussed inside the institution. The size of the Bank and its efforts not to be unduly controlled by member governments could clearly lead to a trade-off between further growth and personal welfare of the staff. Mr. Husain said that his three basic concerns related to (i) the external environment of the Bank, which had been extensively discussed this morning; (ii) the understanding by the staff of the institution's objectives; and (iii) the management style of the Bank. With regard to (ii), the majority of the Bank's staff were not development economists but technical operational staff; hence the misconception that there was a trade-off between growth on the one hand and politicization, quality of Bank work and staff welfare on the other. Therefore communications were extremely important and had been clearly neglected. As to (iii), there was only a one-way flow of ideas from the top to the borrom. The ideas underlying the reorganization of the Bank, namely, decentralization of management responsibility, had been diluted. There was excessive obsession with control. The President's Council should focus on these broader issues and get away from a narrow preoccupation with compensation. Mr. McNamara asked Mr. Husain to talk to Mr. Kearns about the special issue of decentralization of management and to send him a note on his thoughts. As he had stated earlier, improved communication was essential.

Mr. Wapenhans said that his staff was beginning to understand that size leads to increased public scrutiny. However, staff missed participation in dealing with these issues. The 3.5% increase decision had a signal effect and staff were concerned about whether the Kafka Committee could carry out its work in a purely professional fashion. A common approach to communication was needed. Mr. McNamara replied that the purpose of the Kafka Committee--and its bringing in of outside consultants--was exactly to reduce the weight of one single government and to weaken the political arm-twisting. Mr. Baum stated that staff were responsible and concerned about the future of the institution. The alienation of staff from management and the crises of confidence and credibility had to be taken seriously; although he had taken great pains to convey management views to staff, the same staff reactions persisted. Management needed some victories to convince staff. Also, staff wanted to meet with Mr. McNamara. Mr. McNamara said that his attending of meetings was not the solution. The Bank could not be run as a one-man show. He urged PC members to keep their eyes on the fundamentals in a time of increasing politicization; both in terms of transfer of resources and of providing technical assistance the Bank had achieved its objectives. The development contribution of each individual staff member had never been greater. The basic issue to be addressed was whether the quality of the Bank's work was being compromised by its growth objectives. He emphasized again that a much stronger flow of communication up and down was needed in order to encourage the frank exchange of views on fundamentals.

Mr. Lari said that the LAC staff had always been quite realistic as to the political implications of the Bank's work. However, they felt that there was a critical limit in order not to compromise the Bank. His staff severely criticized Public Relations for not being more active. The attractiveness of the Bank for new staff was of particular importance for the Latin America Region. Because of the specific language requirements, LAC had to recruit candidates from the Western Hemisphere and Europe where recruitment was becoming increasingly difficult. The Bank was perceived by staff as being an autocratic institution. The result was that, unless the Pope spoke, the Cardinal's words were lost. Mr. McNamara said that staff were over-optimistic as to the possiblities of changing the situation through more aggressive public relations work. The role of the Bank in the world and not a lack of public relations work was at the roots of the attacks.

Mr. Broches said that staff were not naive about the political implications of the size of the Bank, but they were ignorant about the characteristics of the U.S. system and about the particular form of the U.S. influence. Some explanation of the nature of the U.S. Congress would help. Mr. Clark said that the pervading trouble was the feeling of 75% of non-U.S. staff that they were persecuted by the U.S., that Mr. McNamara settled things with the Anglo-Americans, and that the other staff were left out. Staff were not alone with their views on the position of the U.S. Government; a general antipathy to the U.S. Administration was developing in Europe. Mr. Rotberg said that he would start from the following premises: (i) the Bank had been winning all battles and would also obtain a reasonable compromise on salaries; (ii) the Bank would continue to win battles despite the politicized environment; (iii) staff were aware that the Bank was winning battles; (iv) staff did not like what the Bank was winning, i.e., staff were concerned about inappropirate objectives and did not support the rigidity of objectives. He concluded that staff should not be here if they did not support the Bank's objectives. His staff did support the financial objectives without intellectual ambivalence. Mr. Hooper said that staff were overworked. They saw loads building up but not the resources. Mr. Gabriel said that there was a dilemma between the professionalism which management expected from staff and the way the Bank was managed. Staff were treated as factory workers on an assembly line against tight schedules. Mr. Stern agreed that there was a problem of people feeling under pressure, because guidelines tended to be translated into specific numbers.

Mr. McNamara asked Messrs. Chadenet and Kearns to identify, together with the Regions, a list of continuing staff concerns. This list should then serve as a basis for further PC discussion. In his view, (i) the majority of staff shared management's objectives, (ii) the Bank had accomplished these objectives, and (iii) the Bank would continue to accomplish its objectives, but in an increasingly political environment.

