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Folder ID: 1770833

Dates: 1/1/1980 - 3/31/1980

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ISAD Reference Code: WB IBRD/IDA EXC-10-4538S

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President's Council Minutes, Jan. - Mar. 1980.

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822/7/1

OFFICE OF THE PRESIDENT

President's Council Meeting, January 2, 1980

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Weiner

General Capital Increase

Mr. Damry reported that 72.96% of the votes had now been received and that the Japanese vote was expected on January 4. Mr. McNamara concluded that therefore the General Capital Increase would be formally approved by the end of the week. In light of these facts, Mr. Ryrie was now convinced that the mid-year budget review would not have to consider a reduction in the IBRD lending program.

IDA

Mr. McNamara said that, in view of the Afghanistan situation, he did not expect this year's U.S. Aid Bill to go through. He agreed with Mr. Qureshi that the Bank would have to obtain the IDA IV and V funds under the continuing resolution. He asked Mr. Qureshi to analyze the implications of the present Aid Bill situation for the IDB and ADB.

Tax Reimbursement for U.S. Nationals

Mr. Paijmans reported that the Staff Association had (a) requested that it receive the Board paper before Board discussion, (b) expressed its opposition to what it called a unilateral change in terms of employment, (c) expressed its dismay about not being fully consulted, and (d) requested deferment of Board consideration of the paper. Management had agreed to postpone the Board meeting to Monday, January 7, in order to allow for the convening of the Staff Association's Delegate Assembly.

Mr. McNamara said that the Board had decided that the paper should not be distributed to the staff before Board action because this would create a precedent. There was no justification for the Staff Association's accusation of not being fully consulted; the fact was that an issues paper had been distributed on November 2. The real reason for the Staff Association's resentment was that it had not wanted to deal with the issues contained in that paper because it disagreed with the Kafka decision on a change of the system in the first place. In other words, the lack of consultation was the fault of the staff. Mr. Damry added that the Fund Staff Association had sent its reactions to the same paper to the Fund management on November 23.

Mr. Stern reported that, in his late-December meeting with the Staff Association representatives, they had asked that the following conditions be met before the Board meeting: (a) generation of more data, based on a case-by-case analysis of the implications of the new system; (b) analysis of the long-term impact of the by-law changes; (c) decision on the cases presently pending before the Appeals Committee, or at least decision on jurisdiction; and (d) decision on the establishment of an administrative tribunal.

Mr. Baum said that the staff argued that it had not been in a position to react to the November issues paper because the paper did not contain management's position and presented only alternatives. Mr. Stern replied that the format of an issues paper had been adopted exactly because of earlier complaints of staff of not being presented with alternative courses of action in its consultations with management.

Mr. McNamara concluded that management should at this point focus on action which would create the perception of staff that they had been consulted.

FY81 Work Program and Budget

Mr. McNamara drew the attention of PC members to the statement contained in Mr. Gabriel's memorandum on the FY81 Work Program and Budget (page 13) to the effect that the real growth in lending in FY81 was expected to be 3.7%, whereas the real growth in the Budget was programmed to be 4.4%. Mr. Gabriel had first advocated a real budget growth of 4.8% but the Finance Committee had then decided that budget expansion should not exceed 4.4%. It had earlier been accepted that generally it would be a reasonable guideline if aggregate budget growth were in line with the real growth of operations; however, this year's real budget growth exceeded real growth of operations.

In response to a question by Mr. Baum, Mr. Gabriel said that the figure used for real growth of operations was based on growth of new commitments. Mr. Baum questioned whether such a guideline would properly take into account the buildup of supervision work. Mr. McNamara replied that a 4.4% budget increase should leave ample room for increased supervision work.

Mr. Chaufournier enquired whether the proposed budget guidelines made adequate allowance for the increasingly difficult world environment under which the Bank had to work. In Mr. McNamara's opinion the deteriorating world environment cut both ways; in the case of Afghanistan, for example, it would probably lead to reduction in Bank work. He urged that management stand back and establish what is reasonable in a time of global fiscal constraint and to look at a $50 million budget growth on top of a budget of $330 million in that context.

Mr. Barletta argued that the growing complexity of the Bank's new projects called for increased staff input. In response, Mr. McNamara argued that possibly the Bank's projects were becoming too complex and overstrained the administrative capabilities of governments. This had to be evaluated carefully.

Mr. Chenery argued that at some point management had to take a look at the long-term aims of the institution which had to be based on a better analysis than the traditional year-after-year budget decision process. Such an effort probably should be carried out as part of the "Bank in the '80s" work. He suggested identifying explicitly the separate functions and objectives of the Bank. Mr. McNamara replied that the work on the Bank in the '80s would have to be piecemeal. He asked Mr. Chenery to write down his thoughts as to how the programming and budgeting process could be improved. Again he emphasized that there was a lot of room left for new activities in the budget guidelines, after deducting fixed and semivariable costs and adding increased expenditures due to supervision buildup. Mr. Qureshi said that in analyzing costs one had to distinguish between a short-term and a medium-term perspective. In the short-term, the fixed cost elements of the Bank's work allowed for additional supervision work; however, there was no room to undertake major new initiatives. Mr. Baum said that a study should be conducted to establish which expenditures constituted fixed, semivariable and variable costs. In his view, many costs now considered to be semivariable would turn out to be variable. Mr. McNamara agreed that the Bank had not yet done an adequate analysis of cost categories and not yet developed fully a standard cost system. In his view, over the next few years the increase in staff would be in the range of 2%-6% and would not affect fixed and semivariable costs.

Mr. Chaufournier said that the Board should be made more aware of the implications of the budget constraints it imposed at a time when the borrowers' expectations were building up very fast, e.g., in energy, technical assistance and policy advice. Mr. McNamara argued that management could not put much of the responsibility on the Board.

Mr. Benjenk said that management should address more carefully the issue of how to get more out of the existing budget; possibly the Bank's work had become too complicated in terms of internal procedures; this was the perception of many staff. The Bank might have become too bureaucratic and inward looking. Mr. McNamara replied that there was much talk about simplifying procedures but not much action. What was needed were concrete suggestions and Mr. Stern was addressing the issue. Mr. Stern agreed that there were many perceptions but no concrete proposals. One had to realize that everybody in the Bank had a vested interest in some procedures. In his view, the Bank had too many managers who did not take responsibility for action. Assuming responsibility was not inherent in the system because managers did not get support from the top for doing so. Mr. McNamara agreed. The passage of time resulting from such behavior was the most costly consequence. Managers should not send out so many copies for review, should not give so much time for others to react and should not debate so long. It was frequently required that a manager overrule the advisers and take the risk of error. In his view, a change of managers' behavior in that direction could cut costs of Bank operations by at least 5%.

Brandt Commission

Mr. Clark said that The Economist contained a good summary of the recommendations of the Brandt Commission. He pointed to the fact that the Brandt Commission had not recommended the establishment of a world development fund but only recommended that the issue be studied. As to the Bank, the Commission recommended decentralization and a change in the debt equity ratio from 1:1 to 2:1.

CKW
January 10, 1980

822/7/2

OFFICE OF THE PRESIDENT

President's Council Meeting, January 7, 1980

Present: Messrs. McNamara, Cargill, Baum, Benjenk, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Qureshi, Rotberg, Stern, Wapenhans, Weiner

Managing People in the World Bank Group

The meeting discussed the draft guidelines for managers on managing people in the World Bank Group, dated December 20, 1979.

Mr. Paijmans introduced the paper by emphasizing that there was frequent indication that managers in the Bank did not manage. In order to improve Bank management, the Personnel Management Department had embarked on a number of initiatives which linked together would provide for the framework within which managers could be identified, trained, selected and rewarded; however, in order to set up such a system, a set of management principles had to emanate from the Bank's senior management. Many large corporations had such statements of senior management's values and beliefs which formed the basis for managerial behavior. The guidelines presented were only a first draft and would be modified in light of the reactions received from PC members.

Mr. Wapenhans pointed to three issues which required priority attention in order to improve the management of people in the Bank: (a) team efforts had to be encouraged; under the present system, recognition was still based excessively on individual performance; (b) a clearer distinction had to be made between an individual's technical performance and his qualification for assuming management responsibilities; and (c) a statement of management's objectives had to be developed.

Mr. Clark found the paper rather simplistic; in his view, it omitted a key problem, namely, that the Bank staff was a multicultural group.

