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President's Council Minutes,
·June - Dec. 1978·

Folder #17

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WBG Archives

President's Council Meeting, June 19, 1978

Present: Messrs. McNamara, Knapp, Baum, Bart, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, van der Meer, Qureshi, Rotberg, Stern, Wapenhans, Weiner, Twining, Jacobs (consultant).

Progress on New Bank Building

Mr. Jacobs reported on the layout and present status of the construction of the new Bank building at 19th and I Streets. Work was proceeding on schedule and within the budget estimates. The building was expected to be occupied by August 1979. In response to a question, Mr. Twining said that the Staff Association had been consulted on the amenities (such as exercise room and cafeterias) to be offered in the new building.

Mr. McNamara asked Mr. Twining for a note on the savings in heating and cooling costs per personof the new building as compared to the main Bank complex.

Research Advisory Panel on Income Distribution and Employment

Mr. McNamara said that the report of this Advisory Panel would be discussed at next week's PC meeting. The Report showed how the Bank could benefit from such outside panels.

Staff Association

Members of the PC reported on their meetings with the new Executive Committee of the Staff Association. In order to build credibility with the staff, the new Executive Committee needed progress on important issues before the Annual Meeting. Since no immediate progress could be made on the staff compensation issue, they had identified the legal rights of staff as an issue to focus on. They intended to work on both the legality of the terms of staff contracts and the legality of the Staff Association. Mr. Broches said that the present situation of legal rights of staff was not very clear. Mr. McNamara said that the problem of compensation could not be dealt with through legal rights. Because of the complex technical and political problems involved, management should avoid introducing rigidities into its dealing with the Staff Association. No PC member should express judgment to the staff on compensation and related matters other than through Mr. Chadenet. In his meeting with the Executive Committee of the Staff Association tonight, his line would be that he was dedicated to a strong Bank and a strong staff. The Staff Association faced the problem that the attitudes of the IMF's Staff Association were different. Mr. Chadenet said that the situation at the Fund was in flux because of the change in management and the elections for a new Executive Committee of the Staff Association.

OECD Ministerial Meeting

Mr. Stern reported on this year's meeting of OECD Foreign and Finance Ministers. The meeting had focussed on (i) what the Bonn Summit in July might accomplish, and (ii) the relations between developed countries and LDCs in terms of trade and increased private capital flows. The meeting had defended liberal trade concepts and had stated that the problem of adequate capital flows had to be studied further. There had been an exchange between the Germans and the Japanese on the one

side and the UK and others on the other side. In view of their inadequate ODA performance, Germany and Japan had been pressed hard; the U.S. largely escaped criticism because of its balance-of-payments deficit. Pessimism was expressed as to the growth levels of OECD countries during the coming year; the predicted level of 4.5% would probably not be met and the WDR's 4.2% seemed to be more realistic. Agreement in principle was reached on the need for a concerted action program to increase growth rates.

Mr. McNamara asked the PC to convene the next day at 9:30 a.m. for a Pre-Board meeting on the Board discussion of the World Bank Group Financial and Operating Programs and FY79 Administrative Budgets.

CKW
7/11/78

MEMORANDUM FOR THE REC

822/ 4/2

President's Council Meeting, June 20, 1978

Present: Messrs. McNamara, Knapp, Baum, Bart, Broches, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, van der Meer, Qureshi, Rotberg, Stern, Wapenhans, Weiner

The PC meeting had been called as a pre-Board for the Board discussion of the World Bank Group Financial and Operating Programs and FY79 Administrative Budget as well as the liquidity paper.

Mr. McNamara made the following points: One, there had been some movement among EDs against a $6.8 billion FY79 commitment level because of (a) the $5.8 billion commitment level projected at the mid-year review meeting; however, a $6.1 billion FY78 commitment level was now assured; (b) lack of good projects and excessive demands on staff; this latter point would be made by Mr. Magnussen; (c) the U.S. contribution to a general capital increase not being assured; the answer to this would be that the Bank could stabilize its commitment program at $6.3 billion (steady state) which would not imply a substantial reduction; and (d) the Bank's poor disbursement performance as evidenced by the fact that disbursements were 10% below a normal disbursement pattern. Two, on liquidity and borrowing, there was a widespread feeling among EDs that the Bank was holding too much liquidity, borrowing too much, and not disclosing the full cost of such excess borrowing. He referred the PC members to the liquidity paper and Technical Note #1 which applied the systems cost concept and methodology to the FY79 program. It had been decided to borrow $4.3 billion in non-U.S. currencies and with concentration on the next few months because an increase in interest rates of non-U.S. currencies in the order of 50 basis points was projected.

Mr. Husain said that there would be an argument re lack of absorptive capacity in LDCs. However, this represented only a temporary adjustment to the oil crisis. Mr. McNamara agreed. He was absolutely certain that (a) the Bank's disbursement performance was better than the performance of others and (b) LDCs needed the amounts. Therefore, shortfall of disbursements was no justification for reducing commitments. He referred to page 40 of the World Development Report.

With regard to supervision levels, Mr. Baum observed that they were right in relation to other demands. However, he was not sure that additional supervision would not produce better results. Mr. McNamara doubted that additional supervision would markedly improve results. The present levels were about right.

CKW
July 18, 1978

President's Council Meeting, June 26, 1978

Present: Messrs. Knapp, Baum, Benjenk, Nurick, Cargill, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Krieger, Qureshi, Rotberg, Stern, Gue, Duloy, R. Clarke

Norwegian TV Production on the Bank

Mr. McNamara said that a Norwegian TV producer, Mr. Munthe-Kaas, was working on a film on Bank activities and had asked for an interview with him. He was highly critical of the Bank and considered the Bank to be a capitalistic outfit, as evidenced, for exaple, by its dealing with Chile under Allende. His thinking seemed to be influenced by a small group of European economists who developed the theoretical foundation arguing that the Bank's programs did not have a constructive impact on development. He asked Mr. Clark to distribute to the PC the memorandum prepared by Mr. Koelle from the Paris office on the work of that group. At some point, this subject should be discussed by the PC. He urged the PC members to be well prepared for their work with the Norwegian TV team.

Research Advisory Panel on Income Distribution and Employment

Mr. Chenery said that this was the first of 7 Panel reports which would evaluate the Bank's research program in segments, to be followed by an over-all evaluation. In general, the Report was technically very good and he agreed with some of the conclusions and disagreed with others. The Bank's work on income distribution had been characterized by the fact that in this field there was a lack of almost everything; there were no data because income distribution was not part of census systems, and the interactions between variables were poorly understood. In 1972, the Bank had started to work on a bit of everything at once. So far, the Bank had not mounted any major effort on data collection. As to methodology, AID and the Bank had subsidized outside and in-house research. A policy statement was contained in "Redistribution With Growth". With regard to the Panel's recommendations, he said that (a) the problem of data generation had to be looked at in a broader context; (b) the proposal for supporting regional research institutions needed to be further discussed; (c) the proposed country studies were of the type already carried out by the Bank; and (d) the proposed strengthening of a link with operations left the question open of how it could be accomplished.

Mr. McNamara asked the PC members to focus in their comments on the actions to be taken. The following five actions should be considered: One, with regard to data collection, the Bank should initiate work to improve its useability as part of the Bank's FY80 research program. Two, the Bank should consider how best to influence the 1980 census in member countries in order to improve the availability of data. Three, the FY80 program should include research covering the research priorities on income distribution listed on page 12 (namely, characteristics of socio-economic groups consequences of different policy interventions pursued by countries to alleviate poverty and improve the distribution of income; effectiveness and implications of the basic needs approach to the problem of inequality; and relationship between national strategies of development

and evolution of the distribution of income), and the three research priorities on employmnet listed on page 15 (namely, developing countries' labor market; characteristics of the unemployed; direct and indirect employment creation resulting from different kinds of projects). Four, on the difficult issue of institution-building, actions should be deferred until the general research panel reported; the Bank should then join IDRC and others in their efforts. Five, a new series of reports aimed at the non-technical reader would be highly desirable and should be considered.

Mr. Husain said that there was need for closer integration of DRC and the Regions' research work in this area. Also, according to the his chief economist, in-house work had greater utility than consultants' work. Mr. Chenery replied that, based on its 3-year program, DPS was now able to analyze these operational issues. In a number of country cases (e.g., Korea and Malaysia) the governments were more anxious to go ahead with the development of models than the Regions, which were reluctant because of staff constraints. In a number of other countries, particularly in Latin America (e.g., Brazil and Mexico), the Bank had made equal efforts but encountered much less receptivity from governments. It was true that in-house work got more quickly to the crucial policy issues than outside consultants' work. However, the DPS budget constraints led to more extensive use of consultants.

Mr. Stern considered the Report to be very useful and made the following comments: (a) increased emphasis on employment issues was needed because the Bank had more leverage in that area; ILO was eager to collaborate and acknowledged that its data base was poor; (b) the Bank should move more systematically into quality control of the data it processed; (c) research on size distribution of income was not a policy-relevant tool; it was therefore right to move away from such research and to focus on specific groups which would enable the Bank to arrive at operational recommendations; (d) dissemination continued to be a major problem and more money should be put into the research proposals for follow-up dissemination; (e) with regard to research administration, the overview approach rather than individual project evaluation seemed to be helpful; splitting the Research Committee into a senior policy guidance group and a technical group for quality control and approval of individual proposals should be considered. Mr. McNamara agreed with Mr. Stern's points on quality control and dissemination. Changes in the review process should be considered. If at all, Bank work on employment data should be carried out in cooperation with ILO. Mr. Duloy said that data generation on income distribution posed the issue of whether emphasis should be placed on the collection of data on poverty or on the collection of data on size distribution of income. Mr. Stern agreed. The poverty focus (e.g., on assets of the poor) would bear more policy relevance than emphasis on size distribution of income which left numerous options open. Mr. McNamara said that both should be pursued. The frequency distribution of income was also very important for policy purposes.

Mr. Qureshi hoped that the General Research Panel would follow up on the recommendations of this Report. The employment data which the Bank had at its disposal were not meaningful. Quality control and projects-oriented research were very relevant.

Mr. Baum urged management to be clear on priorities. The recommendations could turn out to be very costly. Mr. McNamara disagreed. A large part of the cost was to be borne by the LDCs and still another part by the IDRC and other such institutions. With regard to dissemination, Mr. Baum said that standard rules should be introduced that summaries of, say, 6 pages were to be written in lay terms. Messrs. McNamara and Chenery agreed. Further, Mr. Baum suggested using projects for generating microdata through their monitoring and evaluating components.

With regard to institution-building, Mr. McNamara said that action should await the report of the General Panel. He would talk to Messrs. Chenery and Stern about this complex issue. He agreed with Mr. Stern that development on an action program on data generation and control would be useful at an earlier date than for the FY80 work program.

Mr. Magnussen's Board Statement

Mr. McNamara distributed copies to the PC of Mr. Magnussen's Board statement on excessive demands on staff. Mr. Magnussen's basic point was that staff were over-worked, or at least those who had talked to him had claimed to be. Mr. Chadenet reported on his subsequent discussion with Mr. Magnussen. He said that Mr. Magnussen did not believe that the quality of the Bank's work had suffered in consequence of the alleged excessive demands on staff. Mr. Chadenet did not believe that staff were over-worked. The complaints were caused by different factors: (a) the changing political environment; (b) the press attacks on the Bank; (c) the delays of the Kafka deliberations; (d) the demeaning nature of much of the work; (e) the distorted messages staff received from the top -- namely, that the President loved figures and did not care; (f) the extraordinary differences in morale and communications between units in the Bank.

Mr. McNamara asked for evidence of over-work. Mr. Stern said he did not believe staff were seriously over-worked. They worked hard, traveled much, and there were peak periods. However, at 6:00 PM the building was empty and there were not too many staff members coming in on Saturdays. Mr. Baum agreed. Bank staff were committed to their work and willing to do overtime. Mr. Chaufournier said that the problem was not over-work; staff were rather tired of the type of work they did. There was a general frustration and fatigue. Mr. Hopper agreed. A lot of repetition occurred and staff had not enough participation in the intellectual dialogue. Mr. Cargill said that the problem was not over-work, but morale. The issue was how they worked, not how much. There was a widespread feeling that all that mattered was to meet a deadline in order to make the program. Mr. McNamara concluded that the problem, on balance, seemed not be overwork, but the environment in which staff had to work. However, there was a small number of people who were clearly over-worked and there was widespread excessive travel. This had to be further analyzed. Mr. Chaufournier suggested identifying the real and perceived pressures. Management had then to set counterpressures. Mr. McNamara said that the problem of excessive demands on staff should be further discussed at next week's PC meeting.

President's Council Meeting, July 5, 1978

Present: Messrs. Stern, Husain, Qureshi, Baum, de la Renaudiere, Nurick, Gabriel, Clark, Hopper, Benjenk, Lerdau, Damry, Wapenhans, Cargill, Chenery, Chadenet, R. Clarke

Resignation of Mr. Krieger and Appointment of Mr. Barletta

Mr. McNamara announced that Mr. Krieger had decided to resign from his position as Vice President of the LAC Region. Mr. Krieger felt that his country was going through a critical period and that there was pressure on him to return. Mr. McNamara had reassured him that he would probably have made the same decision in such a situation. He and Mr. Knapp had considered that the best solution was to again select a Latin American from outside. They had offered the position to Mr. Barletta, Finance Minister of Panama, who had accepted. Mr. Barletta had asked for confidential treatment of his appointment until the Panamanian elections in early August.

Compensation

Mr. McNamara reported that the work of the Kafka Committee was proceeding more slowly than predicted. If the schedule were not to be met, i.e., if the Kafka Report would not be available in September, management would have to consider how to reconsider the Board decision on the cost-of-living adjustment. He asked the PC members to keep this matter confidential. He had talked to Mr. de Larosiere about this issue. If one vote could be shifted, namely Canada's, Egypt's, or India's, a further increase could be decided upon by the Board. Management should decide by early September what action to take. With regard to the compensation of Executive Directors, the Governors' Committee had delivered an excellent report, comparing the EDs' salaries to those of economic ministers of major embassies in Washington and U.S. Embassies abroad. The Committee had proposed the principle of Governors independently establishing staff salary levels and then taking account of these levels in establishing the salaries of EDs. At present, more than 600 staff members received salaries above those of the EDs.

