TO: Mr. M. Shoaib
FROM: Davidson Sommers
SUBJECT: Organization Study

DATE: September 1, 1972

Here are some left-over thoughts from the Organization Study on points which seem to me worth further consideration.

Evaluation. The division of policy-making responsibility between Knapp-Baum and Chenery is one of the important matters being considered. As a different but related point I suggest that evaluation be made part of Chenery’s responsibility. The role of the Chenery group will be to question Bank policies and practices in the light of broad developmental objectives. Evaluation of how past practices and policies have worked should be part of that process. Assignment to Chenery will also have the advantage of focussing the evaluation function on Bank policy and performance rather than on the performance of particular projects or particular countries. There doesn’t seem to me to be any real need to keep evaluation under Finance or Programming and Budgeting.

Appraisal Reports. I believe the Bank puts too much emphasis on the quality of operational reports. I have reviewed a sample of appraisal reports. They are excellent. But I wonder whether they are not too elaborate and polished for the audiences at which they are aimed. If they were designed for staff decision-making, they could presumably be less formal and less polished. If they were designed for Board decision-making, they could presumably be briefer and contain less detail. There is talk of the educational value of these reports to government bodies throughout the world. I can understand that they may have educational value when they deal with innovative projects but I am doubtful in the case of run-of-the-mill projects. In any event, satisfying this educational demand, if it exists, may involve a considerable cost in dollars and manpower. I suggest that the Bank study this whole subject, decide what audiences it really wants to reach, and consider whether it might not be more efficient and more effective to design different forms of reports for various audiences and project types rather than trying to reach all audiences with the elaborate format on all projects. Perhaps this kind of assessment may have been made in the past but I am not aware of anything of the kind outside of the Projects complex.

Communications with Staff. The one complaint that I have heard most frequently is that members of the staff, long-term and short-term alike, feel remote from the management and the decision-making process and uninformed about what is going on and why. The Staff Association is a symptom of this kind of dissatisfaction in the area of work conditions, etc., but the problem also extends to Bank policies and operations. To a large degree this is inevitable in an organization of such size and rapid growth, but I think far more could be done to give the staff a sense of being informed and involved. I suggest that in addition to the important areas of training and career advancement which the McKinsey teams have stressed, the new Vice President for Administration should concern himself with the matter of communications.
OFFICE MEMORANDUM

TO: Files

DATE: August 21, 1972

FROM: John A. King

SUBJECT: Minutes of Steering Committee Meeting on August 11, 1972

1. The Steering Committee met with the consultants on August 11, after the announcement of the basic future reorganization to discuss what steps should be taken next. Present were Messrs. Shoaib, Sommers, Twining, Kearns, Messenger, Schumacher and King for the Bank and Messrs. Rohrbacher, Graves and Kavarana for the consultants.

2. Mr. Shoaib opened the meeting by asking for any reactions on the part of Bank staff to the announcement of the basic decision. Mr. Schumacher reported on a meeting of the Agriculture Projects Department and the principal questions which were raised. These included:

   a) What was the meaning of the term "functional control" which was used by Mr. McNamara at the meeting with Senior Staff and the phrase "functional guidance" which was used in the circular, and who exercised this "control" or "guidance"?

   b) What was the meaning of the word "specialists" and how specialized were they? Were Mission Chiefs included in the term?

   c) Who would undertake sector work and be responsible for sector policy?

   d) How would the project divisions work with the area divisions in the regional framework, with the projects divisions, for the most part, being so much larger than the area divisions? How would the project divisions relate to the people under the Vice President, Projects.

   e) How would flexibility to meet project work programs be achieved? Would it be done through borrowing between regions or largely through the use of consultants.

   f) How would project staff be allocated? Would they have the chance to express a preference?