Mr. Husain said that one could not disagree with the general statements of the paper but that the need for a package approach had to be stated more clearly; such a package would have to consist of (a) a managerial capacity identification system, (b) a management succession system reaching down to the Division Chief level, and (c) a management training and evaluation system. This statement on management principles should not be distributed to staff as an isolated piece. Mr. Paijmans agreed that the paper could not be seen in isolation; it was expected to provide the basis for developing the systems mentioned by Mr. Husain. Papers on these three systems would be ready in about six months time.

Mr. Chenery pointed to what he considered to be a fundamental difference between the management of analytical work in CPS and DPS and the management of operational processes in other parts of the Bank. These different management requirements needed careful examination. Mr. Stern disagreed. In his view, the statements contained in the paper applied not only to project and loan processing work but also to sector and economic work which was similar to the work conducted in DPS. Mr. Paijmans argued that the statement on managing people in the Bank was needed as a basis for managerial behavior of <u>all</u> managers; many managers in the Bank did not have the faintest idea as to what was expected from them as managers. Based on these general principles, an additional dimension had to be developed, taking account of the differences in supervisory skills and technical capabilities required from managers in the different units of the Bank.

Mr. Qureshi said that in his view the draft statement consisted of two parts: (a) general principles and (b) specific policies. It was not enough to state general principles; they had to be translated into more specific criteria which in turn were bound to vary from unit to unit. Mr. Nurick considered the paper to provide a straightforward set of principles. In his view, the Bank's career objectives could be divided into immediate and long-term objectives. In an environment of limited long-term career possibilities, the Bank had to confront the problem of what to do with staff who had little prospects for moving up.

Mr. Stern agreed with Mr. Qureshi that the paper consisted of two parts; the first part stated basic objectives and constituted an institutional piece of philosophy. It would not change management by itself but raise consciousness. The second part went into too much detail which was inappropriate for a statement of philosophy. Separate statements would have to deal with policies of reassignment, promotion, and training and would have to differentiate by areas of Bank activity. Therefore the paper should be much briefer and focus on Part A. Further, he argued that the paper, in jumping from a statement on good management objectives to statements on delegation of authority, omitted dealing with the responsibility of managers to manage, i.e., to make decisions. Finally, he warned that very few managers in the Bank would measure up to the principles as outlined in Part A. Personnel would now have to move from philosophy to an implementation strategy.

Mr. Baum agreed with Mr. Stern that the paper should be divided into two parts. He pointed to the fact that frequently managers had not been appointed by management ability but by their technical skills.

Mr. Rotberg advocated a more functional approach which would first identify problem areas such as the fact that many staff felt overqualified, were afraid of making mistakes, disagreed with Bank goals, were uncertain about their own goals, and faced career limitations.

Mr. McNamara pointed to the fact that Mr. Stern was organizing a retreat meeting for his senior operational managers in March which would deal with many of these issues; he would like to await the results of that meeting. In his view, the paper did not hurt nor did it take the Bank very far. He agreed with Mr. Stern that the paper should not contain the career development aspects of Part B and that it should stress not only the decision-making requirements of managers but also the need for delegation of authority (but not of responsibility). He agreed with Mr. Rotberg that management should initiate discussion of specific functional problem areas. He concluded that the paper constituted a foundation stone for formulating an implementation strategy.

DPS Country Projections

Mr. McNamara handed the PC members copies of Mr. Chenery's memorandum (dated January 4) which contained country-by-country projections of oil-import payments and current account deficits of developing countries for the 1980s. He urged that the Regions analyze these figures carefully with regard to discrepancies between DPS and Regional projections and he asked that the RVPs provide him with their projections by Wednesday night.

General Capital Increase

In response to a question, Mr. McNamara said that the General Capital Increase had been approved and should be announced by IPA in a low-key manner because the U.S. vote and parliamentary approval in many countries had yet to be obtained.

Tax Reimbursement Paper

In response to a question, Mr. Paijmans said that the Board would meet on the Tax Reimbursement Paper this afternoon. The Staff Association continued in its opposition to the average deduction system and staff was under the impression that they had not been fully consulted.

cc: Mr. Paijmans

CKW
January 14, 1980

OFFICE OF THE PRESIDENT

822/7/3

President's Council Meeting, January 14, 1980

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Chenery, Damry, Hopper, Husain, Nurick, Paijmans, Qureshi, Rotberg, Stern, Weiner, Golsong, Vergin, Adler, Merriam

Administrative Tribunal

Mr. Golsong reported that, after lengthy discussions between management and the Staff Association and a series of informal discussions with the EDs, the statutes for the establishment of an Administrative Tribunal had now been worked out. Essentially, they followed the UN approach with regard to jurisdiction; there were differences with the UN as to the election of judges, the organization of the Tribunal and the settling of damages. The statutes contained no mention of acquired rights, but the Tribunal could pronounce itself on Board decisions relating to contractual rights of staff. He emphasized that the contractual element in Bank employment was much stronger than in the case of other organizations.

Mr. McNamara complimented Messrs. Nurick, Golsong and Paijmans for a magnificent accomplishment and urged the PC members to read carefully the sections in the Board paper on jurisdiction.

It was agreed that the proposed statutes would have to be voted on by the Governors. Finally, Mr. Paijmans pointed out that the jurisdiction of the Administrative Tribunal would be made retroactive to January 1, 1979.

Arusha Tidewater Statement

Mr. McNamara distributed to PC members copies of the statement which he would deliver at next week's Tidewater meeting in Arusha on the impact of recent oil price increases on the current accounts of oil-importing LDCs.

With regard to the background tables containing country-by-country projections (not to be distributed at the Tidewater meeting), Mr. McNamara asked the PC members to examine the discrepancies between the country projections prepared by DPS and those prepared by the Regions. It had to be assured that DPS and the Regions used the same figures, establish better projections for all oil-importing developing countries, and reach conclusions as to the implications.

Mr. Stern pointed to the fact that the projections of current account deficits as a percentage of GNP for the low-income countries were higher than in the 1974 crisis; never before had deficits of that magnitude been financed. Mr. McNamara said that the amounts required to finance those deficits were not very large in the case of the low-income countries. Very large amounts would be required to finance the deficits of the middle-income countries.

It was agreed that the country-by-country projections would not be made publicly available yet and that Messrs. Stern and Chenery would work out a system of ensuring future consistency of DPS and Regional data.

GWU Building

Mr. Paijmans reported that the Bank would probably reach agreement this week with GWU on the building project. The future use of the 801 building was a complicating factor. He hoped to be able to go to the Board on the GWU building within a week. Mr. McNamara urged that a paper should not be pushed to the Board too quickly and that the assumptions made on future staff growth and the use of the 801 building should be checked carefully.

Agriculture Seminar

Mr. Baum reported on last week's meeting on Agriculture in the 21st Century, organized for Bank agriculture staff. The meeting was a success with a large number of outside speakers participating. One of the major themes had been the complexity of agriculture and rural development projects; there was ample agreement at the seminar that the Bank had to be more rigorous in avoiding unnecessary complexity of such projects. Mr. McNamara said that he would be interested in Mr. Yudelman's written report on the seminar.

IDA VI

Mr. McNamara said that tomorrow the Board would consider the paper on the $12 billion IDA VI replenishment. The Bank was indebted to Mr. Cargill for his efforts and successful conclusion of negotiations; however, he warned that it would be a long time before the Bank would actually receive the money. Mr. Cargill announced that from tomorrow on he would divest himself from IDA; Mr. Qureshi would assume these responsibilities and deal with the remaining loose ends, particularly membership of Portugal and the Romanian contribution. He would retire on October 1 and would assume no further major responsibilities before then. He would not want to be involved in day-to-day affairs; he would not chair Board meetings but would continue to attend the senior management small group meetings. Mr. McNamara said that senior management would continue to seek Mr. Cargill's counsel.

IDA IV and V

Mr. McNamara reported that the U.S. Treasury still planned to get the FY80 bills through Congress. He was uneasy about that and believed that the U.S. should pay the Bank under the continuing resolution for IDA. Treasury's arguments against that approach had to do with appropriations for IDB and ADB and the need of creating a basis for IDA VI. He emphasized that the problems of providing finance to the Third World were getting more and more difficult in the present political environment. The Bank presently had no commitment authority for IDA.