Turkey

Mr. Benjenk reported on Mr. McNamara's and his visit to Turkey. The country was near to bankruptcy but the new Government was seriously working on courageous measures. The recent agreement with the IMF constituted a clean bill of health as to the new Government's intentions. Mr. McNamara's discussions with Prime Minister Ecevit and members of his left-of-center Social Democratic Government had focussed on (i) the backlog of loans unspent, i.e., about $700 million out of commitments of about $3 billion; (ii) a declaration of principle that Bank lending should be brought up from about $250 million to $450 million per year; present lending per capita levels were rather low; and (iii) the possibility of a program loan in order to increase capacity utilization. It was agreed to (a) establish a schedule for disbursements for every single project; and to soften the conditions on the energy project; (b) conduct economic and sector missions before an increase in lending could be considered; and (c) predicate the exceptional and unusual consideration of an import loan on the existence of a plan which fostered exports and established the key linkage between general policies and such a loan; in other words, to agree on a number of performance-related criteria. Mr. McNamara and he shared the general feeling that they were dealing with a dynamic Prime Minister and a serious Government which did not want to be controlled from outside. Mr. McNamara said that phenomenal work had been done by Mr. Benjenk and his associates in order to establish a beachhead with the new Government. He expressed his concern as to the impasse with the Minister of Energy.

cc: Mr. Knapp

CKW
May 5, 1978

President's Council Meeting, April 24, 1978

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Please, Kearns, Lari, Qureshi, Rotberg, Stern, Gue, Weiner, van der Tak, Haq, RClarke, Lee

The Executive Session of EDs on Compensation

Mr. Clarke reported on the Executive Session of the EDs, dealing with the request by the Staff Association to reconsider the decision on the cost-of-living adjustment. The Executive Session had (i) emphasized that the 3.5% increase had to be considered an interim decision pending the outcome of the Kafka Committee deliberations; if a further increase turned out to be justified, it would be granted retroactively; (ii) authorized Mr. McNamara to convey to Mr. Kafka the view of the Board that the thoroughness of the work of the Joint Committee should by no means be compromised by time constraints; (iii) reached no consensus on whether a further increase should be granted later in the year if the work of the Kafka Committee were delayed; (iv) accepted that governments consulted among each other on Bank issues; however, several EDs had resented Mr. Blumenthal's pressure on other governments; (v) emphasized that Board consideration of the results of the Kafka Committee should be strictly on their merits; (vi) endorsed management's view that, if changes in the compensation structure were warranted, staff had to be told beforehand what action other international institutions would take; (vii) stressed that staff did not understand the changing political environment in which the Bank operates as a result of its size and an increasingly interdependent world; what really mattered was that the Bank reacted professionally to such a changing environment and that communication on these issues would be improved; and (viii) emphasized that it would be helpful if the U.S. would make a statement that it would not prejudge the work of the Kafka Committee and would judge the Joint Committee's recommendations solely on their merits. He reported that the Fund had met on Thursday on an even wider range of issues and had not ruled out the possibility of granting an additional interim adjustment if the Kafka results were delayed; the IMF management had then informed the Staff Association of the possibility of a further adjustment in September. He emphasized that he considered this to be a dangerous approach, which should not be followed by the Bank.

Health Sector Policy Memorandum

In introducing the Health Sector Policy Memorandum dated February 24, 1978, Mr. Baum said the memorandum (i) was based on three years of experience in components lending; (ii) did not constitute a full revision of the Health Policy Paper of 1975; (iii) reflected the experience that the realities of work in the health sector in LDCs were more complex than originally expected; (iv) introduced the following qualifications with regard to community health systems: (a) since changes in attitudes and behavior of target groups were difficult to achieve, primary health care systems had to be selective and simple at the outset and could only gradually increase their complexity, and (b) some referral services were necessary to support and ensure the quality of community level services; (v) stated that, although important, health components work alone could not do the job and that all other agencies urged the Bank to assume a stronger role in lending for the health sector; and (vi) concluded that the Bank had acquired enough experience to start lending for health per se; and that it was not necessary to await the results of the ongoing basic needs studies before arriving at a policy decision.

Mr. Chaufournier said that West Africa was the Region which was most affected by a poor health status of its populations. He strongly supported lending for health. He welcomed Mr. Baum's clarifications with respect to the role of the referral system and community-based services. In reading the paper, he had the impression that the Bank was moving too far away from the concepts originally advanced by the Health Policy Paper. Close community participation would actually reduce the risk of failure, as evidenced by several rural development projects in West Africa. Also, projects with intensive community participation ensured the financial feasibility of continued maintenance of the systems. Mr. Lari said that the Latin America Region supported the recommendations of the memorandum. The paper's statements on community participation (particularly in paragraph 10) were misleading; community participation was a very important factor in all successful primary health care schemes in Latin America. If the Bank moved into health project lending, clear rules would need to be established with respect to the allocation of projects. Undoubtedly there would be pressure from a number of Latin American governments for sizeable and immediate health sector involvement of the Bank. It would therefore be difficult to follow the gradualistic approach recommended by the memorandum. Finally, the implications for manpower requirements should be carefully considered. Staff in the Latin America Region were already overburdened with components work on new-style projects.

Mr. Chenery said that, while the original Health Policy Paper had been developed as a joint exercise of DPS and CPS, this memorandum had not even been shown to DPS. He urged that a more thorough review of the policies stated in the Health Policy Paper should be undertaken with strong participation of DPS. Mr. Gue said that, based on the experience of the East Africa Region, community commitment and participation constituted a vital element of primary health care activities. Bank health sector lending should favor countries with strong commitment to a family planning program. Mr. Weiner enquired about the Bank's relationship with WHO and whether WHO could not be used as an executing agent for health sector lending.