3. Mr. Schumacher said that it was his impression that most staff wished to be assigned to the regions in order to be closer to operations. Members of the Steering Committee found this hopeful since it indicated that the reorganization was being taken as a fact to be lived with. Mr. Shoaib said that the Division Chiefs would be selected by August 18 and that staff would be allocated after that. The precise method of allocation had not yet been determined.

4. Mr. Shoaib then reviewed the things still to be done. He pointed out that the rest of the McKinsey work was to be spread over a longer period than
originally intended. There would be an implementation group under Mr. Kearns. Mr. Schumacher would be assigned to that unit which would be concerned with all matters of implementation. The Steering Committee would continue to exist and work with McKinsey on the policy matters still to be decided.

5. Among the questions still to be examined were the following:

a) Policy Planning - terms of reference and location.

b) Central Economic Staff - structure of the Central Economics Complex and the division of functions between Messrs. Baum and Chenery.

c) The Field Offices - guidelines for their functions, their location and their size. There were also similar questions relating to the Paris, London and Tokyo Offices.

d) The internal organization and location of IFC.

e) The internal organization of P & B and the support departments.

f) Industrial Sector Policy and the relationship between IFC, the Industrial Projects Department and Development Finance Company work.

g) Major procedural changes.

h) The nature of "functional guidance" and how it is exercised.

i) The internal organization of the Office of the Vice President, Projects, particularly the common policies work.

6. Mr. Shoailb asked McKinsey and Mr. Kearns to come up with an implementation plan. McKinsey was also asked to develop an indoctrination program for Bank staff to give them an understanding of the objectives to be achieved by the reorganization and the way in which the reorganized Bank would operate. Particularly important was a clear understanding of the decision-making process.

7. McKinsey noted that they had expressed views on all questions raised and that unless the structural change had changed the concepts involved, their answers would be the same. They, therefore, asked for their mission to be clarified. Mr. Shoailb pointed out that they had done a lot of background work which the Steering Committee had not seen and that they should develop this material so as to provide a more solid justification for the answers they had given.

cc: Messrs. Shoailb, Sommers, Demuth, Twining, Kearns, Messenger, Schumacher

JAKing:1b
I attended a joint meeting of three agricultural projects department divisions on August 12 (Livestock, Credit, and Agro-industries). Staff raised the following questions:

(a) Mr. Evans used the term "functional control" to describe one of the purposes of Mr. Baum's department. What does this mean in practice? Will this department continue its review and control functions like the old front-office-projects?

(b) What will the staff composition and structure be of the Agriculture divisions in the regions and of the nuclear departments under Mr. Baum? How many staff will the nuclear Agriculture Projects Department have? (Mr. Evans said 12).

(c) How many staff would be in each regional projects division and how would this division be structured? Would its chief have the same status and pay as an area chief? Would these be "groups" or sections" under some type of deputies below the regional projects chiefs?

(d) What will happen to the current appraisal/supervision schedules? Will those scheduled to leave before October 1 go as scheduled and staffed or will they be rescheduled and restaffed with members of the new regional projects divisions?

(e) Who will be responsible for "sector reviews", Mr. Baum's group or the regions? (Mr. Evans said the regions).

(f) Will the Agro-industries be split or kept intact under Mr. Evans?

(g) Will not policy formulation be further diluted between the regions, Mr. Baum and Mr. Chenery? What does Mr. Chenery's new title "development policy" mean in practice? Will policy be imposed from on-high without feedback from the regional operation people?

(h) How specialists are the specialists!

(i) Will not five regions significantly reduce flexibility of staffing? (Mr. Evans replied that in the short run more consultants will probably be needed with more staff to be hired in the future).

(j) Will staff have a chance to state their preferences or will they be allocated?
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaiib
FROM: John A. King

DATE: August 7, 1972
SUBJECT: Plan for Informing Staff of the Reorganization

I. Objectives

1. To give staff a clear understanding of Mr. McNamara's perception of the need for change and the steps to meet this need.