Mr. Stern enquired about the outstanding Italian contribution to IDA. Mr. Cargill replied that the Italian Government hoped to have a bill passed by the end of March 1980. Mr. McNamara mentioned that he might have to travel to Rome in March and could at that point pursue the issue with the Italian Government.

Afghanistan

In response to a question by Mr. Husain, Mr. Benjenk explained that under the former Afghan Government the Bank had faced serious problems with the implementation of its projects. Two weeks before the coup, high-level discussions had taken place (with the Deputy Minister of Planning), and it had been agreed that the Bank would send a mission in January 1980 to assess whether disbursements could be continued. In light of recent events, such a mission was obviously not possible and the Bank's rules of suspending disbursements applied; however, the Bank had not formally suspended disbursements yet but had asked the Government not to apply for further disbursements.

Mr. McNamara said that, in the case of Afghanistan, the Bank had leaned over backwards and might have gone too far. However, the timing of discontinuing disbursements now was unfortunate and made the Bank vulnerable to accusation of ideological bias.

Mr. Husain argued that, if no supervision missions could be sent, the Bank should formally suspend disbursements. Mr. McNamara replied that it was basically out of fear of accusation of ideological bias. Mr. Stern added that, if the Afghan Government continued to apply for disbursements, the Bank would indeed have to suspend.

JAC

Mr. Weiner reported that, for the first time, the JAC meeting had heard directly from the Bank's officers (Messrs. Baum and Yudelman). It had been a good meeting.

CKW
February 6, 1980

OFFICE OF THE PRESIDENT

922/7/4

President's Council Meeting, February 4, 1980

Present: Messrs. McNamara, Cargill, Barletta, Baum, Bart, Chadenet, Chaufournier, Chenery, Clark, Damry, Gabriel, Picciotto, Husain, Nurick, Paijmans, McClure, Rotberg, Wapenhans, Weiner, Haq, Twining, de Silva

GWU Building

The meeting discussed the draft Board paper on Office Space for the Bank Group--Development of Square 121. Mr. Paijmans said that the option proposed by the paper was by far the most advantageous for the Bank. Zoning problems had been resolved and the building would be ready for occupancy in a relatively short period of time. Mr. Rotberg argued that the paper should make clearer that purchase was more advantageous than lease. Mr. McNamara agreed; the Bank would pay no real estate taxes if it owned the building but would pay such taxes under a lease contract. Originally GWU did not want to sell the property at any price and it took considerable time to design the deal. He emphasized that the future growth rate of staff of 4% plus should be considered an open issue; if staff size in future years turned out to be less than now projected, the Bank could sublet excess space at a profit.

Mr. Clark pointed to the importance of explaining zoning procedures to the public and the staff, particularly the requirement of devoting the street floors of the building to commercial retail and service purposes.

It was agreed that Board discussion of the paper would be scheduled for February 19.

Lending for Structural Adjustment

The meeting discussed the draft Board paper on Lending for Structural Adjustment.

In introducing the discussion, Mr. McNamara said that the paper had been thoroughly discussed in OVP meetings but that he wanted to provide an opportunity for the other Vice Presidents to comment.

Mr. Damry said that the present draft did not give answers to the questions raised by nine EDs with regard to the issue of subordinating the Bank's judgment to that of the IMF. Mr. McNamara replied that the paper should not go too far in spelling out this issue; flexibility was required. He mentioned the example of Tanzania where the Fund and the Bank would move independently.

Mr. Rotberg enquired whether lending for structural adjustment would be additional to other Bank lending. Mr. McNamara replied that structural adjustment lending would probably be additional but that this was not quite clear yet. In FY80 and FY81, lending for structural adjustment was unlikely to be additional because it would amount to only about \$80 million and \$400-\$500 million, respectively. However, in later years, such lending could be very large and would have to be additional. In his view, the issue should be finessed for the time being.

Mr. Rotberg questioned the statement on Page 1, paragraph 2, to the effect that structural adjustment lending "would provide foreign exchange to finance imports not linked in advance to specific investment programs"; in his view, this amounted to a "blank check." Mr. Husain explained that the link was with policies and not with imports.

In introducing his critical observations, Mr. Chadenet said that being a Cassandra was not an attractive role. His criticisms were:

(a) There would be a serious disproportion between the needs of LDCs and the financial contribution the Bank could make in this new field; he questioned whether the risk the Bank took was commensurate with the help it was able to provide.

(b) The new activity would stretch the Bank's functions and make them overlap more with the role of the IMF; this would result in onerous coordination, waste of resources through duplication of work, and conflicting signals given to LDC governments.

(c) In the past, the odium of macro-conditionality had only affected the Fund; in the future it would also be with the Bank; traditionally, the Bank had worked "from the ground up," i.e., from project conditions to subsector conditions to sector conditions. He questioned why the aggregate of these coditions could not be equivalent to the conditions imposed by structural adjustment lending; he argued that the Bank could expand its sector lending and deal with the same issues with less "threat." He warned that the cost of foregoing flexibility would be high.

(d) He questioned whether the economic and sector analysis instruments available to the Bank were adequate for setting meaningful conditions. The Bank had obviously made mistakes in the past in dealing with simple projects and sector-level matters. It was prone to making more serious mistakes in imposing conditions for structural adjustment lending based on macroeconomic models developed by the "dismal science." Moreover, the Bank staff was ill-prepared to deal with the complex cultural and political factors impacting the political decisions of LDC governments to the same extent as the findings of economic science.

Mr. Chadenet concluded that the Bank should move with extreme prudence and humility into this new field and should try to complement the IMF's activities as much as possible. In addition to its new role in structural adjustment lending, the Bank should also move more forcefully into becoming a "Bellagio on Potomac," i.e., a center for development thinking, and should more forcefully assume the role of a global intermediator and negotiator, e.g., in the case of the enormous task of recycling OPEC surpluses of coming years. In other words, the Bank should not just do more of what it had been doing in the past but should take advantage of the enormous room for innovation. Finally, he questioned the wisdom of the statement on Page 6, namely, that "the Bank could not, nor would it wish to, impose its views as to what constitutes an appropriate program." In his view, the Bank did of course impose its views.

In response to Mr. Chadenet's statement, Mr. Chenery said that economics was indeed an incomplete and imperfect science, but this was no justification for "leaving the Africans alone." He argued that, at present, the Bank provided no premium for economists to do more policy-relevant economic analyses; the premium was on projects work. As to the Bank/Fund relationship, he argued that, if the two institutions were to be designed again, one would have their functions much closer together. He agreed that structural adjustment lending would be more controversial with LDC governments than past Bank activities; the Regional Vice Presidents would have to "take more heat."

Mr. Husain agreed with Mr. Chadenet's observation that there would be a serious disporportion between LDC needs and structural lending amounts provided by the Bank; however, the new instrument was also badly needed in order to enable the Bank to continue high levels of project lending. Moreover, the Bank could provide an umbrella for private institutions. As to Mr. Chadenet's point on the stretching of the Bank's role and the overlap with the IMF, he said that for every Tanzania situation there were cases like The Philippines, Indonesia and Thailand where there was consensus with governments and the IMF as to the measures to be taken. Complementarity with the Fund was essential; e.g., the Fund was not equipped to undertake analysis of required industrial adjustment. Finally, with regard to Mr. Chadenet's point on the shortcomings of economic science, he said that economic policy-making was in itself a political process. This was recognized by the Bank; for example, in the case of The Philippines, the negotiation of a program loan had taken a long time in order to let a political consensus develop. He concluded by emphasizing that, without moving in the direction of structural adjustment lending, the Bank would have no basis for further large-scale project lending and its lending program would be eroded.

Mr. McNamara said that the basic issue raised by Mr. Chadenet was whether the aggregation of project and sector lending could achieve the same results as structural adjustment lending.

Mr. Wapenhans commented that, in the case of the low-income IDA recipient countries, structural adjustment should be proportionally larger than in the case of the MICs because no other recycling was available. He pointed to the fact that the bilateral aid agencies had so far not been very responsive to the proposal of cofinancing program loans with the Bank.

Mr. Barletta said that he shared some of Mr. Chadenet's concerns. In particular, a more careful and detailed analysis was required on (i) the disproportion between small structural adjustment loan amounts on the one hand, and far-reaching policy decisions required from governments on the other; (ii) possibilities of cofinancing structural adjustment loans, (iii) the quality of the Bank's economic analysis, and (iv) the problems posed by sequential loans in cases where elected governments changed or other political change took place over a period of 3-5 years. He warned that many governments might find themselves politically unable to comply with the agreed upon policy action. He referred to the examples of Peru and Jamaica.