Mr. Knapp said that (i) he supported the paper's main conclusion that the Bank should move into health sector lending; however, he doubted that a gradual build-up would be manageable; (ii) community participation in basic health services was important and should not be dispensed with; (iii) the memorandum was weak in terms of neglecting the requirement of a strong sectoral foundation of potential Bank health lending; (iv) the Bank could go forward with health project lending without an overall revision of the Health Policy Paper; however, a number of major issues had to be put into a broader context than done by the paper; and (v) an additional paper should be produced on how the Bank would relate to WHO. Mr. Hopper strongly supported the recommendations of the paper. Clearly health sector lending had been a missing element in Bank activities. He criticized that the paper (i) did not define what was meant by community commitment and participation; (ii) lacked a definition of health status, e.g., of morbidity versus mortality and disease versus malnutrition; (iii) could do more with the causes of mortality and debility, e.g., poor conditions of water supplies, sanitation and immunization; (iv) did not clearly link causes of mortality and morbidity with alternative designs of delivery systems, e.g., vector control versus community-based primary health care versus nutrition interventions; (v) lacked a sectoral dimension in its analysis of the Bank's role; and (vi) did not address the interrelationships between population and health programs, i.e., did not reflect the experience that population programs were much more effective if introduced through health care systems.

Mr. Stern said that this was a deficient paper on a good cause. The paper was not ready to go anywhere because (i) there was no analysis of world experience in health sector work and the Bank's experience in components work; the paper jumped directly into a global discussion of need on the one hand and the Bank's role on the other; (ii) the paper gave no rationale for Bank involvement in the health sector; it did not address the question of why countries did not do more on their own, particularly in view of the fact that the proposed actions were not expensive; the basic problem appeared to be the organization of systems which broke the medical monopoly; interministerial communication--as suggested by the paper--was not sufficient; what kind of institutional guidelines would the Bank insist on in becoming involved in a country's health sector; and (iii) with regard to the proposed Bank interventions, there was no discussion of what was left out and why. Obviously the Bank should start with an analysis of a given country's national program, although it might then not necessarily support an implementation program at the national level. The Bank had to define a set of criteria which would have to be met in order for a country to qualify for Bank health sector lending.

Mr. McNamara said that he was struck by the lack of emphasis on a required sectoral foundation of Bank health project involvement. The paper did not provide him with a starting point for arriving at a decision. It did not state that there was any country trying to do what it proposed and it did not contain clear policy and operational recommendations. Mr. Hopper said that with the possible exception of China there was no country which had successfully implemented a comprehensive primary health care strategy. However, there were a number of successful primary health care projects in LDCs; e.g., the Cauca project in Colombia. Bank staff should carefully look at these pilot project experiences. Mr. McNamara enquired why these successful pilot experiences had not been taken up by governments at the national level. Mr. Baum said that the Bank's health staff had indeed analyzed a large number of such pilot projects. In order to arrive at a policy decision, the choice for management was either to use this paper with some modifications or to ask for a new paper which would take 6-12 months to produce.

Mr. McNamara concluded that he would be reluctant to decide on a change in policy and to choose a country for initial involvement until all the questions raised by the PC had been addressed. He would meet with Messrs. Knapp, Baum and Stern in order to agree on how to proceed. He asked Mr. Baum for a copy of the recent DAC statement on health sector assistance to LDCs. He asked Messrs. Knapp and Stern to make the point during the discussions with EDs on the proposed change in tourism policy that the Bank's envisaged health sector involvement would substitute for its tourism lending.

cc: Mr. van der Tak

CKW
May 4, 1978

President's Council Meeting, May 1, 1978

822/3/18

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Nurick, Thalwitz, Chenery, Clark, Damry, Gabriel, Picciotto, Husain, Kearns, Krieger, Qureshi, Rotberg, Stern, Wapenhans, Weiner

Budget

Mr. Gabriel reported that the Budget document was to be completed by May 10 in order to be sent to the Board on May 15. Mr. McNamara said that he would meet today with the RVPs individually, together with Messrs. Knapp, Gabriel and Stern, to discuss some general problems of lending and bunching, and particularly the necessity of scheduling standbys more carefully in a calendarized fashion because the proposed budget's Regional lending totals equalled the Bank-wide totals. There was great variation in Regional performance in overcoming the bunching problem; in the case of West Africa, for example, the situation had been greatly improved over recent years. Mr. Baum asked for CPS to be included in the proposed meetings. Mr. McNamara agreed.

Mr. McNamara said that he was not comfortable with the disbursement performance. The forecasted figures were always higher than the actuals. There was a \$3.3 billion reduction in net transfers which would lead to a substantial reduction in next year's borrowing program from \$5.3 billion to \$4.3 billion. His conclusion was that the LDCs were tightening up their capital expenditure programs, for example, German, U.K. and U.S. bilateral aid programs as well as the regional banks were experiencing disbursement shortfalls. If this hypothesis were confirmed, it should be mentioned in the budget document. He asked Mr. Knapp to address this issue. Mr. Knapp said that Mr. McNamara's hypothesis came close to stating that the absorptive capacity of the LDCs was limited. Mr. Gabriel said that the conclusion might be to change the mix of lending towards fast-disbursing programs. Mr. Krieger said that, for example, in the Caribbean Group, there were problems of counterpart funds which led to poor disbursement performance. Mr. Stern said that it was hard to believe this explanation because it would imply country specific differences rather than the experienced general trend. Although there was a budgetary squeeze in LDCs, investment expenditures expanded rapidly. His explanation was that increased foreign exchange reserves led countries not to draw down their loans as rapidly. Mr. Knapp replied that there was no supporting evidence for that view. Mr. McNamara said that, if Mr. Stern's hypothesis were correct, it would be a one-shot phenomenon. Also, it would imply discrepancies between the implementation of investment programs and the drawing by countries on Bank loans. There was no evidence for such a discrepancy. Mr. Chenery offered yet another hypothesis, namely, the shifting sector composition of investment in LDCs. Mr. McNamara replied that this hypothesis was not supported by the evidence which showed the poor performance of disbursement across all sectors. There were two serious implications of the poor disbursement performance: (a) it slowed down operations, and (b) it could lead to the conclusion by EDs that commitments should also be slowed. He asked the RVPs to watch carefully disbursement flows.