2. To reassure staff concerning both their personal future and the future of the professional objectives for which they have been working in the past. (This reassurance is particularly important for Projects staff who may see in regionalization two principal changes: (a) a potential sacrifice of project quality in the interest of greater speed and efficiency in the project cycle and (b) a substantial weakening of the authority of the Projects Department and their control over project quality and the careers of Projects staff.)

II. Plan of Notification

August 8 - 10.00 am Notification to the Board (Mr. McNamara)

2.00 pm Notification to Senior Staff including Deputy Directors (Mr. McNamara)

August 9 - 10.00 am Notification to Division Chiefs, Deputy Division Chiefs and Senior Advisers of all Projects and Area Departments, and Office of the Director, Projects (Mr. McNamara)

11.30 am Notification to the Officers of the Staff Association (Mr. Shoaiib)

12.00 Distribution of the Administrative Circular

Press Release

August 10 -

Mr. McNamara meet with all professional staff of each of the Agriculture, Education, Public Utilities and Transportation Projects Departments

and/or

Directors of the Area and Projects Departments meet with their respective professional staff (in groups of 40 or less)
At each of the meetings with staff it should be made clear that much analysis and many decisions are required before the new organization can come into being. The more important analyses concern the internal workings of the regions and the revised project cycle and planning procedures. The more important decisions concern the support departments, delegation of authority and allocation of staff. In connection with the allocation of staff, it should be made clear that no staff assignments will be made until the staff member concerned has been consulted and asked for his preference.

To assist the Directors in their presentation, they should be supplied with a three-to-four page memorandum outlining the key facets of the new organization and explaining the next steps. A Bank staff member of the Study Team should be available to assist each Director in his discussions with staff (these individuals should be briefed by you as to how much can be said on various subjects in answer to questions). This memorandum, or an edited version of it, could also be given to staff as they leave their respective meetings with Directors.

III. Rationale

First, we believe that it is of critical importance for Mr. McNamara to meet with the staff most immediately affected by the reorganization to gain their understanding and support. The reorganization is seen by the Bank staff in general as Mr. McNamara’s idea and they will be expecting him to explain it to them. We believe that this point cannot be overemphasized.

Second, we believe that the staff should be informed through regular Bank channels and for this reason, we have proposed that -

a) the Staff Association be informed after Division Chiefs, et al., and by you rather than Mr. McNamara, and

b) no meetings be held with special groups such as the 5:30 Club or the YP's, for example.

Third, no general meeting of Mr. McNamara with all professional staff or even all professional staff from the Area and Projects Departments is recommended for lack of an adequate meeting place.

cc: Messrs. Twining, Messenger, Schumacher

JAKing:Jb
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
ROM: Mohamed Shoaib

DATE: August 4, 1972

SUBJECT: Report of the Steering Committee

Attached is the Report of the Steering Committee on the McKinsey Report dated July 28, 1972. I am pleased that we were able to develop a broad consensus among ourselves on the basic recommendations.

While McKinsey and especially the Bank members of the team did background work on a number of related issues, the Committee has not seen recommendations or even partial analyses on many of these issues. Therefore, the Steering Committee is convinced that much further work and many decisions remain before the concepts underlying the basic structural recommendation can be implemented in full.

Also, the Committee strongly supports a McKinsey recommendation that implementation of the organizational changes be phased to ensure time for a careful personnel audit of all staff members' qualifications for "management responsibilities" under the proposed organization. Appointments below Director levels ought not be made prior to such an audit. Careful coordination with the results of the compensation study would need to be undertaken as part of this audit. Job descriptions for the new jobs have to be developed promptly to permit the matching of the jobs to be done with the best qualified persons and the determination of the appropriate levels of responsibility.