Mr. Chaufournier said that he also shared some of Mr. Chadenet's concerns. He pointed to the enormous size of the restructuring task confronting LDCs. As to the presentation of the Bank's proposal, he argued that it was put forward as being something totally new which would bring about substantial change. The Bank should take a more modest posture in view of the fact that most of the decisions required were in the political and not in the economic sphere.

Mr. Haq made the following points:

(i) The IMF's conditionality concerned over-all ceilings (e.g., on the government budget and balance of payments deficits) in order to balance the economy, and did not so much deal with the policy measures necessary to achieve those targets; on the other hand, the Bank was more concerned with the nature of the adjustment process. Therefore, the dilemma of overlap with the IMF could be resolved by the Fund focusing on macro-conditionality and the Bank on policy means for structural adjustment.

(ii) As to the size of the Bank's structural adjustment lending, the Bank could make a much larger contribution than reflected by the volume of its lending if it attracted substantial cofinancing and emphasized its role as a catalyst.

(iii) Structural adjustment lending carried a much higher risk than traditional project lending and, at times, the policy dialogue would be extremely difficult; however, risks had increased all over the Third World and the Bank had to ask itself how much of that increased risk it was willing to share.

(iv) Projects-sector-program lending had to be seen as a continuum with increasing leverage. In some countries, project and sector lending might turn out to be sufficient to effect the necessary change. In other words, structural adjustment lending would not be the only instrument of policy dialogue on structural change.

Mr. Picciotto argued in favor of a different label for the new lending; "structural adjustment" was a rather passive term and should be replaced by the term "structural change." Also, in his view, the Board paper had an "East Asia flavor"; in South Asia, the nature of the adjustment process continued to be determined by the agriculture sector.

Mr. Baum favored the new approach for which there was no alternative. Without structural adjustment, an increasing number of countries would have only a very limited ability to absorb new project lending. The alternative of annually negotiating the entire lending program ("here are $500 million") was not appropriate because it would put the entire lending program at risk. Therefore, this new policy was desirable.

Mr. Bart considered the new policy to provide a very desirable tool. However, he warned that very few countries were presently capable of undertaking basic structural adjustment because of political constraints. It would turn out to be a critical issue whether structural adjustment programs would be perceived as having been imposed by the Bank or as having been defined by governments with Bank assistance.

Mr. Chaufournier enquired whether Mr. Haq's remarks implied that the Fund and the Bank were moving further apart. Mr. Haq replied that he had simply stated that the Bank had more specialization in the field of designing sectoral and structural policies. Mr. McNamara said that there seemed to be no clear answer yet to Mr. Chaufournier's question.

Mr. Clark commented that the new policy would be misunderstood by the "Bill Simons" and "Nyereres" of this world; this political misunderstanding would limit the economic effectiveness of the new approach. He urged that the Bank mount a program to explain the new policy to the public. In particular, the Bank would have to answer the question why it was assuming the role of leadership in this emergency situation, although it had not been asked to do so. Otherwise, critics in the developed countries would accuse the Bank of extending its empire and critics in LDCs would accuse the Bank of interference. It was crucial to get an informed public to support the Bank's leadership role which had been assumed because no other party had taken any initiative. The new policy should not be presented as the final announcement of a perfect plan.

Mr. Rotberg argued that, since the public would focus on the lending part of the new policy, the Bank had to make clear that this was the least part of the program. As long as the new technique had not been developed, the lending volumes would amount only to "nickels and dimes." Mr. McNamara agreed. Structural adjustment would be an important objective for all Bank lending. On the one extreme, there would be countries with structural adjustment problems but without the need for a structural adjustment loan, e.g., Ecuador. On the other extreme, there were countries where the Bank would use its economic work, structural adjustment lending and project lending to effect structural change, e.g., Turkey.

In response to Mr. Clark's point on Bank mandate, Mr. Wapenhans said that the Bank already had more of a mandate than it realized. A large number of countries was asking for structural adjustment loans, and it had become a central theme for CG meetings.

Mr. Weiner said that the discussion reminded him of very similar Western Hemisphere discussions in the '60s among the Bank, the Fund and AID. At that point, Mr. Chenery was on the other side. Mr. Chenery replied that, in his view, AID had never been in a position to undertake these policies. However, the Bank was uniquely qualified (e.g., through its chairmanship of CGs) to move in this direction and to bring all parties together.

Mr. McNamara asked Mr. Chenery to (a) develop a paper which would differentiate the role of the Bank and the Fund in the field of structural adjustment, and (b) define more clearly how he (Mr. Chenery) personally and DPS in general could assist the Regions in this new field; ideally a small steering group or secretariat should be installed in order to provide advice and comment. Mr. Husain suggested examining the adequacy of existing procedures first. Mr. McNamara replied that existing procedures clearly were not adequate. Mr. Chenery said that two separate issues had to be addressed: (a) measures to strengthen the Regions' capability of conducting country economic analyses, and (b) appropriate procedures for carrying out the new lending.

Petty Thievery

Mr. Paijmans reported on the cases of petty thievery which had been discovered recently in the Office Services and Support Division. The amounts involved did not exceed $20,000. An investigation committee had been established.

Mr. McNamara said that the main risk in the Bank was the misuse of the large development finance amounts. He had always been concerned about the Bank's disbursement procedure; however, in his 12 years at the Bank, there had been only three allegations of misuse. This pointed to an extraordinarily clean record and a high level of integrity. Nevertheless, the cases under investigation were dangerous because they showed an insensitivity to management's responsibility and because they could lead to a misunderstanding by the public affecting the Bank's entire operation. An IMF press officer had already told Reuters that the FBI was investigating the Bank. Therefore, press enquiries had to be handled with great care. He asked Mr. Clark to deal with this case personally and to keep him (Mr. McNamara) fully informed. Finally, he mentioned that he had informed the EDs.

Mr. Gabriel suggested asking Controller's to take a hard look at the Bank's internal controls. Mr. McNamara agreed.

CKW
February 8, 1980

cc: Mr. Stern
Mr. Qureshi

OFFICE OF THE PRESIDENT

President's Council Meeting, February 11, 1980

Present: Messrs. McNamara, van der Meer, Baum, Bart, Chaufournier, Chenery, Clark, Damry, Vergin, Picciotto, Husain, Nurick, Paijmans, Qureshi, Rotberg, Wapenhans, Weiner, Yudelman

IFAD

Mr. Yudelman reported on the recent IFAD Annual Meeting. The main issue had been to arrive at an agreement on the replenishment of IFAD funds. India had suggested a level of $2 billion; however, the process had to be left in suspension until after the May 1980 OPEC Ministers' meeting. Another item on the agenda had been the admission of the People's Republic of China which had made an initial contribution of $600,000. The final location of IFAD had also been discussed; Kenya, The Philippines and Turkey were candidates with Turkey being the strongest possibility because of its proximity to Rome. The Bank's role in cooperating with IFAD had been widely appreciated.

India

Mr. Yudelman reported on his recent trip to India. He had found a general spirit of confidence that India would be able to deal with the required increase in food production. Indian agriculture in the '70s had been a success, with a growth rate of about 3% per annum. The country had borrowed $2 billion from the Bank over the last five years for agriculture, mostly in the field of irrigation. As to irrigation, distribution of water remained a problem. The small farmers had never got their fair share because of lack of tertiary canals and socio-political factors. Recently introduced schemes in India and Bangladesh provided for a self-policed system of water distribution through peer pressure; farmers' response had been enthusiastic and all farmers in those schemes now received a steady supply of water. In Rajastan, he had visited Mr. Benor's extension training and visit system; it was working well and had mitigated the worst effects of the recent drought.

Mr. Yudelman drew three conclusions:

(a) There was need for the Bank to have clearly established priorities in agriculture by region.

(b) The implementation process was greatly facilitated by individuals such as Benor working with the Government in the field.

(c) The strengthening of the administrative and institutional system was crucial.

Mr. Baum enquired about the role of the agricultural research system in India. Mr. Yudelman replied that the research system played a fundamental role in Mr. Benor's extension system. The researcher directed the farmers' activities and received the necessary feedback. He pointed to the serious problem of fuel supply for operation of irrigation pumps which was the one remaining bottleneck for increased production. Mr. Damry said that the answer might be to accelerate India's rural electrification program in order to become less dependent on fuel.