Staff Morale

Mr. McNamara said that the problems of staff morale were a function of (a) the compensation issue and the way he and the other members of management had dealt with it, and (b) the expansion of the Bank and its programming and budgeting system. As to (a), staff felt ill-informed and members of the Staff Association believed that he had not fought for the rights of the staff. He did not know how to deal with this issue. He could not take positions with the staff in order to become a hero with the staff which could then not be supported by the Bank's stockholders. With regard to (b), staff felt that there was excessive emphasis on quantity rather than quality. He emphasized that it was the Bank's obligation to LDCs to provide maximum financial assistance which

underlay his philosophy and approach to the programming system. The staff's poor morale also reflected the situation of the world's economy, particularly the society in which the Bank is resident. For example, he had learned at a recent Aspen meeting that everybody was planning to change their future projections as a result of Proposition 13 in California.

Mr. Husain argued that management over-emphasized the salary issue: sufficient communication had taken place on this. Also, the programming and budgeting was only a shorthand of other problems. The real issue was the style of supervisors at the different levels and their communication with the staff. Supervisors judged performance by the amount of paper produced, etc., rather than creating an intellectual environment in their units. Staff therefore did not perceive themselves as equal patners in an intellectual process. Management would have to pay much more attention to the interchange of ideas and to the education and training of supervisors. There was too much talk about salaries. Mr. Qureshi said that he did not quite agree with Mr. Husain's view that compensation was not the major element in the present malaise. The compensation issue was considered by staff to be an indication that the Bank was all of a sudden under attack. The U. S. was perceived as leading a campaign against the Bank and convincing other governments to join in. In view of the situation, staff asked what management was doing in order to defend the institution. The staff had to be reassured of the independence of the Bank. He accepted the idea that responsibility for communicating with the staff on these issues lay with management rather than with Mr. McNamara. Too much inadequate information had become available to staff members. With regard to action, he said that management did not have much flexibility and had to wait for the Kafka Committee to deliver its report. However, staff should be made aware that they lived in a political environment from which the Bank could not be insulated. A large number of staff still perceived the Bank to be a purely technical institution and an isolated island. Mr. Stern agreed, calling it the "Mt. Sinai complex" of the staff.

Mr. Clark pointed out that management's judgment on insuring the maximum resource flow to LDCs was not necessarily shared by the staff. Staff perceived themselves to be judged solely by the narrow Washington community and by their management on the basis of the forms they filled in for their division chiefs. This judgment process had to be opened up and staff had to be made aware that their work was judged favorably by the recipients. The salaries issue made the institution even more inward-looking, rather than outward-looking. Mr. McNamara agreed. Some 8 to 10 years ago a number of EDs resented the Bank's economic policy advice to LDCs. Now, EDs expressed the strong feeling that the Bank should do more in this field and that the Bank constituted one of the few sources the LDCs could rely upon for such advice. The staff should be aware of the LDC's attitude toward the Bank and be appreciative of it.

Mr. Lerdau said that compensation was not the central issue. However, overwork was becoming a serious problem. Mr. McNamara asked Messrs. Stern and Lerdau to consider further the overwork issue. Reasonable limits had to be established.

Mr. Benjenk disagreed with Mr. Husain. At least 50% of the present malaise was due to the compensation issue. Staff had a long memory and inquired

how the Bank got into the present situation. Five years ago, at the time of the McKinsey Report, staff had been assured by management that the institution would remain competitive with other international institutions. This principle was now considered to be ratcheting. It was therefore not surprising that staff inquired why the best international institution was more poorly paid than the others. In this environment doomsday predictions, e.g, on the pension fund at the recent Board meeting, were spread quickly among staff. With regard to Mr. McNamara's second point, he strongly believed that the quality of the Bank's work had improved and that most of the staff were aware of that. However, they used this argument because it hurt. Also, staff considered the IDA/IBRD 5-year allocation process to be a farce and to be handled like an auction. Finally, there was widespread criticism of the petty policy of the Administration Department which was interpreted as pleasing Mr. McNamara as an economy drive. In such difficult times, the Bank's administration policy should be generous. Mr.McNamara said that the Bank's pension plan was unique in providing indexing and being funded. The Administration Department faced one of the most difficult assignments. If it did not provide the best services to staff, it was due to misunderstanding between Administration and staff.

Mr. Hopper urged the PC to give time and thought to how to preserve the professionalism of the institution in the framework of a tightening political net. For example, the increasing paperwork and the fact that there were more reviewers than doers, should receive attention. There were many areas where management could improve working conditions, e.g., in the case of the detailed procedures under the new travel policy. Mr. McNamara said that staff dissatisfaction with working conditions should not be allowed to fester. The procedure should be to let line management deal with it; then, if necessary, raise the issue with Mr. Chadenet, and finally to bring the problem to his attention. Mr. Stern suggested putting the proposed implementation of administrative policies on the table and to give the PC time for reaction; after all, these policies affected a large number of people. Mr. McNamara agreed.

Mr. Wapenhans argued that in analyzing staff morale problems a distinction had to be made between professional and non-professional staff as well as between U.S. and non-U.S. staff. The unintentional symbolism read by staff into management decisions was dangerous. In terms of appreciation of their work, staff made a distinction between the U.S., Europe, and the LDCs. The U. S. was perceived as using the Bank as a whipping-boy; the relations with European governments were considered to be much improved and the appreciation of the Bank's work by LDCs as never to have been higher. Staff was puzzled by the U.S. attitude and its inconsistency. The widespread belief among staff that there was inadequate response by management to their output and intellectual effort also added to professional dissatisfaction, and poor morale. For example, the CPP policy discussion procedures were considered inadequate. The "workers" were not present at the senior management review and not much attention was given to the important policy issues. Mr. McNamara replied that he and Mr. Cargill could not review in depth 70 CPPs per year with the Regional staff. He asked Mr. Stern and the RVPs to review the CPP review procedures. There had been a steady improvement in the quality of CPPs which were becoming excellent. Mr. Stern also agreed with Mr. Wapenhans that these procedures had to be improved.

CKW
7/11/78

President's Council Meeting, July 10, 1978

Present: Messrs. McNamara, Cargill, Baum, Benjenk, Nurick, Chadenet, de la Renaudiere, Chenery, Damry, Gabriel, Blobel, Please, Kearns, Lerdau, Qureshi, Rotberg, Stern, Gue, RClarke, Mrs. Boskey

Staff Morale

Mr. McNamara said that, in view of the absence of five RVPs, the continuation of last week's discussion of staff morale should be postponed until later in the year. Last week a number of RVPs had stated that it was their responsibility to work on improving staff morale. He would be happy to support them in their efforts if invited to do so.

Staff Promotion Policy

The meeting reviewed the paper on Promotion and Assignment to Lower Level Positions, dated June 15, 1978.

Mr. Stern commented that the long waiting periods before being promoted were necessary and that exceptions for exceptionally bright staff should be continued to be handled flexibly. The paper stated clearly that the Bank had no obligation to retain an individual at a certain level. This was important. Mr. Damry said that Mr. Drake had talked about individuals complaining to him that nobody in the institution cared about their careers. Mr. McNamara agreed that the institution lacked an adequate career-planning policy. He consistently heard that staff did not get adequate advice from Personnel in these matters. The British Civil Service and IBM were good examples for good career planning systems which should be analyzed by Personnel. A focus and a structure would have to be created in the institution for career planning. Career development needed to be more positively approached than done by this paper. He asked Mr. Chadenet to (i) examine the practices of other institutions, (ii) consider how the Bank should organize an active career development program, (iii) analyze what the Bank's experience in this field had been, and (iv) devise special actions, e.g., on overseas assignments, which would help build an active program of career development. The issue should then be brought back to the PC in the fall.

Mr. Clarke admitted that Personnel had not been getting far in terms of forward planning for individuals. Mr. Stern said that career development constituted a real problem because (a) the middle level of personnel officers did not have a good view of the individuals, (b) it was difficult for Personnel to be definitive about which positions might become available because the rotation system did not function, and (c) Personnel lacked the authority to make people move if they did not want to. At present many jobs moved on a cluster basis, i.e., staff moved together with a senior person. Mr. Cargill observed that quite a change in the Bank's present system was required to accomplish the objectives of a long-term career planning policy. Mr. Gabriel said that a large number of corporations in the U.S. had an elaborate career development system, e.g., Mobil, Exxon, Royal Dutch, G.E., and First National City Bank. Such systems required that managers at all levels shared in the responsibility for these activities and devoted a substantial amount of time to this work. In the Bank the responsibility of supervisors for staff development had to be made more explicit. Managers were frequently over-reluctant to lose a good person because of the potential impact on accomplishing their work programs. Mr. Chenery said that the problem could not be solved at the Vice Presidents' level. Career planning had to be looked at as a system.

Mr. Stern said that a core group of promising staff needed a more directive rather than a voluntary system of reassignments. Mr. Kearns warned that the world was changing in terms of mobility of professionals and that assessing the potential of

of promising candidates was extremely difficult when cultural differences had to be taken into account. Mr. McNamara said that management should never advance the interests of the Bank at the cost of the interest of an individual. President's Council members replied that this principle was being followed.

With regard to the paper on Promotion and Assignment to Lower Level Positions, Mr. McNamara commented that the statements on demotion on page 4 (a) were too negative and psychologically bad, (b) had nothing to do with promotion, and (c) were of relevance only in the case of a very small number of staff. They should therefore be deleted from the paper. Mr. Stern disagreed. A statement on promotion policy should not only raise staff's hope but lay out the entire system. Mr. Clarke said that, since the number of promotions declined quite rapidly, he would hate to build up unrealistically high expectations. Mr. Chadenet said that a transition in Bank staff expectations was taking place which reflected the Bank's transition from a period of high growth rates to moderate expansion rates. Mr. Stern suggested issuing this paper only after a career development policy had been formulated. Mr. Cargill said that this was the worst moment to issue a paper containing such statements on demotion. Mr. Qureshi disagreed with Mr. Stern; a demotion policy statement did not have to be included in a promotion policy paper.

The meeting agreed to have three papers, dealing with (i) promotion, (ii) demotion, and (iii) termination. Mr. McNamara asked Mr. Chadenet to work out the appeals procedure section with Mr. Nurick.

Kafka Committee

Mr. McNamara reported on his meeting with Mr. de Larosiere. He had suggested that the Fund and the Bank consider a further meeting of their Boards on the cost-of-living adjustment in September in order to (i) avoid the possibility of a strike of Fund staff, and (ii) buy time for careful consideration of the complex compensation issues and avoid any premature decision by the Boards. After receiving the Hewitt Report in early August, both managements and the Kafka Committee should review the time required to reach a final decision. If no early decision were possible, the two Boards should meet around September 8 but only if there were a strong probability of getting a majority to agree to a further increase in the order of at least 2-1/2%. It would be impossible to find a majority for another 3-1/2% adjustment (i.e., a total of 7%) because of the widespread opposition to indexing. However, it might well be possible to find a majority for 2-1/2%, arguing that more time had to be devoted to resolving the complex compensation policy issues.

CKW
July 12, 1978

President's Council Mee g, July 17, 1978

822/4/6

Present: Messrs. McNamara, Cargill, Baum, Benjenk, Nurick, Chadenet, de la Renaudiere, Chenery, Clark, Damry, Gabriel, Hopper, Please, Kearns, Krieger, Parmar, Rotberg, Stern, H. Adler

Borrowing

Mr. Rotberg reported on borrowing prospects. Market analysts in all OECD countries expected higher interest rates as a result of the action called for by the Summit Meeting in Bonn, which would result in higher growth targets, increased financial requirements and larger budget deficit. The yen and deutschmark interest rates had already moved up and only SFR interest rates had not increased yet. This situation called for early Bank borrowings in the non-dollar markets. In the U.S., at present the minimum cost for Bank borrowings with 19-year maturity would be 9.35%; 8.45% had to be paid for two-year money. At a meeting which he had addressed last week in Germany, Mr. Moltrecht had commented on the Bank and had strongly supported (a) a 10% growth rate of Bank lending, (b) a paid-in portion of the capital increase of 10%, and (c) a capital increase amount which would not have to be followed by a further increase in the near future.

WDR I

Mr. Stern reported on last week's Board discussion of WDR I. The views expressed had been very constructive and affirmative. The objectives had been accomplished, namely, (i) even the French were supportive of the Bank's role in carrying out such work, (ii) the EDs generally endorsed the framework of overviewing past accomplishments, dealing with prospects and projections and discussing policy issues, and (iii) the Board supported wide dissemination in published form. As to substance, the Board agreed with the identification of major issues (protectionism, ODA, commercial capital markets). As to the balance between policy issues affecting developed countries and those to be taken by developing countries, the LDCs felt that the report was not vigorous enough with the MDCs and the MDCs felt that the burden of policy action had not been put sufficiently on the LDCs. There was support for future work on MIC issues, particularly industrialization and disaggregation of the group of MICs. The one major criticism had come from Mr. El-Naggar who complained that the report had discarded the committed objective of closing the income gap and who argued that the report should at least analyze what it would take to close the gap by the year 2000. The difference between his complaints and the Bank's projections was simply that the international environment had changed. All EDs had urged preparing a focussed issues paper for the discussion of the DC in September. He concluded that the purpose of the report was not to reach very specific decisions, or to educate the Development Committee, but to reach a broad audience, generating resistance to protectionism and creating commitment to expanded Bank lending under conditions of tighter future capital markets.

Mr. Clark said that a two-pronged plan for publishing WDR I had been developed. The first copies would be available by July 27 and a large mailing list had been compiled. In addition, press campaigns would be carried out, culminating on August 16, i.e., the date of publication. Free distribution would be 80,000 copies together with a summary. Mr. McNamara asked Messrs. Stern and Clark to give further consideration to whether the summary should be sent to everybody.

WDR II

Mr. McNamara said that work on WDR II had been started. The report was scheduled for initial distribution to the Board in June 1979 and for Board discussion around mid-July 1979. The work would be carried out by Mr. Karaosmanoglu replacing Mr. Stern in the over-all direction of the exercise and Mr. Acharya replacing Mr. Rao

in directing the core team. Mr. Chenery would devote a substantial amount of his time to shaping the intellectual content and to organizing seminars with Bank staff and outside leading economists on WDR I in order to receive suggestions for improvement. He asked PC members to give their views to Mr. Chenery on how the report could be improved. Each report should have a recognizable relationship to the former one by making a statement on the progress achieved over the last year and on changes in the projections of the potential for development as well as the factors affecting that potential. Each report would then take up a specific subject, e.g., WDR II would deal with the transformation process in MICs. He urged PC members to give their full support to Mr. Acharya.