MShoaib: go
REPORT TO THE PRESIDENT

ON

McKINSEY & COMPANY'S

RECOMMENDED ORGANIZATION STRUCTURE

OF THE WORLD BANK GROUP

August 4, 1972
The Steering Committee (members listed in Annex 1) has met about every two weeks with the consultants since January. The Committee's recommendations and comments below are focussed principally on the organization of the operational units of the Bank -- the Area and Projects departments and the Central Economics Complex, as is the McKinsey report. Many vital questions dealing with the Bank Group's procedures and the rest of the Bank's organization are yet to be answered. The more important of these are listed in Annex 2.

I. Recommendations

McKinsey have concluded that the Bank should adopt a regional structure -- incorporating the area departments and the larger projects departments into geographic groups.

Regional Organization

After lengthy questioning of the McKinsey Team about the pros and cons of other forms of structural change, a Committee view, with one member dissenting, emerged in favor of the McKinsey recommendation for a regional approach encompassing the activities of the present Area and Projects Departments.

The Committee agrees that while the sheer size and complexity of current Bank operations are causing some work stress, especially in the Projects Departments, there is today no major crisis requiring immediate large-scale reorganization. The Committee accepted the core recommendation for a regional structure for four main reasons:

(1) to handle better the present size and the future growth of the Bank Group outlined in the 1974-78 plan;

(2) to provide a single primary channel of communication with borrowers who now have to deal with an increasing number of IBRD departments and groups;

(3) to bring more concentrated attention to bear on the specific development problems of individual countries and regions;

(4) to facilitate a return to the "teamwork" approach that prevailed when the Bank was smaller.

Numbers of Regions

The Committee could not agree on whether three, four or five regions would work best. The greater weight of opinion in the Committee, however, is in favor of a smaller rather than the larger number of regions. With three regions, there may be less disruption to staff, a smaller unallocated technical pool, and larger and more flexible projects groups within the regions thus assuring a "critical mass" of managerial and technical skills for each sector, all of which would contribute to the maintenance of project quality. There
would also be more accountability because the Regional Vice Presidents would have more control over staff resources, and a more uniform and consistent application of Bank policy. Three regions initially could, of course, be an interim step toward a larger number of regions.

On the other hand, five regions may permit "area work" to be performed more effectively with more attention at the Vice Presidential level for each country, a better environment for Area-Projects teamwork because of the regions' smaller staff size, and balanced area and projects wings within the regions (with three regions some Projects divisions could be as large as 40 while the Area divisions would be about the present size). Five regions would probably serve the Bank several years without the need for further major reorganization. However, a potential disadvantage of five regions may be the present shortage of experienced projects staff capable of managing whole sectors.

Four regions would permit, as a compromise, the inclusion of North Africa and the Middle East as a separate region which the three region alternative would not. Both three and four regions require the merger of East and West African countries into a single region.

Research and Policy Planning

The McKinsey recommendations would have the effect of taking operational policy work away from the operations staff and placing it with the staff doing research and economic studies. The Committee is opposed to this recommendation basically for two reasons. First, we do not think that a Research and Policy Planning staff combining under one Vice President both broad-gauged economic studies, and the formulation of operational policy and guidelines will work effectively since it would be too divorced from operations and could become dominated by theoretical considerations. Second, keeping the projects policy staff and the unallocated technical specialists together has the advantage of keeping intact the staffs of the Departments representing emerging sectors (Tourism, Population, and Industry) and of assuring that technical and sector policy formulation will be undertaken by operationally oriented staff. A widely shared response to McKinsey's presentation to the Senior Staff was that operational policy work should not be separated from the operational staff. Views were expressed that AID experience with the policy organization proposed by McKinsey proved unsatisfactory.