Mr. Chaufournier said that there should now be a body of experts in India who could provide technical assistance to other countries on the "nuts and bolts" of the new approaches to extension and water distribution. Mr. McNamara agreed; this was a possibility to be pursued.

Brandt Commission Report

Mr. McNamara said that Willy Brandt would speak today before the Council of Foreign Relations in New York. ODC was organizing similar public meetings in Washington. Tomorrow he would give a press conference and would formally hand his report to Mr. Waldheim. As to the Bank's response, Mr. Chenery was organizing the work and, before the end of the week, he would distribute a list of topics relevant to the Bank to the PC for discussion at a PC meeting on Wednesday, February 20, at 10:30 a.m. After that PC meeting, the Board would discuss the topics list. Later, papers to the Board would be prepared on all topics relevant to the Bank; these papers would either accept, reject or modify the recommendations of the Brandt Commission as they related to the Bank. Some recommendations were very important, e.g., the proposal to raise the gearing ratio of the Bank from 1:1 to 2:1. The fall meeting of the Development Committee would then consider the Brandt Report and the Bank's reaction. The Report of the Brandt Commission would not be out in time for discussion at the Hamburg Development Committee meeting in April 1980. In summarizing, he said that the approach should be that each of the 94 recommendations contined in the Report should be assigned to one international authority for follow-up action.

Mr. Baum enquired whether the Brandt Report would be discussed by management with staff. In his view, it tied in with the on-going staff discussions on The Role of The Bank in The 80s. Mr. McNamara said that interested staff should be given copies but that staff seminars should be held only after management had focused on the recommendations relevant to the Bank.

Financing of Current Account Deficit of LDCs

Mr. McNamara said that, looking ahead to the development problems in the '80s and the role the Bank might play, the financing of the projected current account deficits of LDCs, resulting from recent oil price increases and expected lower LDC growth rates, would be the fundamental issue. The Bank's work on poverty alleviation would have to be done in conjunction with its dealing with that fundamental issue. As the recently prepared Capital Flows paper indicated, the projected deficits were not likely to be financed and would therefore lead to reduced investments, imports, and growth rates in LDCs. He had given considerable thought to the problem over recent weeks and would like to suggest the following three-phase program for the Bank.

(i) Under the first phase, the Bank would introduce structural adjustment lending designed to provide fast disbursing funds to LDCs with current account deficits and with programs to carry out structural adjustment over the medium-term. In this fiscal year, such structural adjustment lending would not lead to an increase in the Bank's lending program because there was no substantial demand yet.

(ii) Phase 2 would require additional financial resources for structural adjustment lending; however, the Bank's lending program could not be increased by planning for the next general capital increase to take place earlier than presently envisaged. This was politically impossible. The present capital increase would support the presently planned program for 6-7 years, so that the next increase would not have to occur before July 1, 1989 or 1990. Instead of an earlier capital increase, he proposed changing the Bank's gearing ratio as recommended by the Brandt Commission. Such a move had already been considered by the Bank in a 1975 Board memorandum and in a 1978 technical note to the Board; at that time there had been controversy in management on the issue and it had been agreed that the matter should not be considered further before the General Capital Increase had been obtained. Obviously, the Bank would not have to decide now how to move on this issue but the possibility of changing the gearing ratio should be seriously considered. Phase 2 should also lead to increased lending by other institutions, e.g., the IMF.

(iii) Under phase 3, the Fund and the Bank might run out of funds available from its traditional sources. The addition of new resources, possibly through new financial instruments and subsidiaries, would have to be addressed as the central issue; however, that phase was several years away.

Mr. Wapenhans enquired about the financing of IDA-only countries under the second phase. Mr. McNamara replied that the Bank would not be able to add to its $12 billion IDA VI replenishment within the next few years. The only possibility which came to mind at present was substitution, namely, moving certain countries out of IDA on the grounds of improved creditworthiness.

With regard to discussion of The Bank's Role in The 80s, Mr. McNamara observed that he had stimulated a discussion among staff which was now almost "out of date." In a way, the Staff Association was working on "last year's program." In the light of recent events, the main issue for the Bank in the 80s would be to find ways of financing the large expected current account deficits of the oil-importing LDCs.

Mr. Damry enquired about coordination between the Development Committee task force on non-concessional flows and the Bank's work. Mr. McNamara replied that he had met Mr. Phillips last week; the Bank was coordinating and cooperating without assigning a staff member to the task force.

Mr. Chenery argued that Mr. McNamara's third phase might not be needed because a reduction in the projected LDC deficits could possibly be brought about in 3-4 years. Mr. McNamara replied that, in his view, the situation was probably much more serious than implied by Mr. Chenery; a "new world" might have to be faced.

Mr. Husain enquired about possibilities for increased lending by OPEC. Mr. McNamara replied that ways had to be found for shifting some of the intermediation risk to OPEC; however, there was no basis today for such action. OECD countries might well argue that they would not be willing to undertake major new initiatives unless the intermediation risk were to be shared with OPEC.

Mr. Damry reported that, with regard to the structural adjustment lending paper, some LDC Directors were suspicious, arguing that the Bank wanted to gain control over their policy making. Mr. McNamara replied that they seemed not to be in "sufficient pains" yet. For example, Turkey did not question the Bank's motives and had now provided a much better letter of intent because the Government was "flat on its back." The Government realized that there was the sequence no letter--no loan--no democracy--no economy. In the case of The Philippines, the Region had taken an interesting approach, namely, to agree on structural adjustment measures now and have the Government come back in a year's time stating that it had already carried out or was in the process of carrying out the measures. At that point, it would then receive the loan. Mr. Husain warned that this approach required a long period of work in advance. In the case of The Philippines, the Region had worked with the Government for more than a year on the pertinent sector issues. Mr. McNamara said that, in a year's time, he expected Brazil would approach the Bank for a structural adjustment loan; it would be very difficult to negotiate a letter of intent with Minister Delfim Neto. Mr. Husain said that, in view of the recent drastic policy measures introduced in Brazil, Minister Delfim Neto would be able to point to the fact that many of the necessary policy measures had already been taken.

Mr. Qureshi argued that, because of the fact that the Bank would be asking countries for unpalatable political and economic decisions, very skillful handling of individual cases was required on the Bank's side. One would have to learn from the successes and failures of the Fund.

Mr. Clark said that the NIEO advocates of the Third World would have "a lot of steam behind them" arguing that the alternative to an NIEO would be unacceptable Fund and Bank conditionality.

cc: Mr. Stern

CKW
February 26, 1980

Record Removal Notice

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File Title	Barcode No.
Records of President Robert S. McNamara President's Council minutes - Minutes 20	1770833

Document Date	Document Type
February 22, 1980	Minutes

Correspondents / Participants

Subject / Title
Office of the President - President's Council Meeting, February 19, 1980.

Exception(s)
Prerogative to Restrict

Additional Comments

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

Withdrawn by	Date
Shiri Alon	27-Feb-17

OFFICE OF THE PRESIDENT

822/7/7

President's Council Meeting, February 20, 1980

Present: Messrs. McNamara, Barletta, Baum, Benjenk, Chadenet, de la Renaudiere, Chenery, Clark, Damry, Gabriel, Hopper, Husain, Paijmans, Qureshi, Stern, Wapenhans, Weiner, Scott

March 1 Adjustment

Mr. McNamara said that a Personnel Management Committee meeting should be convened for 11:00 a.m. tomorrow in order to discuss the March 1 adjustment issue. Shortly thereafter, the draft Board paper would be distributed to PC members for discussion next Monday (February 25). In his view, the data indicated that there was only narrow room for maneuver. He warned that the issue would be controversial.

Brandt Commission Report

The meeting reviewed the draft list of Brandt Commission Proposals Relating to the World Bank--To be Reviewed by the Executive Directors.

Mr. Wapenhans asked whether the proposals for a high-level monitoring body on UN agencies and for an extension of the IDA replenishment cycle should be taken up. Mr. McNamara replied that in the case of the former the Bank should wait to see if the issue were taken up by others. As to the latter, the Bank should deal with it in the context of IDA VII. Mr. Wapenhans suggested dealing with the issue of environmental degradation. Mr. McNamara replied that this important issue should be discussed with Mr. Baum and be raised in the PC before July 1. Mr. Clark argued that it would look sloppy if the IDA issues raised by the Brandt Report were not considered. Mr. McNamara said that possibly a footnote should refer to those proposals but no technical paper should be prepared on this matter at the present time.