Projections

Mr. McNamara suggested that the PC should at some point discuss the projections work carried out in the Bank. It was very useful to project the future beyond the lead time of decisions one was faced with. The Bank's lead time for decisions varied from 2-3 years for most of its work to 5-10 years for some of its activities. Projections led to better decisions. The same was true for WDR projections; however, such projections were also dangerous because they could be taken as predictions. The difference between projections and predictions was not always clearly understood by the Bank's audience; he referred to the Bank's past projections on the accumulation of reserves to OPEC countries as an example. He asked PC members to think about how these dangers could be minimized while retaining the advantages of projection work. He asked Mr. Chenery to ensure that the differences between new and past projections would always be explained when new projections were put out. This discipline had to be imposed. Mr. Stern said that such discipline was painful. Mr. Baum pointed to the sobering lesson that our capability to forecast was very limited. Mr. McNamara agreed and pointed to the importance of sensitivity analyses.

CKW
July 19, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, July 24, 1978

Present: Messrs. McNamara, Cargill, Chadenet, Krieger, Damry, Chaufournier, Benjenk, Clark, Baum, Gabriel, McClure, Weiner, Hopper, Please, Adler, Broches, Chenery, De Silva.

Office Space Planning

The meeting discussed the memorandum by Mr. Chadenet on Office Space Planning (FY1979 to FY1988), dated July 14, 1978. Mr. Broches said that the signing of a letter of intent with George Washington University -- on which agreement has now been reached -- would imply no obligation to the Bank other than to act in good faith and not to pursue alternatives. Mr. Damry commented that in June 1977 the Board had been informed of the GWU proposal. Mr. McNamara concluded that, if there were no legal obligations resulting from such action and in view of what had been said to the Board, the Bank should go ahead and sign the letter of intent with GWU. The Board should be simply informed.

Mr. Baum questioned the memorandum's assumption of an only 3% annual growth of staff, given the assumption of a 5% real growth in lending. Mr. McNamara said that management could not properly project the 5% real growth in lending for 10 years. After resolution of the IDA-4 and -5 and the general capital increase problems, a five-year plan for the institution needed to be developed. Such a plan would also give an indication of the Bank's development over the next 15 years. Issues such as whether ten years from now the Bank should continue a 5% annual lending growth to countries like Brazil would have to be examined. Mr. Gabriel said that the fundamental question seemed to be whether the style of the Bank's operations may change, e.g. with respect to the use of overseas staff. Mr. McNamara agreed. The memorandum assumed zero growth of overseas professional staff. A contingency plan had to be developed which would allow for, inter alia, a much more rapid relative expansion of overseas staff.

Mr. McNamara inquired about the Bank's authority to lease space from offices which did not pay real estate taxes; for example, it might well become desirable to lease 100% of building 801. Should this be done at commercial rates (which of course reflect real estate taxes) and what would be the legal and political implications? Mr. Broches said that the Bank's real estate taxes exemption was granted under the Articles of Agreement; however, the political problem remained. Mr. Chadenet reported that this issue had come up during the debates with the zoning commission. The Bank's argument had been, based on a precedent, that it would pay the District the equivalent of taxes if space was leased; this had been very well received by the zoning commission. Mr. McNamara agreed with this approach.

Mr. McNamara concluded that the following action would be taken: (a) the Bank would sign the letter of intent with GWU, without feeling that it had in any way arrived at a final decision, since the financial alternatives and consequences still had to be worked out and considered; (b) the memorandum would be redone to include a detailed contingency plan and the detailed financial cost implications of alternative leasings of the buildings (i) 801, (ii) GWU, and (iii) 1850; for the contingency plan, the paper should simply use the assumption that the professional

staff at headquarters would not be expanded beyond July 1983. He asked Mr. Chadenet to assume responsibility for this memorandum and to have Mr. Cargill's staff check on the financial calculations.

Publication and Dissemination

Mr. McNamara said that the OPD's paper on Dissemination and Intellectual Leadership - The New Dimensions of Bank Growth, dated July 21, 1978, and the memorandum by Messrs. Chenery and Clark on the subject would be distributed to PC members for discussion on September 11.

OED

Mr. Weiner reported on his recent trip to Brazil, Indonesia and Kenya. The purpose had been to (i) follow up on recent government actions on establishing central performance audit functions and on how the Bank would relate to these efforts; Brazil had just established a new office in the Ministry of Planning and Indonesia had created a new Ministry to be responsible for the supervision of the implementation of the development plan and also for environmental affairs; (ii) to lay firm plans for a regional seminar in Kenya, and (iii) to visit a sample of Bank borrowers to hear their views on Bank operations. The establishment of central performance audit functions by governments resulted in an obligation for the Bank's operational staff to follow up on this and to bring these new units into the Bank's operational circuit, e.g. by associating their staff with Bank missions. OED would closely cooperate with these new units. He said OED had at times been accused by EDs of "institutionalizing the whitewash" of Bank projects. However, government reactions in the field were quite different. There was a constituency valuing their relationship with the Bank very highly, particularly also the non-financial aspects of the Bank's work (i.e., on enlarging the absorptive capacity of countries and upgrading the decision making process of governments at the macro level). On the other hand, he had encountered the following problems: (a) Distorted views and misunderstanding of the content of the Bank's work because the Bank's concern had simply not adequately been communicated to borrowers; one had to ask whether operational staff were not able to communicate the rationale of certain policies and standards, were not clear about objectives, or were simply too rushed to take the necessary time for communicating Bank concerns; the argument should never simply be "we cannot push the project through the bureaucracy in Washington unless ..."; (b) the Bank frequently seemed to be rigid in the first place, i.e. in appraising a project and negotiating a loan, and very flexible in supervising the implementation of projects; that was good and bad; it was bad because it typically led borrowers to agree -- although believing that this was wrong -- to certain conditions and covenants in order not to jeopardize the loan because their experience gave them the assurance that adjustments could then be made during supervision; (c) Borrowers complained about the discontinuity of staff, which obviously in part had been a post-reorganization problem; they argued that the Bank had policies but their interpretation changed with the changing composition of missions, i.e. new man - new policy.

Mr. McNamara asked Mr. Weiner to meet with Mr. Stern and the RVPs in order to consider how to address these problems. He was concerned about the accusation of OED institutionalizing a whitewash. Mr. Looijen had recently made this point to Mr. de Larosière and he considered this a devastating comment. Mr. Syeduz-Zaman's

memorandum to JAC contained the same allegation, arguing that OED had not properly reflected the borrower's complaint in its report on a specific project. There was of course always the tendency of EDs treating the exception as the rule. He took pride in Mr. Weiner's professional and institutional independence which had to be protected against this misinterpretation. Borrowers should be stimulated to do more evaluation of their own; this would help in the long run. Mr. Damry commented that JAC was presently in a suspicious mood because of the bad episode of the consultants' report. He advised against Mr. McNamara talking to the EDs about these issues at the present time in order not to sound defensive. Mr. Cargill said that the EDs had considered the consultants' report to be a whitewash.

WDR

Mr. Chenery reported on last week's staff discussion of the WDR. The view had been expressed that a broader range of assumptions and options should be explored by next year's report. Mr. Cargill reported on Mr. Ramphal's critical statements on the WDR. Mr. Clark added that Ramphal's point of view had been picked up by a number of 'trade union' members in New York. The Committee of the Whole would meet in September and would probably bring about the final collapse of North-South dialogue efforts. It could therefore be expected that voices of despair would be heard at the Annual Meeting, blaming the developed countries for the failure and the Bank as representing the rich world. The Governors' speech should take care of these likely reactions. Mr. Damry suggested the summary of the Board discussion of the WDR to be used against the trade union's arguments. Mr. McNamara said that Mr. Ramphal was putting out the line that the Bank was endorsing less than the UN was committed to; he had twisted the report's statements. He could recast the report's projections and statements in his speech.

cc: Mr. Stern.

CKW
July 28, 1978

President's Council Meeting, July 31, 1978

Present: Messrs. McNamara, Cargill, Baum, Broches, Chaufournier, Clark, Chenery, Damry, Gabriel, Hopper, Krieger, Rotberg, Weiner, Kearns, RClarke, Knox, McClure, Thalwitz, Twining, Wiehen

Hewitt's Interim Report

Mr. Clarke reported on Hewitt's Interim Report which gave the comparison of Bank professional salary levels against the U.S. private sector and the combined U.S./Canadian public sector. In the case of the Bank, not a single job match had been found in the public sector, whereas in the case of the Fund, no job matches were found in the private sector. The findings indicated that at Grades J through M Bank salaries were 10%-20% higher than those of U.S. private organizations; however, direct remuneration for Grade N was about 5% below the comparator average. There was wide variation among professions: lawyers were close to the average of the private sector, accountants and data processors were considerably above, and economists were about 15% above private sector levels. The study also showed that there were wide variations within the private sector among geographic locations in the U.S. The findings were generally consistent with earlier surveys which had shown that Bank compensation was ahead of the private sector by about 8%-10% up to level M. The data as such did not indicate how Bank salary levels should be pitched to private sector salaries; a number of issues had to be considered, e.g., U.S. East/West Coast cost-of-living and salary differentials of the private sector, experience levels of Bank staff versus staff of comparator organizations, differentials by professional groups, and the fact that comparator organizations only comprised staff working in their own country. Hewitt was making its presentation to the Kafka Committee today and would urge that the Committee focus on the issues and not succumb to the temptation of forming conclusions. Also, the Interim Report findings indicated that pension values in the Bank were higher than in the private sector, that 15 out of the 18 comparator firms used merit increases for their cost-of-living adjustments. Hewitt expected to present its comprehensive report, which would replace the Interim Report in its entirety, by August 10.

Mr. McNamara said that he still hoped to get Board approval for another 3.5% cost-of-living adjustment by September. This was justified because of the expected delays in arriving at a final conclusion on compensation but it would now be more difficult in light of Hewitt's interim findings. The Bank was fortunate to have Hewitt as a consultant; this was a very professional group which had been reluctant to put out an interim report. Mr. Cargill said that the compensation matter was so complicated that probably no conclusion could be reached before the next calendar year. Mr. McNamara agreed. A further cost-of-living adjustment would buy time and enable management to reach a final conclusion as late as March 1979. Copies of the Interim Report had gone to the Staff Association. In their meetings with staff, managers should emphasize that this was only a preliminary report and that it was too early for arriving at any conclusion.

Staff Association Task Force Report

The meeting discussed the Staff Association Task Force Report on Forms of Association, titled "Strengthening the Staff Association," dated July 25, 1978.

Mr. Cargill reported on his meeting, (together with Messrs. Chaufournier and Clarke) with the Executive Committee last Friday for discussion of the issues raised by the Task Force Report. He had found the officers to be extremely responsible. With regard to the statements of the report on style of operations, most

problems seemed to relate to the work of the Regions and CPS rather than the support departments. The nature of the discontent seemed to be (i) a general feeling among staff that they were working on an assembly line (i.e., never being told what the model was, etc.) and had no voice in the formulation of policies or in shaping the project; some of the proposals on participatory democracy in the paper were absurd, but, on the other hand, there seemed to be at present a complete breakdown in the vertical communication of the institution (e.g., when he enquired about the frequency of staff meetings, they had just laughed); frequent reference was made to the allocation of IBRD and IDA resources in June where cuts had been made without any explanation to the staff; (ii) staff perception of undue pressure of the "Board slot," i.e., the lending program; staff felt that nobody at the beginning of the year admitted that the program could not be fulfilled and that management did not listen when they argued that the project was not ready; (iii) the awareness of the staff that promotion had slowed down considerably and that there was compression at the top; and (iv) the perception that management did not fight hard enough for obtaining the 7% cost-of-living adjustment; also there was the change in travel policy. However, it was evident that the main concern was not money but the nature of the work. As to terms of employment, there was a strong feeling that staff had to fight for their rights and that some understanding had to be reached on these terms of employment so that they could not be changed in a capricious way. The Task Force clearly aimed at the establishment of a negotiating committee. Mr. Broches added that the Legal Department was presently examining the practices and procedures of other international institutions with regard to legal rights and forms of association of their staffs. Only the EC had a formal bargaining committee plus three unions (socialist, social democratic and conservative) operating inside the institution. With regard to action, Mr. Cargill emphasized that the urgency of response by management was augmented by the nature of the results of Hewitt's Interim Report. First, on terms of employment, work was underway and a paper was expected by next March. Second, on the problems of communication and the assembly-line syndrome, he would meet, together with Mr. Chaufournier, with the Regional and CPS managers down to the Division Chief level during this week, in order to get their side of the picture. Inter alia, he would like to hear the response of line managers to the staff complaint that they spent more time answering questions from CPS, DPS, P&B, OED and OPD than on their proper functions.

Mr. Weiner commented that Mr. Cargill's statements basically confirmed what he had reported last week on the complaints he had received from borrowers.

Mr. Baum said that the Task Force Report was a mediocre document. The PC had talked about these problems for years and had constituted task forces and subcommittees. However, these initiatives had not led to any action. He warned that staff might therefore argue that the Cargill initiative was nothing new and would also not result in any action. Management needed a clear program of action. Mr. Cargill agreed. Policy results and not just talk had to emerge soon.

Mr. McNamara concluded that the matter was urgent. Staff had so little confidence in their line supervisors that they went to the Staff Association and the EDs. Messrs. Cargill and Chaufournier would report to the PC on their meetings next Monday. The problem of communication had to be dealt with urgently. The proposals for policy consultation constituted a longer-term issue. Action had to be tailored to the particular needs of each Region.

Governors' Speech

Mr. McNamara said that he would send a draft version of his Governors' speech to the PC members in order to receive their detailed comments by c.o.b. August 7.

Compensation

Mr. McNamara asked the PC members that, in light of a possible strike by the IMF staff during the Annual Meeting, they discourage staff from following that line. If a further cost-of-living adjustment would be obtained in September, the likelihood of such action would be greatly reduced. However, the increase would be sought in order to buy time for the compensation deliberations and because the staff deserved it and not in order to avert a strike.

CKW
August 4, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, August 7, 1978

Present: Messrs. McNamara, Baum, Knox, Broches, Twining, Chaufournier, B.King, Damry, Gabriel, Picciotto, Please, Lari, Parmar, Rotberg, Wiehen, Weiner, Thalwitz, Merriam

Peter Cargill

Mr. McNamara reported on Mr. Cargill's illness. He had suffered from a minor cerebral hemorrhage last Thursday but his condition had now substantially improved and he was feeling much better. He would probably be able to leave the hospital soon.