The Interim Committee and the Development Committee

Mr. Stern reported on the recent meetings of the Interim and Development Committees in Mexico. The Interim Committee statements had been full of doom and gloom. Mr. Witteveen had warned that economic growth in OECD countries would be inadequate, inflationary pressures in the U.S. would mount, lack of coordination of economic policies persisted, and protectionism increased. Most Finance Ministers were concerned about the tightrope they had to walk between inflation and growth. The IMF had produced an excellent World Economic Outlook paper for the meeting which dealt with a lengthened horizon of about 2 1/2 years. The surplus of OPEC countries was expected to decline and it sounded as if the Saudi Arabian surplus were also expected to diminish. With regard to the next IMF quota increase, the size and timing were discussed; it would probably take another year and evolve a few selective changes (e.g., in the case of Japan). A proposal would be ready by the time of the Annual Meeting. As to further SDR allocations, the U.S., Germany and Japan were not affirmative; however, the LDCs were strong supporters. Mr. Blumenthal had implied that there should be a lesser quota increase if there were an SDR issuance. The meeting of the Development Committee did not lead to important results. The IMF had prepared a report on Capital Market access. The meeting endorsed to hold seminars for representatives of financial institutions and LDCs. Mr. McNamara asked Mr. Rotberg to go over that report. As to the Stabilization of Export Earnings report, Mr. Stern said that Mr. Polak had highlighted that the Bank and the Fund would coordinate their activities. With regard to the WDR, his report was well received. Finally, Mexico proposed a $15 billion aid fund to be financed by capital-surplus countries and administered by the Bank. The Fund should (i) ensure an increase in lending with reasonable maturities for short-term borrowing countries and (ii) provide a stimulus to the capital goods industry in the OECD countries, particularly in Western Europe. There had been a good deal of interest in such an approach. Mr. van Lennep was working on a similar proposal. Mr. McNamara said that this was not a feasible proposal. There was no market for another $15 billion of guarantees. It was the safety net discussion all over again. Mr. Stern said that the important point was that the LDCs were now seen as a promising demand source for the production of OECD countries. With regard to the utility of the Development Committee, there had been criticism of the work of the Committee, pressure for the Boards to undertake a review, and agreement to keep the Committee as a senior political body.

Japan

Mr. McNamara said that his forthcoming visit to Japan, which included a major speech to the press and one-half hour TV interview, required careful, comprehensive briefing. He asked (i) Messrs. Knapp and Baum for a statement to the press on the Bank's minerals and energy work program; (ii) Mr. Gabriel for a press statement on ODA, showing that Japan's contribution was disgracefully low; (iii) Mr. Clark for a statement on the Brandt Commission pointing to Mr. Brandt's recent emphasis on a community of interests; (iv) Messrs. Knapp and Gabriel for a list of issues which he should stress with the Japanese Government; (v) Mr. Knapp for a list of issues for his talks with Keidanren; and (vi) Mr. Chenery for a "Sewell Paper" on Japan, pointing to the potential for Japanese exports to LDCs and Japan's dependence on LDCs for its imports. He asked all PC members to provide him with suggestions with respect to briefing materials and points to be discussed during his visit.

CKW
May 5, 1978

822/3/18

President's Council Meeting, May 8, 1978

Present: Messrs. McNamara, Knapp, Baum, Bart, Broches, Chadenet, Thalwitz, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Lerdau, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Jaycox, Alastair Stone

Mr. McNamara commented on P&B's 1977 Financial Report on the Staff Retirement Plan dated May 5, 1978. The Plan showed a relatively unsatisfactory situation because of (i) high inflation rates, (ii) the poor condition of the investment market, and (iii) higher than expected merit increases for the staff in the Plan. The impact of inflation on the unfunded amount was particularly great because not only the inflation rates during the last three years of service but also those following retirement were relevant. With regard to merit increases, any mature organization should not show merit structure increases. He urged that PC members should consider the future of the Plan, particularly as to the impact of the merit structure. He asked Messrs. Chadenet and Gabriel to conduct a thorough analysis for the PC of the appropriateness of (i) the management of the salary structure, and (ii) the foundations of the Pension Fund assumptions. There was a problem with the method of symmetrical assumptions under continued inflation.

Urban Poverty Program

The meeting discussed Mr. Jaycox' progress report on Lending for Poverty-Oriented Employment Creation dated April 10, 1978.

In summarizing the conclusions of the paper, Mr. Jaycox said that (i) the reported UPP impact of the Bank's lending program had been greatly increased; (ii) a better understanding of the poverty lending criteria had developed; and (iii) the issue of fundamental conflict between cost-efficiency criteria of Bank operations and UPP lending had to be addressed.

Mr. Knapp commented that the paper reported acceptable progress. He had no problems with the recommendations, except for the one on sector work (Recommendation E) and the conclusion with respect to operating staff perception of Bank policies (Conclusion F). He asked whether local-currency financing of 30%-35% on project grounds was not considered sufficient. Mr. Jaycox replied that local-currency financing was a problem particularly in Latin America. Mr. McNamara said that the 35% rule should be followed except in the situation where the Bank was otherwise missing a promising opportunity; such a case should be brought to Mr. Knapp's attention. The Bank should certainly not buy its way into, for example, Brazil's urban employment creation program by transferring $700-$800 million per year.