Mr. Damry enquired whether the issue of the Third Window should be taken up. Mr. McNamara said that this should not be done, although the issue might have to be dealt with in the context of a PRC membership. Given that China would be the largest poor member nation and given the unlikelihood of raising further resources over and above IDA VI, a change in lending terms and a different use of IBRD income would have to be considered.

Mr. Baum commented that Item 11, dealing with the development of an action program to increase food output in low-income food-importing developing countries during the 1980s, was too broadly formulated. The Bank could not develop such an action program but could only deal with its part of the food production program and initiatives on water and food security. Mr. McNamara agreed; this point should be made by the technical paper which should state clearly that overall responsibility was with the World Food Council.

Mr. Baum said that Items 4 and 5 on minerals and energy were not consistent and he proposed dealing with all energy issues under Item 4. Mr. McNamara disagreed. Item 4 dealt with the financing issues whereas Item 5 dealt with organization issues.

Finally, the meeting agreed on the tentative dates for submission of the technical papers to the Board.

Bank Disbursements

Mr. McNamara said that the matter of Bank disbursement performance would be addressed at next Monday's PC meeting.

cc: Mr. Stern

CKW
February 25, 1980

OFFICE OF THE PRESIDENT

822/7/8

President's Council Meeting, February 25, 1980

Present: Messrs. McNamara, Lari, Baum, Benjenk, Chadenet, de la Renaudiere, Waide, Clark, Damry, Gabriel, Wiehen, Husain, Scott, Paijmans, McClure, Hittmair, Wapenhans, Weiner, Trott

Lending Rate

Mr. McNamara said that the PC should begin considering appropriate action on the lending rate for FY81. Although there was no great accuracy to the figures yet, information provided by Treasurer's indicated that IBRD's borrowing cost would exceed 10%. Even assuming that the cost could be pulled down to 9.75%, the lending rate would have to be at a level of 10.25% by December 1980. The question then became whether action moving the lending rate in the direction of that considerably higher level should be initiated soon. In coming years, the Bank's income would become a factor of much greater importance than in the past because of an increasingly thinner bond market, possible membership of China and other factors. In the short term, the change in the lending ratio would obviously have no impact on income. In response to a question, Mr. Gabriel said that the Bank's lending rate effective July 1 would have to be 9.9%.

Mr. Husain suggested considering an increase in the Bank's commitment charge. Mr. Benjenk commented that, if the Bank had to arrive at a 10.25% lending rate by the end of the year, moving up to that level was essentially a matter of tactics. He suggested increasing the lending rate in June from 8.25% to 9.25% and in December from 9.25% to 10.25%. Mr. Husain said that, from a tactical point of view, he would prefer moving up in three steps. Mr. Chadenet agreed with the policy of gradualism and suggested increasing the lending rate in four steps. Mr. Hittmair added that, under present and expected market conditions, investors would dislike seeing the Bank continue lending at 8.25%.

Mr. McNamara agreed with Messrs. Husain and Chadenet. In his view, by July 1980 the Bank would be confronted with considerable uncertainty as to future market rates. He would therefore prefer not to go as high as 9.9% by June. He asked Mr. Gabriel to work during this week on alternative approaches which would be brought before the PC next Monday. Under alternative 1, the present formula would be applied. Under alternative 2, a lower increase than implied by the formula would take effect on July 1. Under alternative 3, a more gradual approach would be followed (e.g., increases on April 1, July 1, October 1 and January 1, 1981) with the objective of obtaining the same life time earnings as under alternative 1. After next Monday's PC meeting, consideration should be given to raising the issue with the Board in connection with the mid-term budget review.

Mauritania Gorgol Irrigation Project

The meeting discussed Mr. Husain's memorandum on the Mauritania Gorgol Irrigation project, dated February 19.

Mr. Damry recommended going ahead with the project despite its totally unsatisfactory economic rate of return. Mr. Chadenet agreed, arguing that no promising alternative investment opportunities existed in Mauritania and the funds promised by other donors would be lost if the Bank did not go ahead with the project.

Mr. Gabriel said that it was hard to accept that there should be no alternative use for the grant money promised. The project was a very expensive proposition and the Bank had to take its responsibility in allocating scarce IDA funds seriously.

Mr. Baum said that the project raised a very important issue of principle. The fact that there seemed to be no alternative investment opportunity in Mauritania at this scale of investment seemed to indicate that the opportunity cost of capital was at about the level of the rate of return of the project; however, there seemed to be smaller projects with higher returns which implied that the country's absorptive capacity for large amounts was very limited. He argued that using the social rate of return was no solution to the dilemma. In his view, the most persuasive argument was that funds from other donors would be lost for the country if the Bank rejected the project; but even here he had a serious question whether the Bank could accept such an argument. Although the Bank programmed its allocation of funds on a country-by-country basis, there should be a world-wide acceptable rate of return for a given project, with the implication that scarce IDA funds could be reprogrammed for other countries; in other words, there should be comparative standards across countries. He warned that the Bank should not get onto the "slippery slope" of the memorandum's sunk political cost argument. He also urged that the argument of intangible benefits not be used. He concluded that the best argument to be made was the concept of "infant country," i.e., of a country which had not benefitted from sunk cost in the past. Finally, he warned that acceptance of the project would be cited as a precedent; resulting in economic rates of return of 5.5% becoming acceptable in the future.

Mr. McNamara emphasized that one point should be clear in everyone's mind: if the Bank approved the project, this would not create a precedent. He asked Mr. Husain to issue a written instruction to the Regions, stating that no future project would pass the "point of no return"; if the ERR were lower than 10%, the project would not go forward without the written approval of Messrs. Stern and McNamara, which was to be obtained at the time of first indication of a low rate.

Mr. Wapenhans argued that the procurement procedures required by certain donors should not penalize Mauritania. In his view, if the project's fiscal implications after implementation were manageable by the country, he would go ahead with the project. Mr. Paijmans said that it would be a difficult position for the Bank to take that nothing else could be done in Mauritania; if this were the case, parts of the population would have to be moved out of the country.

Mr. Lari commented that he was not convinced by the Region's arguments. His Region had decided against similar projects in Peru and Bolivia. In his view, the project should not be accepted; otherwise the "rules of the new game" would have to be defined. Mr. Benjenk said that he would go ahead with the project on the grounds that it would be difficult to resettle people in a country which basically consisted of two nations: the Moors and the blacks. Mr. Damry suggested that the rules of the game for large irrigation schemes should be different from other projects because of the long-term developmental impact of such schemes.

Mr. McNamara said that, in his view, the world was putting too much money into the Sahel. He said that he and Mr. Husain would arrive at a decision after the meeting.

Compensation

The meeting discussed the draft Board paper recommending a 7% general salary adjustment for March 1.

Mr. Chadenet pointed to the fact that salary increases of U.S. comparator firms had been constrained by the voluntary wage restraints imposed by the U.S. Government; also, bonuses were not included in the figures. On the other hand, real increases in Europe had been more limited than indicated by the paper; in the case of France, the real income of professionals had actually dropped. He concluded that he would (a) stress the interim character of the March 1 action, (b) go a shade over 7% because the 7% figure happened to coincide with the U.S. guideline, (c) delete from the paper the French and German figures which were "provocative," and (d) mention UN salary action for the same period. Mr. McNamara asked Messrs. Trott and Paijmans to get the UN salary adjustment figures; adjustment was probably in the order of 11%-12%.

Mr. Benjenk said that, in view of the fact that on the one hand the Kafka methodology would yield a figure of 5.4% and on the other hand granting a full cost-of-living increase was anathema to some shareholders, he would go for a figure of 7.5%, stressing the interim nature of the adjustment. In his view, the level of dissatisfaction of the staff would be a problem with an increase of only 7%.

Mr. Gabriel warned that it would take a long time to arrive at the final conclusions based on the Hays survey. Staff expectations should not be raised by stressing the interim nature of the adjustment. The Hays results should rather be applied only next year. In his view, 7% was as high as the Bank could go. Mr. McNamara agreed with Mr. Gabriel's point on Hays; he anticipated a very difficult period before arriving at conclusions on Hays, e.g., on professional versus non-professional salaries, benefits, etc.