Compensation

Mr. McNamara reported on his meetings during the preceding week with Mr. de Larosiere, the members of the Kafka Committee, and the Bank's EDs. Mr. de Larosiere and he had appeared before the Kafka Committee; the discussion had focussed on whether management's recommendations should be formulated before or after receiving the Kafka Committee report. It was agreed that they should be made available before receiving the report, but (a) only in response to a request of the Kafka Committee in writing, listing the different issues to be addressed, and (b) management's recommendations would be submitted to the Kafka Committee in writing, after consultation with the Staff Association and subject to further change. He had now received a letter from Mr. Kafka, listing 11 issues to be addressed.1/ A schedule for the preparation and consideration of the issue papers had been prepared by Personnel. All issue papers to be submitted would be considered by the Compensation Steering Group and, in addition, the entire PC.

With regard to the time schedule of the Kafka Committee, Mr. McNamara said that Hewitt's final report was now expected to be delivered by August 17 but that this was by no means certain. The Kafka Committee would then meet from September 8-10 to discuss its preliminary views. For this meeting, the Committee would be provided with six of the issue papers by the Bank. The issue paper on tax reimbursement was of particular importance. He had asked Mr. Sommers to assume responsibility for the preparation of this paper. Five alternative systems had to be considered: (i) the present system; (ii) average deductions; (iii) average deductions with spouse income allowance; (iv) the UN system; and (v) INTELSAT. The dilemma was that the two objectives of external competitiveness and internal equity were incompatible. He hoped to present the draft of the tax reimbursement paper to the PC before he went on leave on August 18. After its September meeting, the Kafka Committee would have a further session in October in order to finalize its report, i.e., the Board would receive the report by end October. A final decision on compensation could not be reached before the end of the year and would possibly not be taken before early next year.

In view of these further delays, Mr. de Larosiere and he had agreed to propose meetings of the respective Boards on September 6 (Fund) and September 7 (Bank)

1/ These issues are: (i) determination of comparator organizations; (ii) level at which Bank and Fund compensation to be pitched against comparator groups; (iii) expatriation allowance; (iv) compensation levels for occupational groups not covered by the field surveys; (v) salary differentials for grades above Bank level M; (vi) compensation levels for support staff; (vii) tax reimbursement; (viii) transitional arrangements; (ix) internal relativities; (x) direct remuneration and benefits; (xi) cost-of-living differences in the U.S.

to reconsider the cost-of-living adjustment decision of April 1978. He had met informally with the 20 EDs last Thursday; they understood the issue, but it was not clear whether a further 3.5% adjustment could be obtained. He hoped for a major increment, justified by the delays. Mr. Lari said that Personnel had instructed the Regional managers to be extremely cautious not to create unrealistic expectations among staff as to the likelihood of a further salary increase in September. However, Mr. McNamara now sounded more optimistic as to the possibility of obtaining a further 3.5% cost-of-living adjustment. Mr. McNamara replied that, if a vote were taken today, no further increase would be decided upon. However, he hoped that the position of one or several Directors could be changed before the September meeting.

U.S. Foreign Aid Appropriations Bill

Mr. McNamara said that the Aid Appropriations Bill, which affected a number of international organizations and U.S. AID, had been in fairly good shape before Proposition 13. New efforts had subsequently been taken by the U.S. Administration to rebuild support for the Bill. During last week's House discussion, the Young Amendment of prohibiting indirect aid to certain countries had unexpectedly been voted down by a very small margin (203 to 198). However, the House leadership had then taken the Bill off the Agenda in order to avoid undesirable final results. Further action would probably be postponed until after Labor Day. Without this appropriation, IDA would be out of commitment authority by the end of this month. The message that we are "out of business" would have to be conveyed to the U.S. Government. However, for the time being, Bank operations would not have to change. Projects should be processed without any financial commitment from the Bank.

Staff Morale

Mr. Chaufournier gave a progress report on the meetings which Mr. Cargill and he had conducted with Regional and CPS managers down to Division Chief level, in order to receive their views on the issues raised by the Staff Association Task Force report of July 25. He said that, because of the absence of Division Chiefs, a large number of senior, working-level staff members had attended these meetings. Most had read the Task Force report. The meetings had been open and the participation had been good; the findings were probably representative. All had expressed their deep commitment to the Bank's objectives and work but had stated that staff commitment to the institution was being eroded. They had argued that action, not further fact-finding was needed. Unless followed by action, this round of meetings would have a negative impact. At the meetings, Mr. Cargill had reported on ongoing work on legal rights and compensation. He had asked participants to focus on the third broad issue identified by the Task Force report, namely, the work environment.

With regard to the terms of employment, the general view expressed had been that management did not listen and that staff was, therefore, forced to form a union. Staff benefits had been eroded for the sake of rapid expansion. The mishandling of the travel policy had constituted a turning point. Staff was not so much concerned about compensation as such but about its signal effect for the future. The Personnel Department had been severely criticized for its clumsiness in handling staff affairs. Although some had expressed the view that management had become more open than in the past, the majority felt that communications had become much more bureaucratic. The larger turnover of senior management in recent years had led to the belief that better protection was required and that staff had to focus on action to define and establish their legal rights.

As to operations, one common thread had been that the system enforced a gap between what the Bank claimed to do and what it actually did. There was excessive centralization and lack of flexibility. Too much importance was being attributed to number games. Management disliked dissent.

Three frequent themes had emerged:

(i) management was too centralized ("imperial management"); it consisted of one manager and 4,000 loan officers; P&B was not designed to serve operations; the only test of success was the meeting of lending targets;

(ii) staff was not informed about important decisions and was not involved in establishing the work program; whereas in the past the lending program had been the aggregation of individual country programs, it was now considered to be the disaggregation of over-all lending objectives; the serious communication problem was attributed to managers feeling insecure; staff evaluation of supervisors was demanded;

(iii) professionalism suffered; pressures forced staff to invent numbers; the CPP effort was wasted because frequent changes were later introduced without analysis; the pressure to meet lending targets prevented innovation and undercut Bank staff in their relations with member governments. Excessive demand for data was demeaning.

Mr. McNamara said that staff had made an important point: why another series of meetings? Management had to start from there. What was new was that (i) he had assigned Messrs. Cargill and Chaufournier, who in the past had not been associated with these issues, to carry out this work; (ii) a more systematic and longer-term evaluation of staff concern would be undertaken; and (iii) the work would focus on the Regions and CPS which showed the most serious problems. Messrs. Cargill and Chaufournier would continue their work together with Mr. Stern as well as the RVPs and Mr. Baum. The group would identify a set of required actions within a reasonable time frame. He himself had some thoughts as to such action but did not want to reveal them now. There were two different categories of issues: (i) fundamental issues relating to management style, operations and general working environment, and (ii) specific problems, such as criticism of the urban poverty data work and the pitfalls of social analysis of projects. Many external factors, particularly the political pressure on the Bank in this country, contributed to the low morale. The situation of external controversy and pressure would continue. The compensation decision, for example, would have to be taken in a politically charged atmosphere.

Mr. Baum agreed with Mr. Chaufournier's summary of the views expressed at the meetings. It was difficult to pin down the different factors and issues and to distinguish between cause and effect, reality and misperceptions, etc. The process of identifying the issues and possible remedial actions had now been started and management had to come up with solutions soon. There were no obvious solutions and there was no "quick fix." With regard to the relations between the Regions and CPS, a steering group consisting of Messrs. Gabriel, Kearns, Knox and himself, as well as a task force chaired by Mr. Richardson, had been established in order to deal with the role of CPS.

CKW
August 10, 1978

OFFICE OF THE PRESIDENT

822/4/10

President's Council Meeting, September 7, 1978

Present: Messrs. McNamara, Benjenk, Chadenet, Chenery, Clark, Damry, Gabriel, Husain, Qureshi, Stern, RClarke, de la Renaudiere, Kearns, Nurick, Picciotto, van der Tak, Wiehen

Mr. McNamara said that the Fund had decided yesterday to defer action on the proposed cost-of-living adjustment until October 23. The Bank's Board had now followed suit, although there had been much support for a further retroactive increase above the 3.5% granted in April 1978. The "compelling reasons" for further postponement of the decision were (i) the delay in the work of the Kafka Committee, and (ii) in particular the expected action of the U.S. Congress on the aid bill within the next weeks. It was left to management of the Bank and the Fund to inform the staffs. It would be most unfortunate if there were a staff outburst due to this decision. However, he had the impression that the officers of the Executive Committee of the Staff Association were acting very responsibly. Mr. Chadenet added that some of the seven EDs who had opposed an adjustment in April were now fully or partly in favor of an increase. Mr. Benjenk commented that the reasons for the postponement were so clear that there should be no problem to convince staff. Finally Mr. McNamara said that the proposed minor action on the education benefits would probably also be postponed.

CKW
September 21, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, September 11, 1978

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Wiehen, Weiner, de Silva, Bloomfield

Declassification of Bank Documents

The meeting discussed the memorandum on Declassification of Bank Documents by Mr. Chadenet, dated July 24, 1978.

Mr. Chadenet said that the Bank had to strike a balance between its duty to maintain the confidentiality of the information provided by member governments on the one hand and the need to be more open, modern and credible in the line of present trends on the other. At present there was no policy; the release of documents was handled on a request-approval by supervisor basis. He emphasized that the Bank had no legal obligation to move away from this practice of pragmatic disclosure. Mr. Broches said that he was not in favor of an automatic release rule. First, it should be the governments and not the Bank which release documents. Second, the outside world was mainly interested in obtaining the Bank's opinion with little delay rather than in obtaining the facts only years later. Mr. Damry commented that he was not aware of any big demand for such declassification. He agreed with Mr. Broches that opinions were demanded more concurrently than 10 years later. On the other hand, 10 years were not much in the life of a country. He asked whether the 10-year rule would prevent a, say, three-year disclosure if there were a legitimate interest. He warned that taking action now would be a mistake; it would be misconstrued as external pressure from the U.S. Government. Mr. Chaufournier said that the proposed automatic release of documents would entail the great risk that the Bank's ability to obtain information from governments would be impaired. It should suffice if OED reports were published to show the operational effectiveness of the institution. Mr. Qureshi said that, because of the different nature of the information obtained by IFC, an automatic system of declassification should not apply to IFC. The release of IFC documents should be decided upon on a case-by-case basis after consultation with governments and corporations. Mr. Benjenk favored a solution which would make the release still subject to approval but would establish a bias for releasing documents if they were over ten years old. Mr. Chenery said that the Bank's economic and sector reports lost their value in 10 years time but would still be a valuable source of information after five years. Under a 10-year rule, the Bank would waste good information for the 1% which was sensitive. An annex to the reports could contain the highly confidential information which would of course not be released.

Mr. McNamara decided to defer action. There was no pressure to act now; a decision at this point in time might be considered as action under pressure by the U.S. since there had been Congressional pressures in the recent past. He said that the proposal on page 3 of the paper should be changed to a flat 10-year rule with a footnote saying that this did not apply to IFC. He asked Mr. Damry to submit the proposal to the PC again not later than nine months from now.

Press Coverage of WDR

Mr. McNamara said that Mr. Clark and associates had done an extraordinarily good job on obtaining press coverage for the WDR. In particular, the European Office under Rainer Steckhan had played an important role. He said that the Commonwealth Secretariat's comments on the WDR should be discussed at next week's PC meeting together with Mr. Streeten's report on the Istanbul NIEO Seminar.

Compensation

Mr. McNamara said that he had been pleasantly surprised that there had been much stronger support for a full 7% cost-of-living adjustment in the Board than he had expected. If a vote were taken now, the full 7% could be obtained. However, between now and October, the Hewitt report on support staff would have been considered by the EDs; the report showed that the Bank's support staff was much higher paid than the highest paid support staff of other agencies. He hoped that these results would not affect the October decision. Mr. Chadenet reported that the Staff Association meeting to discuss the postponement of the cost-of-living adjustment decision by the Board went much better than expected. The delegates apparently endorsed the resolution of the Fund, called for a contingency plan for action in October, and agreed to discuss possible action during the Annual Meeting at next Thursday's meeting. Some delegates in the Fund wanted the Staff Association officers to address the Governors from the rostrum during the Annual Meeting. The Bank's Staff Association was also sending a letter to the Governors complaining about increasing politicization of the Bank.

Mr. Chaufournier said that, if a further cost-of-living adjustment were achieved and the IDA bill were passed, the discussion of the Hewitt Report could take place in a more somber mood. As to internal operational procedures, the work of the Cargill/Chaufournier Committee continued. Mr. McNamara said that greater formalization of internal communication procedures was required. Such a more formal structure of up-and-down communication would improve the substance of internal information and discussion. He would like to set aside some time at each PC meeting for discussing the feedback received from the working level.

Mr. McNamara's Salary

Mr. McNamara explained the history of salary adjustments for the Managing Director of the Fund and the President of the Bank. Salaries had been set for the last time in May 1973. However, Mr. de Larosiere had now negotiated his salary and the U.S. had agreed to a "tough deal." Messrs. Kafka and Rota had then suggested action Mr. McNamara's salary. However, the U.S. was concerned that action on his salary at this point in time would affect Congressional action, particularly since his salary was expressed in gross terms. Mr. Benjenk said that, in view of the rumors circulating in the Bank, it would help if PC members could explain some of this to the staff. Mr. McNamara agreed. However, PC members should not unnecessarily stimulate the discussion.

IDA VI

Mr. McNamara said that Mr. Knapp would take responsibility for IDA VI negotiations during the time of Mr. Cargill's absence.

CKW
September 23, 1978

OFFICE OF THE PRESIDENT

822/4/12

President's Council Meeting, September 18, 1978

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Broches, Chadenet, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Stern, Wapenhans, Weiner, de la Renaudiere, Haq, Hittmair, Nurick, Streeten

NIEO Seminar in Istanbul

Mr. Streeten reported that the seminar had been a public relations exercise by the new Turkish Government, both internally and externally. The Government wanted to document that it was moving slightly away from NATO and to the Left. Don Mills had warned that internal restructuring in LDCs should not be made a condition for global restructuring of the world's economic order. He (Streeten) had emphasized that the concept of interdependence, which was now very much en vogue, would only affect a subset of LDCs. In terms of future action, he saw three areas of concern: (i) mutual interests (but he was skeptical of its global dimension), particularly as to structural bottlenecks, e.g., linkages in the energy and food sectors); (ii) imperfections and biases of the existing order (structures of markets, etc.); and (iii) corrective self-reliance.