Mr. Husain commented that a recently conducted study for the East Asia Region showed that agriculture would absorb only 1/3 of the incremental labor force. This progress report showed that the Bank was focusing excessively on projects rather than on changes in policies of LDCs which would enable them to absorb their incremental labor force through non-agricultural employment creation. Future reporting should combine the two aspects of projects and policy work. For example, in the Philippines his Region was trying to analyze the entire employment creation policy of the Government and then link this policy work with project activities. Mr. McNamara agreed. He asked Mr. Chenery to prepare by October 30, 1978, (together with Messrs. Knapp and Stern) a paper on how to put greater emphasis on support to non-agricultural employment creating policies of LDCs through the Bank's economic work. (See attached list of work assignments.) This should become a major function of the Bank's economic work. Mr. Chenery said that different approaches had to be followed in the various countries. He suggested focusing on those countries, possibly 20-25, which showed an unsatisfactory performance. The analytical basis for such work had been established and greatly improved. The paper should analyze the present status of this work and propose future programs.

With regard to the operating staff's perception of Bank policy, Mr. Baum commented that policies were generally more flexible than staff were aware of. In many instances there was a need for creating new DFC institutions rather than just using existing ones. Mr. McNamara replied that he was not convinced that there would be no comparative advantages of using existing DFCs rather than creating new ones. The fact that some existing DFCs are psychologically opposed to the new approach constituted no reasonable reason for excluding them. Mr. Stern said that present DFCs were generally not equipped to cover the entire country. It was just as easy to create new institutions aiming at off-farm employment creation as it was to redirect urban-based existing DFCs to these new activities. Mr. Qureshi said that in small countries the well-established DFCs were more difficult to deal with than the new ones. The former had to meet vested interests and were more or less IFC counterparts with stringent rules of profitability, etc. A major change in their philosophy and a reorientation of objectives would be required. Mr. Hopper agreed with Mr. Stern that it would be difficult to expand the activities of the existing DFCs down to the district level. Existing DFCs were able to tackle the problem of employment creation in major growth centers. Mr. McNamara questioned the approach of not using existing DFCs because they were centralized. Particularly in Africa it would be very difficult to develop new institutions. He questioned whether the Bank should tolerate DFCs which were not moving in the new direction. He asked Messrs. Jaycox and Gordon for a paper by October 1, 1978, on what would constitute a reasonable program for each country to institutionalize non-agricultural employment creating activities (see attached list of work assignments).

Mr. Husain emphasized the point again that presently measures were taken in a basically hostile macroeconomic environment. In a non-hostile environment and with the availability of funds, local entrepreneurship would be forthcoming. Mr. Hopper agreed. There had been a lot of transition-type development; e.g., large farmers had become small manufacturers. An environment conducive to such entrepreneurship needed to be created. The non-agricultural extension services of Singapore, the Philippines and Korea provided good examples. Mr. McNamara asked Mr. Jaycox for a paper--by November 30, 1978--on non-agricultural extension services which would assess present Bank activities in this field and would lay out a program.

Mr. Stern said that the role of public enterprises in stimulating small-scale enterprises through subcontracting needed to be further explored. This could result in a reduction of capital costs per unit of output and an increase of employment. Such a policy would be very much at the control of governments and yield more immediate impact. Mr. McNamara asked Mr. Jaycox to prepare a paper--by November 30, 1978--on the potential for stimulating small-scale enterprises though subcontracting of public enterprises.

Mr. McNamara agreed with the statement of the paper that substantial employment creation for the urban poor also occurred directly and indirectly through more capital-intensive industrial investments (including IFC) and due to the project expenditures of many Bank projects, particularly for construction. A paper analyzing these employment effects should be prepared by Mr. Jaycox by December 30, 1978.

With respect to the tendency of recipient governments and bilateral aid donors to subsidize credit to small enterprises, Mr. McNamara asked Mr. Jaycox to prepare a note on the major offending countries by December 30, 1978.

Mr. McNamara said that he did not agree with the statement in the paper that there was a built-in conflict between the general objective of the Bank to be efficient in terms of staff cost per dollar lent and the objective of increasing UPP lending for employment generation with its high staff cost per dollar lent. The staff cost per project varied by nature of the project. The standard cost of an urban project was higher than, for example, a power project. It was required to differentiate standards of project costs by country. He asked Messrs. Gabriel and Jaycox to prepare a note on this.

Finally, Mr. McNamara asked for the following additional papers: (a) sector work in support of the SSE/UPP lending program, what sector work needed to be done which was not planned at present; this note should be prepared by Messrs. Baum, Chenery, Stern and Knapp; (b) research related to non-agricultural employment creation, to be prepared by Messrs. Chenery and Baum by October 1, 1978; (c) revision of Table I on IDF lending for poverty-oriented non-agricultural employment creation by Region, to be prepared by Mr. Jaycox by December 31, 1978; (d) donor policies on poverty-oriented non-agricultural employment creation, to be prepared by Mr. Jaycox by September 15, 1978; and (e) slippage of EMENA operations on poverty-oriented non-agricultural employment creation, to be prepared by the EMENA Region within the next weeks.