Mr. Baum said that he was concerned about staff reaction in a period of rapid and accelerating inflation, with real income declining in the U.S. Staff did not accept that the Bank should be linked to U.S. salary policies. He questioned whether the merit increase should be taken into account in arriving at a cost-of-living adjustment figure. He recommended not going much higher than 7% but anticipated serious problems with the staff.

Mr. Lari said that a larger increase than yielded by the comparator survey was justified because the comparator data had been collected for a period before the recent acceleration of inflation. In his view, gross salary adjustment for March 1 plus merit increase should be equal to inflation, i.e., the March 1 adjustment should be marginally above 7%.

Mr. Wapenhans argued that there was increasing evidence that the Bank was losing competitiveness. He recommended a figure slightly higher than 7%, stressing the interim nature of the decision.

Mr. Waide said that it would be difficult for staff to understand why they received 7% now, although they had received 9.5% last year when inflation was lower and not accelerating as rapidly as now. He recommended a figure close to 9%.

Mr. Wiehen agreed with Mr. Waide's point. A 7% figure would be dangerous from the point of view of perception of staff. He recommended 7.5% or 8%.

Mr. McClure recommended an increase close to 8%.

Mr. McNamara emphasized the importance of getting across to support staff that their salaries had been increased more than the salaries of their comparators in recent years. Mr. Paijmans said that management had to ensure that it carried its managers on that point; otherwise the support staff would not be convinced. As to the recruitment problems in Europe, Mr. Paijmans said that it was always difficult to recruit to a low-cost country because people compared their salaries to salary levels at home without taking purchasing power differentials into account. There was also the exchange rate problem. Mr. Chadenet added that Europeans attributed great importance to maintenance of purchasing power, i.e., full cost-of-living adjustment. Mr. McNamara said that the Bank would have to consider more seriously the introduction of expatriate allowances. Probably a policy of maintenance-of-value, particularly for German and French nationals, would have to be introduced.

Mr. Husain said that he had serious problems with the methodology used, i.e., the treatment of merit increases in arriving at cost-of-living adjustments. He urged that the methodology be reviewed before the end of the year. He recommended a March figure somewhat higher than 7%. Mr. McNamara asked Mr. Husain to examine the methodology used and then to discuss his concern with Mr. Paijmans.

U.S. Aid Bill

Mr. Clark reported that the Conference Committee was meeting today for the first time since December 1.

CKW
February 26, 1980

OFFICE OF THE PRESIDENT

822/7/9

President's Council Meeting, March 3, 1980

Present: Messrs. Barletta, Baum, Benjenk, Chadenet, Chaufournier, Chenery, ~~Clark~~, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Qureshi, Rotberg, Wapenhans, Weiner

Bank Disbursement Performance

Mr. Baum reported that recently Congressional investigators had focused on the Bank's disbursement performance in Indonesia, comparing forecasts to actual figures. In his view, the main problem with the Bank's disbursement forecasts was that staff either did not take these ex-ante estimates very seriously or used them as targets and built-in incentives for the borrower to act expeditiously. Disbursement delays as compared to forecasts typically occurred mainly during the first year of project implementation. Divergencies between forecasts and actual figures developed also because only project-related factors were taken into account in preparing the estimates; strikes, Acts of God, political changes, etc., were not considered. These unrealistic forecasts became part of the financial and economic project analysis; in other words, staff's systematic optimism as to disbursement schedules led to poor financial and economic analysis. Also, the Board and outside investigators tended to focus on the original forecasts in their evaluation of Bank project performance. Mr. Baum concluded that management had to undertake a major effort to get staff to make more accurate estimates by (a) updating the instructions on the subject and using this process for dialogue with staff, and (b) developing disbursement models based on actual experience and putting them into the hands of all operating staff; these models would have to be more sophisticated than the few existing ones.

Mr. McNamara agreed with Mr. Baum's analysis and recommendations. He emphasized that he had never had confidence in this part of the Bank's operations. Management would have to re-educate about 1,000 project specialists in order to get rid of the present targetry; rather the forecasts should be realistic plans for implementation and disbursement. Whereas Bank-wide disbursement performance was quite satisfactory again within reasonable limits, the OED completion reports showed disbursement problems in the case of most projects; on average it took 50% longer to implement a project than projected at appraisal. As to the impact of those delays on economic rates of return, the Bank had been fortunate in recent years that this impact had been overcompensated in most cases by the inflation of benefits. He asked Mr. Baum to lay out a program along the lines he (Mr. Baum) had indicated which should be in place by October 1, 1980.

In response to a question by Mr. McNamara, Mr. Baum said that CPS was presently formulating a detailed program to deal with every conclusion and recommendation of the OED report on supervision which had just been issued. In his view, the Board should discuss the document in conjunction with a staff paper on supervision in April or May. Mr. McNamara asked Mr. Baum to send him a note on the scheduling of the Board discussion of the OED supervision report.

Mr. Gabriel said that at tomorrow's mid-year budget review meeting the Board would probably ask questions with regard to IDA disbursements which were lagging badly, mainly due to the situation in India. Mr. Hopper confirmed that the political problems in India over the last six months had led to delays in the transfer of funds from the center to the states and in the physical implementation of projects.

Mr. Benjenk expressed his concern about the built-in conflict in the minds of staff with regard to ex-ante disbursement projections because of the implications of the disbursement schedule for implementation of the projects and the economic rate of return. Mr. Baum agreed that there was a link between disbursement schedule and the economic rate of return and that staff optimism related to both. Mr. Weiner said that the staff discussion of the forthcoming paper on delays of implementation indicated that staff defended the present targeting involved in projecting disbursements, arguing that this was an important instrument to move borrowers to act expeditiously. OED's analysis indicated that the more serious delays in project implementation and disbursements frequently reflected deficient project design, poor preparation and poor project preparation.

Mr. Qureshi argued that setting internal targets through the formulation of disbursement schedules could be a useful instrument, given the Bank's strong catalytical role vis-a-vis governments. Mr. Chaufournier agreed; although there was certainly room for being more realistic, some targeting should remain for the staff to use with governments. The ultimate effect of a change in procedures on the rate of disbursement of projects should be closely analyzed. Mr. McNamara replied that, although the Bank would probably end up with a system along the lines suggested by Messrs. Qureshi and Chaufournier, he would prefer aiming at a more realistic plan, i.e., plans with a high probability of accomplishment. This was, of course, in part a question of psychology and management approach.

Mr. Wapenhans said that, in most cases, staff extended the implementation periods over the period established by borrowers. Most implementation problems emerged at the initial stage of implementation and had little to do with the project entity; rather they were caused by government-at-large not meeting conditions or not coming up with counterpart funding. By introducing an element of targeting into a disbursement projection, staff aimed at supporting the project entity in its dealings with central government.

Mr. McNamara concluded that all these factors had to be examined in revising the procedures. Either the procedures on ex-ante disbursement projections for appraisal reports had to be changed or the nature of disbursement projections under current procedures had to be redefined, e.g., by adding a footnote to the effect that these projections were never met but nevertheless were included to show the borrower what could be done in its interest.

IBRD Lending Rate

It was agreed that discussion of this matter would be postponed until next Monday.

March 1 General Salary Adjustment

Mr. McNamara distributed and explained the table giving data on CPI and comparator salary movements and showing three alternative options for action which had been discussed at an informal meeting of EDs last week. He explained that basically option 3(a) was an application of the Kafka formula, option 3(b) provided for a full offset to the CPI on a gross basis, and option 3(c) provided for a full offset to the CPI plus a 1% productivity gain. In his view, only the Board could decide which approach to follow, given the wide divergence among the three options. One immediate reaction from the EDs had been that parallelism with the Fund had to be maintained. In response to a question, he said that Mr. de Larosiere had recommended option 3(c), arguing that the institutions were experiencing a period of accelerating inflation and that there was evidence of real salary increases in Europe.

Mr. Paijmans said that a very split situation would probably have to be faced in the Board. As to the Staff Association's position, he said that the staff was very adamant in demanding a full offset of cost-of-living on a net basis excluding merit increase. He foresaw serious problems with the staff in the coming weeks. Mr. McNamara said that the Staff Association's demands added up to 17% gross salary adjustment.