Mr. Haq said that, in his view, there was confusion in the G-77 on three major issues: (i) the definition of equality of opportunity between nations in the context of NIEO; (ii) the distinction between ends and means: the dialogue had so far focused on means only (e.g., debt relief); amazingly, the restructuring of LDC economies was considered by LDC governments to constitute an interference of the developed countries; and (iii) the link between internal and external restructuring: this link had been lost and protagonists of NIEO were often the protagonists of a status quo in their countries. At the next stage, some fundamental rethinking had to be carried out in the South. There was increasing interest in an "OECD of the South" which could provide technical inputs. A South/South conference in Arusha would soon convene about 25 G-77 representatives in order to discuss bluntly all the items on the international agenda, e.g., whether the Common Fund concept had been a mistake and whether the South should not have focused rather on commercial intermediation.

Mr. Benjenk said that external issues constituted the smallest common denominator for the South around which to unite. The international technocrats of the South usually were politically to the Left of their governments so that their statements had to be discounted. However, he expected the Bretton Woods institutions to come under increasing attack from the South over the next 18 months on issues such as voting shares and the nature of their management, simply because they constitute easy targets. Mr. Stern agreed with Mr. Benjenk. However, IFI issues such as voting rights, an executive committee between the Board of Governors and the Board of Directors, and program lending were trivial in comparison to the international issues. No substantive proposals on NIEO had come from either the North or the South. Clear thought was required. Great damage was done by the common assumption that, if NIEO could only be defined on paper, it could substitute the old order. What was needed, however, was a strategy for change to deal with the issues one by one. There was a general lack of sense of priority in the international community. The Bank was increasingly isolated and had not contributed much in substance. Its relations with the UN Specialized Agencies, OECD, and fora of the South were superficial.

Mr. McNamara agreed that the Bank did not keep an adequate level of contacts with the UN system. It should be much closer to the thinking of the UN.

Messrs. Chenery and Clark should keep a high level of contacts with the UN and other international fora. Periodic PC discussion of these issues should be scheduled in order to keep management informed. With regard to changes in the Bank, management should listen to outside proposals and learn from them in order to strengthen the Bank. However, in the case of weakening proposals, the Bank should argue that the problem was "theirs." The Bank could stop lending to the developing world. In other words, a clear distinction should be made between constructive criticism and irresponsible attacks.

Mr. Haq suggested that the Bank's relations with the G-77 would be greatly improved if it would help in carrying out work in three areas as suggested by Mr. Streeten: (a) imperfections, (b) common interests, and (c) self-reliance. Mr. McNamara replied that the Bank was at work in those areas which constituted plus-sum games, i.e., energy, food, trade expansion and external finance. Work on imperfections between nations was also useful. Collective self-reliance was, however, only one step down from the issues of technology transfer for which no one had constructive insights to offer.

Legal Rights of Staff

The meeting discussed the draft terms of reference for a working group on legal rights of staff which had been prepared by the Staff Association and the Personnel and Legal Departments.

Mr. Chadenet commented that the original terms of reference as provided by the Staff Association were atrocious. With the help of the Legal Department, they were now mediocre. The staff insisted that the legal rights of Bank employees had to be outlined because they were very vague at present. Mr. McNamara had pointed out to the Staff Association that (a) he supported the establishment of a working group formed of representatives of the Staff Association and management but (b) he had doubts about the usefulness of the undertaking in terms of possible results. A large number of staff felt defenseless in terms of their "acquired rights"; this concept of acquired rights was now widely accepted in Europe. The confrontational language in the draft terms of reference originated from a small minority of the Staff Association, particularly a woman lawyer in IFC.

Mr. McNamara said that he was surprised that the work was not yet more advanced since he had agreed to such a working group in a meeting with the Staff Association about two months ago. Management had to prevent a movement towards an adversary relationship between management and staff. The confrontational language should be taken out of the terms of reference. Mr. Stern suggested that Section I should collapse into a short introduction. Mr. McNamara agreed.

Mr. Qureshi said that he was concerned about increasing rigidities in the relations between management and staff. Mr. McNamara agreed. Such rigidities would move the terms of employment down to a negotiating level and excellent performance would be lost. Unionization had to be avoided.

Mr. Broches said that management was to blame for not having clarified certain questions as to terms of employment. The Bank now had a very large staff and the situation had to be more clearly laid out. Mr. McNamara agreed. Management had no option but to clarify the relationship between staff and the institution. The Board would not have to be informed at this ill-defined early stage. He asked Mr. Chadenet to agree with the Staff Association on a redrafted terms of reference.

Mr. Benjenk commented that staff morale had improved lately. This detente was mainly due to the fact that the meetings between Mr. McNamara and the Staff Association officers had been productive. The staff had actually been surprised how readily Mr. McNamara had agreed to legal rights work. Management should not retreat from that position.

IDA

Mr. McNamara briefly reported on the Senate Committee mark-up of the aid bill. The Selective IBRD Capital Increase had been cut in an ill-defined way, the IDA allocation had been set at $1.3 billion, and the Cuba and Vietnam amendments had been eliminated. The bill would reach the floor after action on the gas bill.

African and Arab Staff of the Bank

Mr. McNamara reported that a lot of pressure was put on him by African and Arab EDs to hire more nationals of their countries. In last week's meeting they had argued that the Bank discriminated against in-house Africans, against Africans and Arabs in its YP recruitment, and against Africans in terms of hiring senior managers. Although it was obviously desirable and important to achieve a higher percentage of Arab and African staff, the basic question had to be asked whether our services to these countries suffered from not having these nationals on the Bank's staff. He did not believe that this was the case. However, what was clearly in the interest of these countries was strong Board representation. He had therefore supported an increased length of tenure of elected Directors and their Alternates.

CKW
September 23, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, September 26, 1978

Present: Messrs. McNamara, Barletta, Benjenk, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Qureshi, Stern, Wapenhans, Weiner, Hittmair, Nurick, van der Tak, Kearns, Maddux

The PC discussed the concluding remarks to be made by Mr. McNamara at the closing of the Joint Session of the Fund and the Bank.

Mr. McNamara suggested the following points to be made: (i) There was widespread acceptance of accelerating economic growth and alleviating poverty; the Bank was grateful for the support expressed for the World Development Report and the views expressed in the Report on the need to avoid protectionism and increase capital transfers to LDCs. (ii) There had been general agreement that a formal decision on the IBRD capital increase was required by early next year which would lead to an increase that would permit the Bank's lending to grow by 5% a year in real terms. (iii) There was general support that negotiations for the IDA VI replenishment should begin before the end of the year. (iv) A number of governments had pointed to the desirability of the Bank's initiating studies of potential energy resources in developing nations. The Bank would present a report to the Board within the next two months. (v) Many governments had complimented management for its accomplishments; however, the success of the Bank's work depended mainly on the quality and dedication of its excellent staff.

The PC agreed that all these points should be made. Mr. Clark suggested adding that the amount of optimism expressed at the meeting reflected a general feeling that the Bank could accomplish things. Mr. McNamara disagreed. There should not be the interpretation that McNamara was optimistic. Mr. Damry suggested addressing the disbursement issue which had been raised by a number of governments. Mr. McNamara decided that, since the factors influencing disbursements were uncertain, this issue should not be addressed.

Mr. McNamara asked Mr. Maddux to quote Mr. Healey's statement on the WDR in the concluding remarks.

Finally, Mr. McNamara said that, in his view, the best outcome of the meeting had been the strong support of the Part II countries for the objective of poverty alleviation. These statements should be sent to the different UN fora where different statements were delivered.

CKW
October 17, 1978

OFFICE OF THE PRESIDF

822/4/14

President's Council Meeting, October 16, 1978

Present: Messrs. McNamara, Cargill, Lerdau, Baum, Paijmans, Nurick, Chadenet, Thalwitz, Chenery, Damry, Gabriel, Picciotto, Husain, Kearns, Qureshi, Hittmair, Wiehen, Mrs. Boskey

Kafka Committee

Mr. Chadenet reported on the ongoing meeting of the Kafka Committee. The meeting would last up to nine days. It had received the ten issues papers prepared by the Bank and giving management's position on the crucial issues. Messrs. McNamara and de Larosiere had appeared before the Committee on Sunday afternoon (October 15 from 3:00-6:00 p.m.). The U.S. Government's negotiating stand had been revealed to the Kafka Committee as well as to Mr. McNamara himself. The U.S. accepted a mix of public and private comparators from the U.S. only with a pitch at the 75th percentile, agreed with the present differentials for management levels, proposed a transition period of three years and a comprehensive review every five years, argued for the INTELSAT or gross/net system of tax reimbursement, did not accept any expatriation allowances, and suggested reviewing home leave and other benefits in order to use them as recruitment bonuses. In their presentations, Messrs. McNamara and de Larosiere had focused on the central issues of market, pitch, expatriation and tax reimbursement. Mr. McNamara had argued for a U.S. market for simplicity reasons, whereas Mr. de Larosiere supported the inclusion of non-U.S. comparators.

Mr. McNamara said that, in considering the tax reimbursement formula, the objective had to be to obtain the highest possible net pay for U.S. and non-U.S. staff. The danger of the UN formula was that the net would be driven down because that formula gave a gross which was higher than any comparator. He said that he had been impressed at how the Joint Committee members had advanced their understanding of the issues. In particular, Ambassador Roberto Campos had shown a deep understanding. Even the U.S. had come a long way as evidenced by its position paper. He was pleased with yesterday's meeting and the responsible attitude shown by the Committee members. Mr. Chadenet agreed. Political pressures had clearly subsided. At the first meetings, the outside experts had been under the impression that they had to be careful in their statements because the U.S. Congress was watching. Now the proceedings had become a professional-based rather than a political-based discussion. After the present meeting, the Committee would draft its report and would then probably meet during the last week of November to agree on its final recommendations. It had to be stressed that the document would be an advisory report which would be submitted to the Bank's and Fund's managements and Boards for decision.

Mr. McNamara said that the Kafka Committee report would initially be considered by the Boards and then immediately made available to the Staff Associations for in-depth review. Bank and Fund managements would then submit their recommendations to the Boards. Mr. Chadenet added that, depending on the outcome of the report, these deliberations could take between one and four months. Mr. McNamara concluded that it was therefore important to get Board agreement to the proposed cost-of-living increase in the week of October 23. He thought that management had the necessary votes for a substantial increase.

U.S. Aid Bill

Mr. McNamara reported that the U.S. Aid Bill had finally been passed by both the House and Senate. It contained $1,258 million for IDA and $163 million

for the Selective IBRD Capital Increase. The U.S. was now substantially behind on the Selective Capital Increase. The Bill had been passed by a very small margin of only 10 votes. Mr. Nurick added that the Bill now contained the instruction for the U.S. Administration to seek an amendment to the Bank's Charter in order to introduce human rights considerations into its lending.

South Asia Trip

Mr. McNamara reported briefly on his visit to India and Sri Lanka. During his first week in India, he had attended the Ford Foundation Trustee Meeting and had learned more about the country than during all previous visits. India was a function of monsoons. At present, the economy looked much brighter and there had been a substantial change in terms of Government addressing poverty. This concern had been translated into interesting and very impressive activities, such as Dr. Kurien's dairy projects. A number of states addressed the unemployment problem through a variety of programs, such as the employment guarantee scheme of Maharashtra. His conclusion was that (a) there had been good harvests which had improved the economic situation; (b) the Government recognized the priority issues to be addressed; (c) there was still little foundation for industrial development and growth of exports; and (d) the Janata party confronted serious political problems. The overall outlook for the near-term was very good but long-term foundations for development were still missing. In the case of Sri Lanka, the Government showed an amazing record of accomplishments during its first 15 months in office. He had visited the Mahaweli Ganga project area where the Government planned to invest $700-$800 million over the next five years and expected high benefits. The economy still left 1 million unemployed and there were no convincing plans to reduce significantly that level. This was a socially explosive situation. The Bank and its work were very well received in both countries.

With reference to the Bank's recent recruitment discussions with Raj Krishna, Mr. McNamara said that it was Bank policy to talk to senior Government officials only after they had told their Governments that they were considering a Bank job. Mr. Chadenet said that it was sometimes difficult to adhere to this because of the problem of the prospective candidates falling between two stools. Mr. McNamara asked the PC members to keep Mr. Chadenet informed in cases of recruitment discussions with senior Government officials. He asked Mr. Chadenet in turn to keep him informed in such cases.

CKW
October 20, 1978

OFFICE OF THE PRESIDENT

822/4/15

President's Council Meeting, October 26, 1978

Present: Messrs. McNamara, Baum, Paijmans, Broches, Chadenet, Thalwitz, Chenery, Clark, Damry, Gabriel, Picciotto, McClure, Hittmair, Stern, Wapenhans, Trott

At the outset of the meeting, Mr. McNamara emphasized that he needed a clear agreement that the matters he raised at PC meetings were not communicated to the staff and that the confidentiality of these meetings would be maintained. He then read the following statement from a Memorandum to Files by Mr. Dale: "Prior to the determination of positions on the amendment, I was requested by an Executive Director to make a factual statement regarding the views of Directors on the original proposal of the Managing Director, based on the discussion. I stated that the discussion had revealed that more than half of the Directors who among them hold slightly more than half of the Voting Power exercised at the present time by all Executive Directors had indicated support for the Managing Director's original proposal. It was understood that my statement on this matter was a statement of fact and not a declaration of the sense of the meeting." He said that this statement indicated that the Fund at its Monday meeting had not followed proper procedures when it voted 2.5%. At the request of some EDs, the Fund would therefore reconsider management's proposal on Friday.

At present, Bank management had no majority of votes for its proposal. He had therefore decided to defer today's Board consideration and to let first the Fund "straighten out its mess." A Bank Board meeting would probably be scheduled shortly thereafter. He would meet at 9:30 a.m. with Mr. Dale to discuss further strategy and he would meet at 11:00 a.m. with the officers of the Executive Committee of the Staff Association in order to ask them (i) to defer the Staff referendum until after the Bank Board had acted and (ii) to ensure that no majority would be found for a strike.

CKW
November 3, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, November 6, 1978

Present: Messrs. McNamara, Barletta, van der Tak, Benjenk, Broches, Chadenet, Chaufournier, King, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Hittmair, Stern, Adler, Weiner

Compensation

Mr. Chadenet summarized the sequence of actions at the Bank and the Fund during the week of October 23 which had led to approval by the Boards of a further 3.5% cost-of-living adjustment.