CKW
May 11, 1978

President's Work Assignments on Poverty-Oriented Non-Agricultural Employment Creation

	Subject	Assignment	Deadline
1.	Support to non-agricultural employment creating policies through the Bank's economic work.	H. Chenery B. Knapp E. Stern	October 30, 1978
2.	Country programs for institutionalizing non-agricultural employment creation activities.	E.Jaycox/D.Gordon	October 1, 1978
3.	Non-agricultural extension services.	E.Jaycox	November 30, 1978
4.	Potential for stimulating small-scale enterprises through subcontracting of public enterprises.	E.Jaycox	November 30, 1978
5.	Non-agricultural employment creation through IFC industrial investments and construction expenditures of Bank projects.	E.Jaycox	December 30, 1978
6.	Subsidization of credit to small enterprises: A country analysis.	E.Jaycox	December 30, 1978
7.	Conflict between the objectives of staff lending efficiency and lending for non-agricultural employment creation.	G.Gabriel E.Jaycox	May 30, 1978
8.	Research related to non-agricultural employment creation.	H.Chenery/W.Baum	October 1, 1978
9.	Revision of Table 1 on IDF lending for poverty-oriented, non-agricultural employment creation by Region.	E.Jaycox	December 31, 1978
10.	Donor policies on poverty-oriented, non-agricultural employment creation.	E.Jaycox	September 15, 1978
11.	Slippage of EMENA operations on poverty-oriented, non-agricultural employment creation.	M.Bart	May 30, 1978
12.	Sector work required in support of the lending program for poverty-oriented, non-agricultural employment creation.	B.Knapp, W.Baum H.Chenery, E.Stern	October 1, 1978

cc: Messrs. Knapp, Baum, Chenery, Stern, Gabriel, Jaycox, Bart

CKW
May 10, 1978

President's Council Meeting, May 15, 1978

822/3/19

Present: Messrs. McNamara, Baum, Benjenk, Broches, Cargill, Chadenet, Thalwitz, Clark, Damry, Karaosmanoglu, Gabriel, Hopper, Please, Kearns, Lerdau, Qureshi, Rotberg, Stern, Wapenhans, Weiner

Money Markets

Mr. Rotberg said that, unfortunately a situation where interest rates were rising in Germany, the Bank would now resume its borrowing in that market on July 1. In the U.S., interest rates for short-term money were now 7.5% and for long-term bonds 9%-10%. AA utilities were expected by some to go to 10.5%-11%. The Bank's long-term bonds were trading today at 8.95%-9%, i.e., 50-basis points to Treasury. Five-year bonds were traded at 5-10 basis points to Treasury. This was an historical low. Usually there had been a much higher spread. Mr. McNamara asked Mr. Rotberg to find out about the expected rates for Yen, Deutschmark and Swiss Francs in a situation where AA utilities would go up to 10.5%-11%. If these expectations were correct, the Bank's FY79 program was wrong. Mr. Rotberg reported that the dollar had revalued quite substantially over the last month against the Deutschmark and Swiss Franc, resulting in an upward push of interest rates in the FRG and Switzerland. The dollar interest rates had gone up faster than Deutschmark and Swiss Franc interest rates. There was therefore a 20%-25% breakeven point, i.e., it was advantageous to borrow in Deutschmark and Swiss Franc unless these currencies revalued more than that percentage. His strong recommendation was to borrow as much in Deutschmark and Swiss Franc as possible. Even if dollar interest rates moved to 10.5%, the Bank's Swiss Franc, Deutschmark and Yen borrowings would have been done before that. He would borrow only in Swiss Francs, Deutschmark and Yen because even OPEC currencies showed higher interest rates. Loans would be disbursed only in Deutschmark, Swiss Franc and Yen.

Mr. Chadenet enquired whether the issue of which currencies were passed on to the borrowers had been studied. Mr. Gabriel said that the JAC was studying the issues of (i) equalization of risks among borrowers, and (ii) mix of currencies borrowed.

Third World Program

Mr. McNamara said that he would like to postpone the discussion of the Clark/Karaosmanoglu paper on a Third World Program until next week.

Compensation

Mr. McNamara said that management had to address the issue of whether to leave the expectation of a review of the 3.5% cost-of-living adjustment in the minds of the staff or not. In view of the misunderstanding that there would be action by September, a strike by the IMF staff at the time of the Annual Meeting had become more likely. The IMF Staff Association had asked for pledges from staff for a strike fund and had collected $150,000. Also, management owed a letter to the Staff Association on the issue of reconsideration by the Board of its decision.

Mr. Chadenet reported on the recent elections of the new delegates of the Staff Association. As to the composition of the Executive Committee, some moderates would not come back. The new Staff Association would possibly be more radical than the former one. He urged that PC members should ask their Staff Association delegates to report routinely in their staff meetings. Mr. Baum observed that the majority of staff who signed the letter to the Governors were women. Mr. Clark said that the support staff felt most threatened.

Mr. Wapenhans enquired about the possibility of changing the schedule of the Kafka Committee. Mr. McNamara replied that the Board would probably not be able to act before December. The Kafka report was not likely to point to a decision. Mr. Chadenet added that 20 issues were being discussed by the Kafka Committee, only half of them tied to the Hewitt work. No agreement had been reached on the other issues. Mr. McNamara asked Mr. Chadenet to distribute to the PC the list of 14 issues which management had sent to the Kafka Committee for consideration. In view of the delays and unsatisfactory performance of the Kafka Committee, he said that the Bank would have to set up its own mechanism for dealing with compensation issues and probably would do its own study. Management could not afford simply to wait and react.