Mr. Chadenet said that management had to address two issues: (a) staff believed that international civil servants should get a full offset of cost-of-living on a net basis, and (b) as to professional versus support staff, the Fund under Messrs. Schweitzer, Witteveen and de Larosiere had always taken the strong position that professional and support staff should not be treated differently; the EDs had tended to support that position. Mr. McNamara replied that the two institutions were reaching a point where the differential between salaries of support staff within and outside the institutions was so great that it harmed the institutions. Support staff were either misinformed about the facts of the market or wanted the Bank to pay substantially more than their comparators receive. As to professional staff, he tended to believe that consideration had to be given to differential expatriation allowances along nationality lines. In his view, treatment of professionals had to be different from treatment of support staff; otherwise, management would hurt the professional staff.

In response to a question, Mr. Paijmans said that the UN, applying its formula to the general salary adjustment, would probably increase Washington salaries by 9.5% on a net basis. Mr. McNamara asked Mr. Paijmans to add options 3(d) and (e) to the table, reflecting the Staff Association's request and likely UN action.

Administrative Tribunal

Mr. Damry said that the U.S. Government desired to change the language and the legislative history of the Board proposal on the administrative tribunal but not the language of the resolution. Mr. McNamara said that a meeting in preparation for tomorrow's Board meeting should be scheduled for this afternoon.

U.S. Aid Bill

Mr. Clark reported that Congress would take up the entire aid bill this week, i.e., at a point where an attempt was underway to cut the U.S. budget by $19 billion. As a result, an amendment for an across-the-board cut of the aid bill might well be introduced.

CKW
March 5, 1980

Record Removal Notice

File Title Records of President Robert S. McNamara President's Council minutes - Minutes 20	**Barcode No.** 1770833
Document Date March 25, 1980	**Document Type** Minutes

Correspondents / Participants

Subject / Title
Office of the President - President's Council Meeting, March 10, 1980.

Exception(s)
Prerogative to Restrict

Additional Comments

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

Withdrawn by	Date
Shiri Alon	27-Feb-17

OFFICE OF THE PRESIDENT

822/7/11

President's Council Meeting, March 17, 1980

Present: Messrs. McNamara, Cargill, Barletta, Baum, Benjenk, Chadenet, Chaufournier, Clark, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Rotberg, Stern, Wapenhans, Weiner, Waide, Pollan, Babson

Declassification of Bank Documents

Mr. Paijmans introduced the discussion by saying that an earlier version of the proposal had been considered by the PC; the present proposal recommended a procedure under which Bank reports would automatically become public domain after 10 years. Governments would have to be alerted to the new publication rule.

Mr. Husain argued that most Bank reports were of great topical interest in the first years; most journalists obtained copies of Bank grey cover economic reports within weeks. He suggested either introducing a declassification period of only six months, or continuing with the present policy. Mr. Clark agreed and said that a ten-year publication rule would be of no interest to anyone.

Mr. Benjenk said that the Bank would have to strike a careful balance between the need for making Bank reports available to the public and the confidentiality of its work with governments. It was good to have an explicit policy to which there could always be exceptions. He recommended a five-year declassification period. In response to Mr. Damry's recommendation of not taking any action, Mr. Paijmans warned that there had been an increasing demand by researchers and journalists for Bank documents since 1975.

Mr. Chaufournier favored a declassification period longer than five years.

Mr. Barletta stressed the confidentiality of information obtained from governments and urged that at least a 5-10 year declassification period be observed.

Mr. McNamara agreed that the Bank could not make its reports publicly available within six months (as suggested by Mr. Husain) because sensitive issues were involved; as an example, he referred to the Bank's assessment of Brazil's population policy in President's Reports.

Mr. Stern argued that the declassification period could not be less than five years and individual documents could always be released earlier on their merits.

Mr. McNamara concluded that the Bank should start--as recommended by Mr. Paijmans' memorandum--with a ten-year declassification period which could possibly be shortened later; also, the Bank would have to tighten up on the procedure for granting exceptions, i.e., these decisions should be made by the Vice Presidents and not Division Chiefs.

Career Development

Mr. Paijmans explained that--following the earlier PC discussion--comments on the paper had been received from Department Directors. Personnel was presently gearing up for implementation of the new policy. He warned that, if there would be no consensus on necessary reassignments, action would have to be taken by fiat from the Personnel Department. Mr. McNamara commented that he was delighted with the careful and sensitive comments on the paper received from managers.

Mr. Baum pointed to the philosophy behind the paper. Career development was a critical element in successful management of the Bank but had not worked in the past. Support departments would not be able to attract good staff without assurance that assignment to a support department was a step in a successful career. Unfortunately, managers tended to take a short-term view of objectives and staff were not yet convinced that the system would work in the future. In his view, the reassignment panels would have to be strengthened, i.e., they would have to meet periodically with a large number of people to reassign. Average performers had to be put into the market. He suggested reducing the blocking period from twelve to six months. Mr. McNamara agreed with the latter suggestion. Mr. Paijmans pointed to the fact that reassignment panels had already been activated. Mr. McNamara agreed that Personnel would have to take the initiative on reassignment of average performers.

Mr. Husain argued that a stay of three years in field offices should not be the normal but the minimum duration. Mr. McNamara agreed.

Mr. Waide said that preparation of the paper on secondment would have to be accelerated. Mr. McNamara agreed.

Mr. Stern considered the set of papers to be excellent. However, they did not make sufficiently clear that the reassignment policy included cross-functional assignments. Second, the statement on page 4 on reassignment policy of senior staff should make clear that senior staff were expected to stay longer in their assignments than the average staff. Mr. McNamara agreed. Third, Mr. Stern said that the vacancy posting system should not include Division Chiefs. Fourth, the volume and type of intake under the YP Program would have to be reviewed. Mr. McNamara agreed but emphasized that he was reluctant to cut back on the YP Program at this point; the Program was a tremendous source of strength for the institution. He concluded the discussion by urging PC members to initiate implementation of the new system quickly.

CKW
March 25, 1980

OFFICE OF THE PRESIDENT

822/7/12

President's Council Meeting, March 24, 1980

Present: Messrs. McNamara, Barletta, Baum, Cargill, Chadenet, Damry, Gabriel, Hopper, Husain, Nurick, Paijmans, Rotberg, Stern, Wapenhans, Weiner, Knox, Parmar, Thalwitz, Waide, Mrs. Boskey

Structural Adjustment Lending

Mr. Stern reported on last week's Board discussion of the Structural Adjustment Lending paper. The Board had focussed on four issues: (a) additionality of resources; (b) relationship to the Fund; (c) conditionality; and (d) size of the operation. The EDs had stated that additionality was desirable but there were serious resource limitations. As to the relationship with the Fund, the Memorandum of Understanding of 1970 contained all necessary elements. Part II Directors were allergic to the term "conditionality" and resisted any link with the Fund; they had agreed, however, that it was important to gain experience with structural adjustment lending by working with individual governments. As to the size of the operation, management had mentioned a volume of \$600-\$800 million for next year. The meeting had concluded that the Bank should (a) continue its dialogue on structural adjustment lending with the countries interested, and (b) forward the original paper together with a summary of last week's discussion to the Development Committee for consideration in April.

Mr. Damry reported that Messrs. Looijen, Lundstrom and El-Naggar had no objections to the summary of last week's Board discussion as prepared by the staff. Mr. Stern warned that the G-6 may have problems with this summary. Mr. McNamara concluded that the promised answers to the questions raised by the Board should be provided to the EDs by the end of the week. Mr. Stern reported that the Fund discussion on their recycling paper had concluded that the Fund would prepare staff papers; it had not concluded that the Fund should consider a new facility at this point.

Compensation

Mr. Paijmans reported that the IMF Staff Association was building up a fund to be used if there were a work stoppage. The Bank Staff Association accepted the 8.3% March 1 adjustment with regret, demanding an interim increase by September. He was confident that there would be no major problem with the staff on compensation if the ongoing close involvement of staff in the Hays survey continued; however, he warned that management would have to deal with a number of conceptual problems relating to the Hays survey, e.g., treatment of merit increase.

Rome Visit

Mr. McNamara reported on his meeting with Father-General Arrupe of the Society of Jesus over the weekend in Rome. The Jesuits' "vice president for justice" had argued that the Bank was an agent of imperialism. Another "vice president" had said that the basic issue was not development but rather change in the affluent consumer societies. His meetings in Rome had been productive because the Jesuits were in the forefront of social advance in the developing world.

CKW
March 25, 1980