Mr. McNamara considered it a serious problem that the Staff Association now argued that their pressures had led to the favorable result. He quoted from a note which pointed to the erroneous but dangerous interpretation of the causality of events floating around among staff, leading to the conclusion by staff that militancy paid off. The opposite was true; the Staff Association's action had almost lost the achievement of the 3.5% increase because it had eroded the support of the EDs. Mr. Chadenet said that it was most unfortunate that the Executive Committee of the Staff Association claimed credit for the results. Although individually the Staff Association officers were very responsible people, they were obsessed by "the credibility gap" with staff. He had told the officers that their statements were wrong in fact and unproductive in tactics. First, they could not produce facts which would support their statement and, second, it was very unwise to "spit in the face" of your friends at a time when their support was badly needed.

Mr. Husain commented that communication between management and staff in that crucial week had been hampered by the fact that PC members could not tell staff what Mr. McNamara had communicated to them during the PC meeting. He urged that hostility between management and staff should be avoided and management should go soft on criticizing staff. It should be left to the Vice Presidents to communicate senior management's concern about the unwise action of the Staff Association to the staff at large. Mr. Chadenet agreed. It had to be recognized that the Staff Association had had a very difficult job and had succeeded well in controlling the staff over the last 14 months. Mr. Hopper said that Mr. Chadenet, at today's Department Directors meeting, should point to the impolitic nature of the Staff Association circular. However, everyone had to understand the Staff Association's credibility drive. The RVPs should explain the problems to their staffs. Mr. Damry said that the staff should know that there was considerable bitterness among EDs because of the statements made by the Staff Association.

Mr. Myint

Mr. McNamara read from Mr. Myint's statement communicated to his secretary over the telephone in which Mr. Myint complained about discrimination against non-white staff members. This case should be handled in a sympathetic way because Mr. Myint had had the guts to have his name attached to his complaint and because he had presented his views in a moderate way. The criticism of racial discrimination in the Bank constituted a serious problem and it was the last thing the Bank wanted to be accused of. Mr. Chadenet emphasized that the Bank was "color blind" in its recruitment and promotion policies. Mr. Clark said that Third World representatives felt that they were not , as they believed they should be, the beneficiaries of "reverse discrimination" and that the Bank was

run on a Western model, unlike the UN. Mr. McNamara replied that two different problems had to be distinguished: (i) the feeling of a group of staff members that they were not receiving equitable treatment, and (ii) the possible perception by Third World representatives of the Bank being run on Western lines.

Mr. Stern said that much of the problem had to be attributed to the failure of the Bank's Personnel system. The Bank did not have a functioning career development system. There was no rotational system and senior officers usually came back from Personnel humiliated and frustrated. There was an increasing "old boys' system," and promotion took place from within the units rather than from outside. Movements of staff between units took place in clusters. To make things worse, all this happened at a time when structural promotions were down to a trickle. Mr. Weiner endorsed Mr. Stern's statement and added that this led to a widespread sense of fear. Mr. Chaufournier also supported Mr. Stern and said that the Bank's Personnel system was excessively rigid. Mr. Stern argued that the Bank was under-investing in its Personnel system. Also, managers would always recruit in their image and it took courage to act differently.

Mr. McNamara agreed that managers tended to appoint in their own images. He asked Mr. Chadenet to prepare for a PC discussion before January 1, 1979, the issues of (i) career counseling; (ii) career development system; and (iii) career development for Africans within the Bank. Mr. Husain said that the Bank should plan for an affirmative action program for Africans and should consider means of reducing the risk for lower-level managers who tried to make the right decisions on recruitment and promotion. Mr. McNamara asked the PC members to be sensitive to the issues raised during this discussion.

Education Panel

Mr. McNamara drew the attention of PC members to the report of the External Advisory Panel on Education which had just become available. He had asked Messrs. Baum and Aklilu to extract the recommendations and to propose actions.

Currency Allocation

Mr. McNamara said that P&B had prepared a paper on the issue of currency allocation which would be circulated to PC members for discussion at next Monday's PC meeting.

Legal Rights of Staff

Mr. McNamara said that, in view of the first meeting of the Management/ Staff Working Group on Legal Rights last week, the next PC meeting should also be briefed on the status of this work.

CKW
November 9, 1978

OFFICE OF THE PRESIDENT

822/4/16

President's Council Meeting, October 30, 1978

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

Gene Rotberg

Mr. McNamara welcomed Mr. Rotberg back to the PC; Mr. Rotberg had suffered a heart attack in August. Mr. Rotberg explained that he would have to undergo cardiac surgery in Cleveland in a couple of weeks. News of that intervention should not be interpreted as a relapse.

Cost-of-Living Adjustment

Mr. McNamara said that last week's action which had resulted in Board approval of management's proposal had left wounded feelings with Board members and staff; this was the cost to be paid for the successful action. It had been very hard to achieve the objective of a 3.5% increase, and some interesting maneuvering had taken place between Fund and Bank managements and Board members. He asked Mr. Chadenet to consider Mr. Looijen's recommendation of granting the retroactive cost-of-living adjustment also to staff members who had left the Bank since March 1. Mr. Fried had made a forceful statement based on information from the May 1978 paper on the Pension Plan, arguing that Bank pay levels had increased by 6.4% per annum since 1973. Mr. McNamara said he felt neglectful because he should have caught this last May and should have insisted on reconciliation of the data. Part of the reason for these data discrepancies was that the Pension Plan paper referred to a different universe, namely, individuals in the Pension Plan. With reference to Mr. Fried's statement, Mr. Drake had then accused management of conveniently ignoring data. This was clearly not the case and he had stated that forcefully at the Board Meeting. He asked Messrs. Chadenet and Gabriel to examine the issue and prepare a memorandum to the Board on the development of average real salaries over recent years.

Staff Association

Mr. McNamara reported that he had urged last Thursday that the Staff Association postpone its referendum. However, the Staff Association had rejected his appeal. During the meeting, the Executive Committee of the Staff Association had also enquired about potential penalties arising from any strike action. At present the Bank had no policy of how to deal with such situations but the issue should be settled before December 1 and management had to consult with the Fund.

William Raspberry

Mr. McNamara said he had received a call from William Raspberry of the Washington Post enquiring about his response to a letter from Trans-Africa which had accused the Bank of discriminating against blacks. He had responded to Mr. Raspberry that the Bank certainly had not as many black staff members as it would like to have but that there was no discrimination whatsoever. He had suggested that Mr. Raspberry check on this himself by talking to staff members. He had asked Mr. Chadenet to talk to Mr. Raspberry and he would like the PC members to be aware of the issue. The accusations contained in the Trans-Africa letter had clearly originated from staff. Mr. Clark said that Mr. Raspberry might well ask why there were so few black American staff members. Mr. McNamara said that he had not even been aware that this was the case. Bank recruitment policies were "color

blind" and management did not look at the data on this basis. However, the Bank certainly had the burden of proof and it would be tough to convince outsiders that the Bank did not discriminate against blacks when it had only six U.S. blacks out of more than 600 Americans, i.e., only 1%. He was not aware of any other large institution in this country with such a low percentage.

New EDs

Mr. Damry briefly reported on the changes in the Board which would take place this week. Five EDs and four Alternates were leaving. Mr. McNamara asked Mr. Damry to give him a note on these changes later today.

Kafka Committee

Mr. Chadenet reported on the present status of the deliberations of the Kafka Committee. The Committee would meet again on December 14 to consider the draft report which was now being prepared for distribution to the Committee members on November 15. The Committee had just met for nine days and a consensus apparently was emerging which entailed the following: (i) market--it was not clear whether the Committee would go for a mix of 50% U.S. private sector comparators and 50% U.S. public sector comparators or for a 60% private and 40% public composition. Also, it was not yet clear (and this was more relevant in terms of pay levels) whether the Committee would include U.S. Treasury, Fanny Mae, Federal Reserve of New York and Federal Reserve of St. Louis as U.S. public sector comparators, or would use the U.S. Civil Service as the only comparator; (ii) pitch--the consensus seemed to be for a pitch at 10% above the average of mid-point of the comparators; (iii) expatriation allowance--there was no general agreement but a consensus to improve specific benefits and a fairly firm agreement to adopt the UN repatriation grant of six months' pay for the first six years of service and of one month for each individual additional year up to a maximum of 18 months; this was quite an expensive solution; (iv) tax reimbursement--there seemed to be agreement on introduction of the gross/net average deduction system, taking account of spouse income; (v) transition--there would be a long transition period of up to 10 years. Personnel was now working on a paper to the Board which had to be clear and simple in order also to be used for the staff and the outside world. It was important to note that the Kafka report would only be an advisory document. In response to a question, Mr. McNamara said that the Kafka Committee was reluctant to move towards exchange rate protection for certain nationalities; however, he felt that the Committee was probably wrong on this.

Research Advisory Panel

Mr. Chenery reported on the work of the Research Advisory Panel. One member, Professor Giersch from Germany had suggested sending a questionnaire to all young researchers (under 35 years of age) in the Bank asking for their views on gaps in present research on development. Mr. McNamara said that he hoped that the Advisory Panel would create a ferment by around mid-1979, i.e., at the point when management would hopefully be able to start thinking about future, long-term directions of Bank work.

Peter Cargill

Mr. McNamara said that, during Mr. Cargill's five weeks of leave, Mr. Gabriel would be in charge of the financial complex in the Bank. He would direct the work on the IBRD capital increase and prepare a paper on this for the Board by early

December. The political costs of achieving last week's 3.5% cost-of-living adjustment could probably have repercussions on the timing of reaching formal agreement on the IBRD capital increase.

Miscellaneous

Mr. Benjenk reported on his recent trip to Yugoslavia, Jordan and Afghanistan. It was heartwarming to see how well the Bank was received by the new Marxist rulers in Afghanistan; they even wanted Bank advice on their intended land reform. The Yugoslavs had stated to him that the Bank's advice was more valuable to them than the Bank's money. The Bank's relationship with Jordan was greatly improved. There had been considerable progress in cofinancing efforts and there was a very interesting recent cofinancing example in Yugoslavia.

CKW
November 6, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, November 13, 1978

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Rotberg, Stern, Wapenhans, Kapur, Bock, Merriam

Allocation of Currencies

In response to a question by Mr. Husain, Mr. Gabriel explained the proposed currency pooling system. It would merge all currencies and each borrower would participate as in a mutual fund. It ensured equality of treatment in sharing the costs and benefits of currency management. However, it would be administratively difficult to handle. Mr. Husain emphasized that management would still have the freedom to determine which currencies would go into the pool. Mr. McNamara agreed. He said that there were three distinct issues: (i) what currencies to borrow; (ii) what to loan and what to invest; and (iii) how to charge and allocate currencies to be lent. With regard to (ii), the paper implied that the Bank did not invest its funds in a way minimizing the cost of the system. Mr. Broches said that the system's cost approach was based on the assumption that benefits to the system would eventually benefit the borrowers. Mr. Chenery said that there were two policies: (i) to minimize cost to the system; and (ii) to minimize long-term borrowing costs to the borrowers. He enquired whether these policies were always compatible. Mr. McNamara replied that they were identical. The present system (a) minimized the cost to the system, (b) minimized the cost to the borrowers as a group, and (c) did not allow for special categories of borrowers. Under the proposed pooling system, the same approach would be followed except that the Bank would take care of small borrowers by ensuring that they shared the same risk, etc., as the entire group. Mr. Rotberg agreed.

Mr. Stern said that, by definition, the lending rate passed the benefits and costs on to the borrowers. Under any system of borrowing and liquidity management, uncertainties were unavoidable. The proposed system only underlined that the costs were equitably shared and that the minimization of cost to borrowers got translated to the individual borrowers. Everything else could be left out of the paper.

Mr. Damry commented that the Board expected a paper on the allocation of currencies between disbursement and invested liquid assets. Mr. McNamara replied that the choice of currencies of borrowing and of currencies for management and disbursement had nothing to do with this paper. He would state to the Board that this paper dealt with the allocation of currencies among borrowers; if the EDs wished to deal also with the other issues, he would schedule discussions on which currencies to borrow, which currencies to invest and disburse, the lending rate formula, etc.

Mr. McNamara said that the Bank would not change its present system of allocation of currencies and then "fall on its face." The new system had to be run on a trial basis in parallel to the existing system for some time. Mr. Gabriel said that it would take 10-18 months to introduce the new system. He said that his choice would be to go to a floating rate system. Mr. McNamara disagreed. Such a system would raise many practical problems, e.g., the borrowers would choose the time of borrowing. Whereas the proposed pooling system was primarily procedural, the lending rate issue affected the entire range of how decisions were being made

by the Bank and its borrowers. The necessary adjustment of the present fixed-rate formula was different from moving from a fixed to a floating rate. He suggested announcing that the Bank was working on the pooling system and would also explore the issue of floating versus fixed lending rates.

It was agreed to propose introduction of the currency pooling system to the Board. It should be stated that (a) management recommend moving in the direction of introducing the pooling system, (b) the system would become effective July 1, 1980, or earlier if possible, and (c) test procedures would be developed in order to run the new system parallel to the existing system for some time.

With respect to existing loans, it was agreed (a) that all future disbursements on such loans would fall under the pooling system subject to the countries' willingness to modify the contracts, and (b) to study the possibility of including under the pooling system past disbursements on disbursing loans and past disbursements on non-disbursing loans.

It was agreed that IFC could not be run on the pooling concept and that the problem of DFC lending under the pooling system would have to be dealt with separately.

CKW
November 29, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, November 16, 1978

Present: Messrs. McNamara, Barletta, van der Tak, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Hittmair, Stern, Wapenhans, Goodman, Kapur, Merriam, Rovani, Cash, Friedmann

The meeting reviewed the paper on Energy in the Developing Countries--A Progress Report, dated November 9, 1978.

Mr. Stern commented that there was worldwide interest in increased support to the LDCs in the fields of oil, coal and gas development. The paper was based on the experience gained by the Bank since 1977. The main new proposal in the paper was that the Bank would finance exploratory drilling at the risk of governments and companies; this would reduce the political risk of such ventures. The proposed program would make a significant dent in the estimated requirements.