Mr. Lerdau said that there were doubts among staff as to the professional character of Hewitt's work. For example, the Hewitt team had spent only one day on job-matching with large Brazilian firms. Mr. Baum added that Hewitt had spent only three days in Canada, and less than one day per company. They had focussed on the lower grades because they were easier to match. Mr. Chadenet confirmed that excessive pressure of time had been put on the whole exercise to the detriment of quality. Mr. McNamara observed that Hewitt was of course aware that its professional reputation was at stake.

Mr. Hopper emphasized the urgency of responding to staff because of the false expectations as to action in September. Mr. McNamara agreed. There should be a response within the next week.

CKW
May 24, 1978

822/3/20

President's Council Meeting, May 22, 1978

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Please, Kearns, Krieger, Qureshi, Wapenhans, Weiner, Karaosmanoglu

Third World Program

The meeting discussed the memorandum by Messrs. Clark and Karaosmanoglu on a "Third World Program--An Outline," March 29, 1978.

Mr. Clark said that the paper proposed to reach policy makers and thinkers in LDCs who are not in touch with the Bank or deal with the Bank only on projects. There was considerable misunderstanding of the Bank in the Third World. The Bank was seen by the G-77 as part of the defenses of the rich world, though more liberal; the Bank helped to defeat attempts of the Third World to devise an alternative world order. This view was held by a majority of government circles though not by ministries of finance. The issue was whether the Bank could change that perception and, if so, how and in what direction. In his view, the Bank could probably shift the moderates but not the marxists. The moderates should be convinced that there is a real benefit of the G-77 manifesto. The proposals contained in the memorandum were only part of a more general active strategy, which also involved the work done by Mr. Grenfell at the UN and Mr. J. Clarke's efforts at talking to non-UN groupings. The memorandum proposed to bring some Third World leaders to Washington in order to exchange views in the form of seminars. Mr. Karaosmanoglu said that, in discussing the proposed approach with Bank staff, he encountered not only an immediate recognition of the need for such an undertaking but also a defeatist attitude as to the possibility to do something about it. However, his conclusion was that the Bank should try. The memorandum proposed a general framework for (i) broadening the exchange of views from a country focus to a more general policy dialogue, and (ii) converting from an old boy's network to broader target groups.

Mr. McNamara enquired (i) whom the Bank was trying to educate, us or them, and (ii) what results should be achieved? One could not educate marxist constituencies by inviting one single person to Washington. Mr. Chadenet enquired about the meaning of the term "Bank system." One might have to face ideologies or a myth. He thought the Bank was defined by lack of a system. Mr. Benjenk said that the proposal was not sufficient in itself. Misconceptions about the Bank started at the university and the Bank would only scratch the surface of the surface by inviting individuals. A major effort would have to be mounted to present the Bank to the universities of the Third World.

Mr. Qureshi stressed the lack of a clear definition of what the Bank's objectives in this field were and of what was feasible. The Bank should certainly cover the UN system and the related foreign services. To go much beyond that (i.e., to aim at reaching intellectual leaders) would be an untargeted exercise. It might prove to be useful for our information but not to convert the opinion of the Third World. This problem should rather be tackled by the operational staff during their missions by speaking more frequently at universities and in other fora. He urged that the Bank should be more relaxed about the Third World because there was not such a thing as the Third World opinion of the Bank. People and opinions changed quickly.

Mr. McNamara said that he agreed with the points made by Messrs. Qureshi and Benjenk. No significant impact on the Third World could be achieved by bringing individuals to Washington. The UN work should be emphasized; more contacts by VPs or senior staff in LDCs could have a beneficial impact. Otherwise the Bank should continue to make clear that it aimed at the fundamental problems of development and make public statements to this effect.

Mr. Chenery pointed to the enormous lag between the reality and the image of the Bank, as exemplified by the difference in views of university people who had had contacts with the Bank (e.g., through consultancies) and other academics. There were university groups and planning commissions in LDCs worthwhile addressing. Development thinkers were not too numerous. The Bank could organize regular seminars such as the one on rural development in East Africa. Also, Bank economists could do more in the countries. The memorandum was lacking suggestions as to what could be done in LDCs. Mr. Chaufournier agreed with Messrs. Chenery and Qureshi on the practical implications. Bank staff should inform themselves about the views of Third World representatives by giving them a better sense of participating in Bank decisions. This would at the same time lead to a process of informing and educating those representatives. The problem was that most of the Bank's outside speakers in Washington came from the developed countries.

Mr. McNamara concluded that the Bank should pursue two objectives: (i) in order to inform us, spokesmen of LDCs available in Washington (e.g., President Nyerere during a state visit) should be periodically invited to the Bank; he asked Mr. Clark to work on such a program; and (ii) in order to inform them, the Bank should be more active in the field, through periodic appearances of Bank staff in public fora. The UN system constituted a special category to be better informed. For example, the Bank could bring groups from New York to Washington, such as the G-24. He asked Messrs. Clark, Chenery and Karaosmanoglu to work out a proposal. Mr. Knapp agreed that the time was ripe for information conferences for the G-24 in Washington. Mr. Clark pointed to the successful 2½ weeks seminar conducted by the EDI for senior officials of the UN missions. The lessons learned had been that such seminars should not be too long, should take the form of a symposium, and should not be held in New York in order not to lose the participants. He planned to repeat this format. Mr. McNamara said that this EDI seminar had been at a much lower level and was therefore not a substitute for the proposed program. Mr. Weiner suggested undertaking an effort to hear the voice of the actual beneficiaries in LDCs. Mr. McNamara agreed. The Bank had to ensure that they spoke up; if they agreed with the Bank's work, they had to quiet their UN representatives.