Mr. Husain commented that the paper's proposal went in the right direction. He enquired about the conditions under which the Bank would be prepared to consider financing of exploratory drilling. Mr. Friedmann replied that in some countries geological and geophysical work would first be required. The first decision would have to be whether the risk should be borne by international companies or by the governments. In many countries the international companies might not be willing to assume the risk because they were only interested in "hot countries." Country-risk work would entail gas fields and small oil fields for domestic consumption. Mr. Husain commented that the major issue seemed to be the apportionment of risk between governments and companies, i.e., the terms of contracts; it was therefore of crucial importance that the Bank build up its capability of assisting governments in such negotiations. Mr. Gabriel commented that, if the Bank assisted in building up the capabilities of LDCs and companies, it did not have to become involved in financing exploratory drilling. It was important to note that, at present, there was no cost to the countries deriving from exploratory activities when companies came in. Mr. Stern replied that the Bank should finance exploratory drilling simultaneously with building up country capabilities and that it would only do so at countries' requests.

Mr. Chaufournier enquired whether priority should be given to the poorest countries. Mr. McNamara replied that initially the Bank should move into areas where exploratory drilling presented the smallest risks, i.e., probably not into the smallest and poorest countries. The first eight projects, proposed for FY80-FY81, should be in safe areas.

Mr. Qureshi commented that, in many cases, the risk per se was different from the political risk as perceived by the companies. Mr. Chaufournier enquired about the reliability of available information in view of the reticence of oil companies in the past to reveal such information. Mr. Friedmann replied that the information contained in the report had been obtained mainly from the French Petroleum Institute and that companies could give important information without necessarily revealing information which was of importance to their commercial interests. Mr. Hopper said that there was considerable risk left without inside knowledge. Also, the paper was weak on the sequencing of geological work, exploratory drilling and appraisal drilling, the link between geological work and exploratory drilling was particularly weak. Mr. McNamara replied that there could clearly be no link for the first years. Mr. Hopper said that the Bank needed secret information from the

companies before it could move into the field of exploratory drilling. Mr. Stern replied that one should not fall into the fallacy that the Bank would do such exploratory drilling on its own; these activities would always be carried out in association with foreign companies or national companies. The Bank's insistence on companies' participation was precisely to ensure against the concern expressed by Mr. Hopper.

Mr. Wapenhans commented that the East African countries were particularly interested in the exploratory fund. However, the analysis of this facility in the paper was very tentative. Mr. McNamara said that the discussion of the exploratory fund should be eliminated from the paper at this time. There was no way the Bank could deal with this issue initially. However, the Bank could finance such activities in individual countries under its normal technical assistance procedures. The most important part of the program was the proposed sector studies; they should receive first priority, particularly in the case of the smaller countries. The Bank should plan such activities for all 60 countries with need in this area. At present the Bank's major problem was to prepare itself internally for the proposed work in this very complex, risky area, i.e., to acquire the necessary technical expertise and to develop the required staffing. There was no question about the enormous requirements of LDCs in this area but the question was whether the Bank should be involved and in which form. In his view, the Bank clearly had the relevant capabilities to work on these energy problems. For the time being, the Bank should pursue the strategy proposed by the paper and should then review its activities again in 12 months' time.

Mr. Chadenet commented that the proposed international energy meeting to be convened next spring by the Bank should better be postponed for another year in view of the present paranoia of the OPEC countries and their suspicions as to motives of the OECD countries.

Mr. Benjenk said that the Bank would have to organize internally for the higher-risk of projects in this sector by introducing reserve projects and not only standbys in this area. Mr. McNamara agreed. Projects in this new sector would be highly uncertain; he would therefore be willing to put these projects on top of the FY80 program.

Mr. Merriam commented that another benefit not spelled out by the paper was that meeting the energy requirements of LDCs would keep world oil prices down. Mr. McNamara said that this was well understood and did not need to be spelled out in the paper.

CKW
November 29, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, November 27, 1978

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Broches, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Kirmani, Kearns, Qureshi, Hittmair, Stern, Wapenhans, Weiner, RClarke, Merriam

The meeting discussed the memorandum addressed to Mr. McNamara by the Bank African Staff Club (Messrs. Kwaku and Mwine) on Recruitment and Promotion of Black Africans in the World Bank, dated November 17, 1978.

Mr. McNamara said that the most disturbing statement of the memorandum was contained in para 6: "After a lot of soul-searching, we have regrettably come to the conclusion that race has been the major factor responsible for the slow pace at which Africans already in the Bank have been promoted and for the total lack of promotion to management positions from within the Bank." He also had evidence that the Trans-Africa letter to him and the Raspberry articles in the Washington Post had been stimulated by Bank staff. He had met with representatives of the black African staff members and with the African EDs to discuss the problem. He asked the PC members for their views on what action should be taken.

Mr. Qureshi said that, looking at the facts, one had to conclude that there was no discrimination but that there was a problem. The African staff was being handled in the same routine way as the other staff which resulted in higher sensitivities because there were so few. There was undoubtedly a strong tendency of managers to recruit and to promote in their own image; the Africans did not meet managers' stereotypes (e.g., coming from "the schools"). His sympathy was with the statement that the problem of the African staff should be handled as the problem of women in the Bank; in other words, the Bank should "bend over backwards" in its recruitment, counselling and promotion efforts.

Mr. Stern enquired whether there were any facts supporting the allegation of discrimination. Mr. McNamara replied that for the time being the fact was simply that there was the overwhelming perception of race discrimination in this institution. According to an additional memorandum he had received from black African staff members, 13 staff members, mentioned by name, had allegedly been mishandled. He agreed with Mr. Qureshi that part of the problem was that there was a lesser risk in the eyes of managers if they recruited the "Harvards."

In response to a question by Mr. Stern, Mr. Clarke said that the proportion of promotions of Africans in recent years had been higher than their proportion of total staff.

Mr. Chaufournier commented that there was fairly widespread discontent and frustration among African staff, with great variations among individuals. First, the most dissatisfied joined the Bank between 1972-1974, at a time of rapid growth and promotion and now had to realize the opportunities for promotion were much more limited. Second, the Bank recruited African high-level executives at the L level and these former executives only laughed at the Personnel criteria for promotion; they were misinformed about the fact that on average those promoted had stayed for shorter periods at different grades than their peers. Third, the African staff believed that there was no channel of communication for them in the Bank because there was nobody in a senior management position who came from their cultural background and was therefore able to perceive their strengths and to act as their advocate. Four, they believed that the former Colonial administrators at the Bank, whom they knew from former times, continued frequently to treat them as "little boys". Five, management did not make a sufficient effort to break the "old boys'" network. He strongly urged that the problem of black Africans should not be

confused with the problem of black Americans. Mr. McNamara agreed. However, the Africans themselves contributed to this confusion. Mr. Chaufournier said that the Bank had lost its channels to smoothen contacts with the Congressional Black Caucus. Mr. McNamara agreed. Mr. Chaufournier concluded that greater sensitivity was required on the part of management, that the representation of Part II countries in Personnel should be increased, and that the allegations of discrimination should be looked into.

Mr. Chadenet warned that an affirmative action program for black Africans would open a Pandora's Box. A large number of interest groups, based on nationality, race and religion, would be formed and would push for preferential treatment. Mr. Chaufournier agreed that it would be wrong to jump into an affirmative action program. African staff members would feel like second-class citizens and the damage would be even greater. Mr. Wapenhans said that the African staff did not have sufficient access to factual information. For example, pay levels of Africans were above average of their peers. Clearly, risk-taking by managers in terms of employing Africans had not worked out. Further, management had to be careful to distinguish between different ethnic groupings in Africa; for example, Sudanese were not accepted as black and were rather considered to be Arab. Also, candidates from some black African countries were on average more promising than from others. Mr. Broches commented that Bank managers usually had a low opinion of government structures in African countries. They were therefore unwilling to compare an African executive to an executive from other countries.

Mr. Stern commented that management should not be too glib by stating that it was color-blind. This conclusion did not follow from the lack of statistics. The old boys' network did not only work in the Bank's relations with the outside world but also internally. An affirmative action program would be premature. He suggested asking Mr. Chaufournier to discuss, together with the other Regional Vice Presidents, the facts with the African group. He warned that the Bank's African Regions should not be considered to be the home for recruiting Africans. Mr. Baum suggested focusing on what African staff could best contribute to the institution; for example, they could be very effective in serving in field offices.

Mr. McNamara concluded that three different problems perceived by the black African staff had to be dealt with: (i) No black Africans were serving in senior responsibility positions; their preference was for Africans being promoted into these positions from within the institution. (ii) Those recruited were being discriminated against. (iii) The Bank did not recruit sufficient numbers of sub-Saharan Africans. Mr. Chaufournier suggested forming a committee to look into these issues. Mr. McNamara agreed. A small special task group would have to be formed in order to examine the situation and propose a course of action.

CKW
December 1, 1978

OFFICE OF THE PRESIDENT

822/4/21

President's Council Meeting, December 4, 1978

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Broches, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Kirmani, Kearns, Hittmair, Stern, Wapenhans, Weiner, Haq, Merriam

Piero Sella

Mr. Broches reported that Piero Sella had died Saturday morning from a massive heart attack. Mr. McNamara said that Mr. Sella's death constituted a terrible loss to the institution; plans had been made to make Mr. Sella Vice President and General Counsel, succeeding Messrs. Broches and Nurick.

The Bank's Image

The meeting discussed Mr. Merriam's memorandum on "The Bank's Image as a Liberal, Establishmentarian, Market-oriented Defender of World Order," as well as memoranda on the subject by Mrs. Hardy and members of the European Office.

According to Mr. Clark, the issue was what image the Bank should put across in responding to criticism. In his view, the Bank should not be portrayed as being perfectionist and not as if it were "running the world." The Bank was not the response to Third World attacks on OECD countries. The Bank was an organization of the whole, pursuing a middle path in the interest of all. He admitted that this line of argument had its weaknesses and would not end Marxist attacks, coming primarily from student bodies, and would not satisfy the proponents of an NIEO approach.

Mr. Benjenk commented that underlying the left-wing criticism of the Bank was a romantic view of the world. The LDC militants seemed to argue that the Bank was appealing to the industrial countries to support the Third World out of a sense of charity. The Bank was left with relatively few allies; its allies of course should be the governments of the Part I and the Part II countries. However, these governments often acted as if the Bank did not belong to them. Part II governments argued that the Bank was elitist and arrogant, and was overwhelmingly dominated by Part I governments; they liked the Bank's money but not so much its advice. As far as the Part I governments were concerned, most difficulties came from the U.S. The other governments felt that, compared to the U.S., they had no influence on the Bank. This was evidenced, for example, by the recent French parliamentary debate (on which Mr. Steckhan had reported), during which the French Minister was quoted as saying that the Bank was not a multilateral institution but a U.S. organization. Finally, the Bank did not receive much help from its own staff in terms of improving its external image. Some staff members apparently felt that the Bank had a monopoly on the development dialogue (e.g., Mr. Merriam in his memorandum) and others felt that the Bank made no contribution to this dialogue (e.g., Mrs. Hardy in her memorandum). He was concerned about Mrs. Hardy's statement that the Bank finally seemed to listen to outside criticism because it was now increasingly coming from the North. The Bank might have been playing into the hands of its critics by concentrating its propaganda excessively on new-style projects. The Bank had turned down too much its experience over 30 years in financing economic infrastructure and industrialization, i.e., supported sectors which were needed for development as envisaged by the Bank's critics.

Mr. Cargill enquired whether there was any substance to the outside criticism of the Bank. Mr. Benjenk replied that there probably was not. Mr. Wapenhans disagreed. There was a new school of thought in Europe, represented by social scientists such as Mr. Senghaas. Their contention that capital aid was a continuation of imperialism had tremendous appeal in Europe.

Mr. Haq argued that the Bank had to make up its mind which constituencies to worry about. It could not satisfy all if it wanted to remain effective. He suggested appealing to the moderates on both sides by continuously reviewing the Bank's internal workings. He made the following proposals for action: (i) In view of the external criticism (arguing that there was a divergence between the Bank's rhetoric and implementation of poverty projects), an external panel should be instituted to examine the implementation of rural and urban poverty policies, i.e., to conduct a policy evaluation of the 70's; this would prove useful both for the Bank's external image and its internal learning process; (ii) The Bank remained silent on many issues coming up in the international arena; it would be helpful to develop a series of policy positions on items on the international agenda; of course, on some of these issues (e.g., MNCs) not much could be said meaningfully by the Bank; and (iii) The Bank should invite more people to come to the Bank and address the staff on important issues; not Marxists but leaders of thought from developing and developed countries should be invited as had been done a few years back on the issue of the new order. Mr. McNamara mentioned that Mr. Haq would attend a meeting in Arusha of leading development thinkers of the G-77; he asked Mr. Haq to brief the PC on the outcome of that meeting in early January 1979. As to Mr. Haq's third proposal, he asked Mr. Karaosmanoglu to work on this with Messrs. Clark and Haq, as had already been agreed some months ago.

Mr. Kirmani commented that the Bank should expect the criticism it received. This was inevitable. There was some substance to the criticism. The Bank's image within the institution shaped the image outside. Staff used to complain when new policies were introduced. However, the new poverty policies were now well accepted by the staff. With regard to action, he was attracted to the suggestions made by the European Office.

Mr. Barletta suggested inviting not only leaders of thought, as Mr. Haq had put it, but also opinion makers from LDCs. Mr. McNamara agreed and asked Mr. Clark to work on this and possibly start such a program with the Latin America Region. Mr. Barletta continued that it was usually the socialist-leaning critics who were committed to development to a larger extent than puralistic governments. The Bank had a pragmatic middle-of-the-road approach which would of course be protested by the socialists whom the Bank could not win over. However, they would listen to the ideas put forward by the Bank. Most governments did not perform better on development because they did not know better. The Bank's technical assistance and policy advice were crucial. Because the Bank had become so large, it had also become a bit insular and there was not enough dialogue with the outside world.

Mr. Baum said that he would hesitate to bring in an outside panel on poverty policy evaluation as suggested by Mr. Haq. This was too large and unmanageable a subject. He agreed, however, on bringing in the Bank's critics. The Bank should state openly that its poverty approach was genuine, that it encountered problems in implementing its policies, and that it was in constant search for answers. In his contacts with the outside critics, he was always struck by the degree of ignorance of what the Bank did. A much more effective program of educating the public was required. The stories put out by IPA needed an element of human interest, such as the recent stories in the Washington Post on Daniel Benor and by Stephen

Rosenfeld on the Sudan. Mr. McNamara said that the credit for these stories had to go to Messrs. Merriam and Clark. The Bank had to try to make more use of its beneficiaries in countering its critics. In particular, Part II EDs would have to become more involved.

Mr. Chaufournier argued that the Bank tended to react in an ad hoc fashion rather than by carefully formulating its position in a changing world. The Bank's external image was to a large extent determined by its internal problems of communication; it was staff members who projected the Bank's image to the outside world. The Bank should clearly distinguish between important and non-important criticism and should present itself to the world as an open, innovative institution.

Mr. Stern said that criticism of the Bank would continue irrespective of overcoming the technocratic problem of informing better. The Bank had become very large and was part of major communication and decision-making streams. People's beliefs could not easily be changed. The external criticism had to be disaggregated and analyzed carefully. The Bank should learn from the full spectrum of criticism including the attacks coming from the left. Criticism was healthy and should not be eliminated, as the Public Affairs Department sometimes tended to try. Some of the criticism aimed in the right direction; the Bank indeed tended to be arrogant and "very clever." Many of the Bank's speakers used to describe the Bank as they wished it to be and not as it was; this exacerbated the problem. Management had to be very clear about what the Bank should and could be. He disagreed with Mr. Haq's proposal of the Bank taking a position on all international issues. The Bank was a resources transfer institution and at the same time a leader in development. It should avoid becoming embroiled in emotional debates at a high cost in terms of its basic commodity, namely financial resources. There was ample scope for initiatives by the Regions on educating LDC opinion leaders; this did not have to become a costly centralized function. He was also hesitant about conducting an outside experts' review of Bank poverty policies.

Mr. McNamara agreed that Regional staff could be used more widely than in the past for educating the public; for example, Mr. Chaufournier had undertaken efforts in West Africa in that direction. He also agreed that the Bank had to disaggregate the outside criticism and should learn from it. While he was less reluctant than Messrs. Baum and Stern to have an outside expert panel review implementation of poverty policies, he concluded that this was not the proper time because not enough information was yet available on these new-style projects. (He was concerned about the Bank's insufficient project monitoring and evaluation efforts to date.) He also had serious questions about the appropriateness of the Bank openly taking policy positions on most items of the international agenda. The Bank would have to process such policy positions through its member governments which would probably not reach a consensus. The South clearly needed a stronger policy foundation for its dealings with the North. In concluding, Mr. McNamara asked Mr. Clark to develop a system of systematically monitoring external criticism. A monthly digest of such criticism should be prepared for distribution to the PC. Mr. Clark said that he would have to rely heavily on information provided by the Regions for such a monthly digest.

cc: Mr. Clark
Mr. Karaosmanoglu

CKW
December 8, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, December 11, 1978

Present: Messrs. McNamara, Barletta, van der Tak, Benjenk, Broches, Chadenet, Chaufournier, Karaosmanoglu, Clark, Damry, Gabriel, Hopper, Husain, Kearns, Qureshi, Stern, Wapenhans, Scott

Special Procedure

The meeting reviewed a note by the President to the Board proposing to increase the upper limit for projects to be presented to the Board under Special Procedure from $15 million to $20 million. The note estimated that for FY79 a $20 million upper limit would involve about 25% of the number of projects and less than 10% of IBRD/IDA lending in value.

Mr. Wapenhans commented that in his Region a much higher percentage of projects than the average for the Bank (25%) would not be considered by the Board if the limit were lifted to $20 million. Mr. McNamara said that he had had mixed feelings about proposing an increase in the upper limit. It was essential that the Board had a feeling of responsibility; however, if the Special Procedure projects were handled properly, the increased limit should not change that feeling. It was important to emphasize that a higher limit was not introduced in order to make bunching more acceptable. After all, an increase from $15 million to $20 million corresponded to an inflation adjustment. Mr. Chaufournier emphasized that the EDs would still have the right to ask questions on Special Procedure projects. Mr. Damry anticipated no problems with the Board. Mr. McNamara concluded that the note should be scheduled for discussion by the Board.

Legal Rights

In introducing the subject, Mr. Chadenet said that there was considerable unease among staff provoked by external political pressures on the Bank and recent changes in terms of employment (e.g., a change in class of travel); staff had lost confidence in their managers' ability to protect them. There was clearly a cultural dimension to the legal rights debate, namely, that the concept of acquired rights of staff had been widely accepted by European institutions and firms. In contrast, the Bank's wording in its letter of appointment, referring to "terms of contract as they may be amended from time to time," was not considered to be a very reassuring statement. There were attempts to change the Staff Association from a "concertative" to a negotiating body; the IMF Staff Association was pushing much harder on this and Mr. de Larosiere had accepted the Staff Association of the Fund as a concertative body, i.e., coming close to a negotiating body. In a meeting with the Executive Committee of the Staff Association in July 1978, Mr. McNamara had agreed to a study on legal rights to be carried out jointly by management and staff. However, he had also emphasized that he did not believe that problems of staff morale could be resolved by such action. Mr. Chadenet said that, in his view, the study of the rights and obligations of staff was both timely and useful. The study would list present staff rights and obligations, and would compare them to those at the UN, ILO, OECD, EIB, EDF and three MNCs. It would then arrive at a conclusion as to whether present Bank terms of employment were adequate and would possibly propose certain changes. A task force consisting of representatives of management and staff had been formed which was called Conference on the Rights and Obligations of the Bank and Staff and which met once a week in an informal session and without having a chairman. At the

last meeting, the terms of reference for consultants to obtain information on the other institutions had been agreed upon. He expected the study to (i) bring order into the Bank's Personnel statements on rights and obligations of staff (e.g., the Bank did not have a core manual on rules and regulations as the UN did, but had only the letter of employment and numerous personnel statements); and (ii) possibly result in the establishment of a tribunal system which would give staff legal recourse. Such a tribunal had been favored by Mr. Broches for many years; it existed at the UN and had a record of prudently and responsibly dealing with issues.

Mr. Broches said that a distinction had to be made between (i) defining the legal rights of staff and (ii) introducing recourse procedures for grievances. The UN had three tiers of rules: (a) general regulations adopted by the General Assembly; (b) rules; and (c) detailed annexes. As to his proposal of establishing a tribunal, he said that almost any government could be sued by its civil servants and a private employer could of course be taken to court. The Bank did not have a court but had made settlements with staff which it probably would not have made if there had been a court. The OAS and the Fund were immune from jurisdiction but the Bank was not; however, the U.S. Department of Justice claimed that local courts could not deal with employment matters of international organizations. In his view, it was necessary for the Bank to have an international tribunal similar to the UN.

Mr. McNamara asked Messrs. Broches and Chadenet to keep the PC informed about the work of the task force on legal rights.

Department Directors Meeting

With regard to Mr. Kearns' note suggesting discontinuation of the monthly Department Directors Meeting, Mr. McNamara said that these meetings should be continued for the time being.

Energy Paper

Mr. McNamara said that, at the request of an ED, discussion of the Energy Paper by the Board had been postponed to January 16, 1979.

Peter Cargill

Mr. McNamara said that it had been reported to him that Mr. Cargill, in a meeting with the Staff Association, had indicated that he would resign as Vice President Finance in order to focus on broader Bank issues, such as staff morale, etc. However, he had just talked over the phone to Mr. Cargill in Paris who had assured him that he did not say anything of that sort and that the subject had not been discussed at all with the Staff Association.

IDA VI

Mr. McNamara reported that, according to first reports over the phone, the IDA VI Deputies meeting in Paris had gone very well and the atmosphere had been constructive. Several participants had supported a replenishment of about $13 billion and another participant had proposed a $12.5 billion figure. The U.S. had been supportive without being specific as to amounts.

Mr. McNamara's Contract

Mr. McNamara reported on the present status of the work on his contract. Parallelism with the Fund was of fundamental importance for the institution and

the Bank had to move away from his present salary level because it was becoming a ceiling for others. He read from his letter to the members of the Board dealing with the issue which suggested applying the new average deductions spouse adjusted formula for tax reimbursement to his salary immediately and retroactive to April 1, but subject to this formula being decided upon by the Board to apply to all U.S. staff.

Kafka Committee

Mr. Chadenet reported that the Kafka Committee would hold its final meeting this week on the draft report prepared by Mr. Caines. It was expected that the Committee would complete its report by about January 1, 1979.

CKW
December 15, 1978

OFFICE OF THE PRESIDENT

President's Council Meeting, December 18, 1978

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Nurick, Chadenet, de la Renaudiere, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Kearns, McClure, Hittmair, Wapenhans, Weiner

Graduation of Countries

Mr. McNamara reported that, at the request of a number of EDs, the issue of IBRD lending to countries as they go up on the income scale would be dealt with by the Board after the IBRD Capital Increase issue had been settled. The issue--as raised by Mr. Magnussen in the case of Korea--would have obvious implications for Brazil, Mexico, Argentina, Romania, Yugoslavia, and Turkey. All Regions should be concerned and stand back from their programs in order to consider justification of planned levels of lending to these countries in the light of the Bank as a lender of last resort, by analyzing how much capital could be raised from internal savings and externally from commercial banks and what the role of IFIs would be in that context. Management had not proven satisfactorily that the required amounts of capital would not be available to countries without Bank involvement. He has asked Messrs. Husain and Gabriel to focus on the cases of Korea and Brazil, respectively. The Board discussion would probably take place around March 1979.

Kafka Committee

Mr. Chadenet expected no substantial changes in the anticipated recommendations to be made by the ongoing and final Kafka Committee meeting; however, a number of redrafting exercises were underway in order to arrive at the same conclusions with different reasonings. The issue of the level of the pension base was still unresolved. Mr. McNamara pointed to the danger of dissenting minority reports; there were presently three groups: the U.S. group, the French group and the group of outsiders. He said that he had asked Messrs. Chadenet and Clarke for a paper responding to the expected Kafka recommendations and giving management's position. The draft paper was now available and 70% of it would probably be applicable in the light of the final outcome of the Kafka Committee's work. The paper would be revised this week and distributed to PC members by Friday or early next week for consideration on January 2 or 3. It was important for management to be prepared for the discussion with the Fund, the staff and the Board after distribution of the printed form of the Kafka Report on January 15. The Fund was not as advanced as the Bank in terms of formulating management's position.

EDI

Mr. Chadenet summarized the history of the EDI crisis. Mr. Clark added that it had been his mistake not to realize the degree of seclusion of Mr. Frost from his staff. During his final week before resigning, Mr. Frost had behaved with extreme dignity and had won the support of his staff for the five-year program which he left behind. He (WClark) was now acting as interim manager of EDI.

Transmigration

Mr. McNamara mentioned that a discussion of the Indonesian transmigration involvement of the Bank had been scheduled for January 4 at the request of Mr. Fried. It bothered him that staff was so undisciplined as to take the internal controversy on levels of transmigration and technologies to be applied to the Asian Wall Street Journal. This was disgraceful and resulted in a serious penalty for the Bank/Indonesia

dialogue. The institution could not be run with this degree of staff irresponsibility.

Mr. McNamara's Absence

Mr. McNamara said that he would be away next week and Mr. Cargill would be acting for him.

IDA VI

Mr. Cargill reported on the IDA Deputies' meeting last week in Paris. The general atmosphere had been many times better than during the IDA V negotiations. All five early speakers had supported a $13 billion replenishment target. Canada, Germany and France had difficulties with a high figure. France was willing to maintain its share but supported a total of not more than $11 billion. Canada had delivered a gloomy speech about the country's budgetary situation. The Germans had made a confused statement reflecting strong differences of view between the Minister of Finance and the bureaucracy; however, the German position seemed to be weak and could probably be changed, but not at the level of Deputies. The U.S. statement had not given numbers but had supported a substantial increase. The Saudi Arabian and Abu Dhabi representatives had said nothing at the meeting but had indicated privately that they would support the replenishment but could not mention any figure now. For the next meeting, a paper on burden-sharing would be prepared.

Mr. McNamara enquired whether the evaluation of IDA's lending performance had been positive. Mr. Cargill said that this had been the case except for some Deputies wondering about the absorptive capacity of a number of LDCs. Mr. McNamara said that the question of absorptive capacity was becoming an important issue with many governments. The British and German bilateral aid programs were in trouble and questions were therefore raised by those governments. Mr. Gabriel said that IBRD disbursements this year were better than projected but IDA disbursements were lagging 10% behind projections. Mr. McNamara added that there was a problem with the Bank's projections which discounted not only for appraisal estimates but also past performance. The Bank had probably gone too far in terms of optimistic projections contained in appraisal reports. Mr. Baum noted that appraisal disbursement estimates did not take country factors into account. There was clearly a short-term problem of absorptive capacity in a number of countries. Mr. Gabriel saw no conflict between the assertion on the one hand that countries needed the external financial resources provided by aid programs and the realization on the other hand that there was a lack of absorptive capacity; the fundamental issue was whether countries could use these financial resources in a form as presently offered by the bilateral aid agencies and increasingly also by the Bank. Mr. Chenery agreed that this was the fundamental issue. Mr. McNamara replied that he could not believe that countries such as Colombia could not absorb a high level of resource transfers, if their finance ministers got to work. The Philippines was an example of how to do it. Rather than cutting back on lending programs, the Bank should talk to the governments concerned. Obviously, there were some problem countries, such as Bangladesh, where absorptive capacity presented a real problem. Mr. Chenery said that there seemed to be an absorptive capacity problem in the case of rural development projects. Mr. McNamara replied that rural development lending constituted only 25% of over-all Bank lending.

Mr. Hopper enquired about Japan's position on the IDA replenishment. Mr. Cargill replied that the Japanese condition of participating in the replenishment was to get an increase in their voting share in IBRD. Mr. McNamara said that the

IBRD Capital Increase should first deal with the proposal of doubling shares, i.e., an increase of $40 billion; secondly address the issue of the portion of subscribed capital to be paid in; thirdly deal with the allocation of the increase (and here he would recommend a substantial increase in the Japanese shares); fourthly decide on voting shares; and fifth deal with the issue of number of seats, e.g., whether the Latin Americans and Africans could maintain their three seats each; and finally establish a timetable over which the capital subscriptions would have to be taken up. These six issues should be dealt with separately, although there was a trade-off in some cases. In the case of Japan, he had promised the Prime Minister to recommend strongly an increase in the Japanese IBRD voting shares to the Board, but he had not commented on the necessary offset. Mr. Cargill observed that, according to early information, the new leadership in Japan would emphasize aid to the Pacific region at the expense of recent efforts of increasing support to Africa.

CKW
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