Compensation

The meeting then discussed the response proposed by Mr. McNamara to the Staff Association's request for reconsideration of the cost-of-living decision.

Mr. McNamara reported from his informal meeting with the EDs on the issue last Friday. He had told the EDs that he would like to have a reconsideration and a 7% increase as early as possible. However, the majority of the Board saw no reason for reconsideration before the Governors' Meeting. The proposed response to Mr. Webb had been agreed with the EDs during the informal meeting. In response to questions, he said that (i) he did not expect the Kafka Committee to complete even a non-consensus report by September; final Board action could probably not be completed before the end of December; (ii) although there should be a similar statement by the Fund management, such action was not likely; and (iii) the Bank had to insist on parallelism with the IMF. Again, he urged that PC members meet with their Staff Association delegates to be informed and to educate them.

CKW
May 24, 1978

President's Council Meeting May 24, 1978

R22/3/21

Present: Messrs. McNamara, Knapp, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Please, Kearns, Krieger, Qureshi, Stern, Wapenhans, Weiner, D.C. Rao

At the meeting, copies of the draft World Development Report were distributed to members of the PC.

Mr. McNamara asked the PC members for their comments on the WDR by June 30. Comments should be focused on the conclusions which were now more sharply presented. Mr. Stern said that the report would be circulated to the Board by June 7 for discussion on July 11. The report had benefited from substantial inputs from the Regional staff. Some numbers in this draft version still had to be checked, particularly data on trade. A statistical annex would be attached to the document. The report focused its analysis on the issues of growing protectionism, capital flows in terms of evolution of the private market and its relationship to ODA, and domestic policy measures to alleviate poverty and accelerate growth in sub-Saharan and South Asian countries. The report focused less on industrialization which would be done by next year's WDR. In its discussion, the Board should emphasize the required government actions which would lead to long-term structural adjustment in view of the growing export capacity of LDCs. If the Board concurred, the Bank intended to submit the report to the Development Committee which would meet the day before the Annual Meeting.

Mr. McNamara explained management's approach to WDRII. The report should become an annual event dependent upon Board approval. It should evaluate progress, project future development and address the major policy issues against that background. For the work on WDRII, Mr. Karaosmanoglu would replace Mr. Stern and Mr. Acharya would come in for Mr. D.C. Rao. The schedule would be roughly the same. Emphasis would be given to the industrialization process in MICs. During the summer, Mr. Chenery would talk to the main customers. This report was the first edition of a series of annual reports which, over time, should become a thoughtful assessment of the development process. In response to a question, Mr. McNamara said that he wanted only a limited distribution at this point. However, each IMF Director would receive a copy.

CKW
May 31, 1978

President's Council Meeting, May 31, 1978

822/3/22

Present: Messrs. McNamara, Knapp, van der Tak, Benjenk, Broches, Cargill, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Picciotto, Husain, Kearns, Lerdau, Parmar, Stern, Wapenhans, Weiner, Jennings, Merriam

Excessive Operational Travel

The meeting discussed Mr. Chadenet's memorandum on Excessive Operational Travel, dated May 18, 1978.

Mr. Chadenet said that, after consultation with physicians, Personnel was increasingly aware of the serious impact on new staff members' families of excessive travel during the first year. Therefore, his recommendations particularly addressed this issue. Mr. Knapp commented that the recommendations contained in the paper were sensible. Mr. Wapenhans said that excessive travel was concentrated on the Projects Departments. Statistics should show the number of long trips undertaken in combination with points trips. He urged leaving as much supervisory responsibility as possible with the Regional management.

Mr. McNamara said that the memorandum indicated that there was more family stress resulting from excessive travel than management could tolerate. A number of Division Chiefs were obviously not close enough to their staff to take these problems into account. The extreme cases revealed by the paper were shocking; it could not be justified that 27% of Projects staff averaged 107 days per year of travel. The Bank had to be more rigid and less flexible on its travel rules. He asked Mr. Chadenet to rewrite the Administrative procedure, stating that (i) other than in exceptional cases, travel would be limited to 90 days per year and the duration of missions to not more than 30 days; (ii) exceptions should be carefully monitored and responsibly managed by the Regions, requiring approval by the Vice President; and (iii) the other changes recommended by the paper would be instituted, although not too many exceptions should be made for newcomers. Mr. Chadenet should proceed for six months on this basis and evaluate the experience at the end of the year.

June Board Program

Mr. McNamara said that projects in excess of 233 were scheduled by Mr. Knapp for Board presentation in June. However, in view of several complex policy discussions during that month (on the FY79 budget and on liquidity), some of the projects might have to be dropped but all project documents should be processed by the staff because of the likely increase in the lending rate in July. Because of its implications for the FY79 borrowing program, the discussion of the Liquidity Paper could not be postponed. At present Mr. Rotberg worked on the assumption that all discretionary borrowing would be placed within 60 days at the beginning of the fiscal year. Mr. Benjenk enquired whether the planning of policy papers over the year was done as carefully as the planning of the lending program. Mr. McNamara said that this was the case. Management could not increase the weekly projects presentation load for June because some governments felt strongly that they could not process more than 10 regular projects per week and because the Bank was in a weak position in view of its poor debunching performance.

CKW
June 1, 1978