The unanimous view of the Committee is that the projects policy staff, the unallocated technical specialists, and the divisions of the Economics Department which deal with sector policy should form a unit headed by a Vice President reporting to the Vice President, Operations. This recommendation has the important advantage of placing under the Vice President, Operations, the policy staff support that he would require to initiate and react to operational policy innovations and improvements.
Industrial Operations

In the Committee's view, consideration of DFC regionalization should be postponed pending the resolution of how industrialization policy coordination will be achieved. The Committee notes that the Bank Group has been experiencing difficulty coordinating the private sector work of the IFC with the Bank's activities, especially with regard to industrial strategy and policy. The McKinsey recommendation makes little change in the present situation wherein the principal vehicle to ensure the required coordination between the IFC and the Bank is a committee. There is no indication of why this arrangement will work better in the future than in the past. Further study of the Bank/IFC relationship should be begun immediately so that, if possible, the results can be coordinated with other changes being made. The Committee agrees that IFC should remain separate and be charged with the "private sector" aspects of the Bank Group operations. McKinsey has not made recommendations on IFC's internal organization. Therefore, the Committee's recommendations will depend on further study.

Administration

Management training and manpower development are undoubtedly important but they appear to be overly emphasized in the Report. The activities of the Administrative Services Department do not appear related to those of the financial complex and, therefore, there seems to be no reason to place the Department organizationally under the Vice President, Finance. The Committee recommends that the Administrative Services and Personnel Departments report to a Vice President, Administration.

An additional department for organizational planning and evaluation should be created to carry the brunt of the staff work in implementing the changes now agreed upon and to provide continuing close attention to the Bank Group's structure and internal efficiency. This Department should also report to the Vice President, Administration.

External Affairs

More study is needed concerning the organizational requirements of the Bank Group's work in the general area of external affairs in which several departments and officers now have responsibilities before a recommendation can be made.

Chief Economists

Each Regional Vice President should have a Chief Economist in a staff capacity to advise him on economic matters. One of his most important tasks would be programming the country economic reports in consultation with the economic complex.
The Committee has not yet had sufficient information to be able to form a judgment on the proposed organizational locations for Programming and Budgeting, Program Evaluation and Internal Audit. Long range planning also has not yet been considered.

If ultimately the Programming and Budgeting Department reports directly to you, rather than to the Vice President, Finance, you should consider whether the financial planning functions should be transferred from Programming and Budgeting to the financial complex.

Titles

Except for the Regional Vice Presidents, the Projects Policy, and Administration Vice Presidents, decisions on titles at all levels should be deferred until the basic structure is decided. However, we do recommend that the title "Director" be substituted for "Assistant Vice President".

Operations Committee

A Bank-wide Operations Committee, whose specific functions and composition would be determined after the appointment of the Vice President, Operations, to deal with inter-regional or cross-sectoral problems but not with individual projects should be created.

Alternative Career Streams

A priority task to ensure high morale and staff commitment to the new organization is the development of career streams for experienced staff members who because of preference or qualifications may prefer careers as operational mission managers (Economic, Projects, Resident) rather than as internal managers (Division Chiefs, Deputy Directors, etc.). The Personnel Department, as a first order of importance should consider the adequacy of our career structure to meet this need.

II. Recommended Next Steps

All of the steps recommended by McKinsey need to be taken but the sequence should be different. After the decision is taken to adopt a regional organization an implementation plan should be prepared showing the work to be done, both by McKinsey and the Bank and the desired timing. The Bank staff to be involved in implementation should discuss and agree to this plan before it is submitted to you for approval. The plan should include the following subject areas:

(i) Outstanding issues (the resolution of the questions referred to as left unresolved in this report and those listed in Annex 2);
(ii) Staff explanation (a program of acquainting staff with the new organization and answering their questions);

(iii) Staff allocation (the selection of Division Chiefs and others and matching of existing staff to new jobs);

(iv) Transition plan (for the transfer of staff from existing jobs to new ones);

(v) Procedures (the development of procedures for the activities as they will be done in the new organization—resulting in Operating Manuals);

(vi) Policies (the codification of policies to facilitate delegation of authority); and

(vii) Space plan (for housing the new organization).
ANNEX 1

Members of the Organization Study Steering Committee

Mohamed Shoaid - Chairman, Vice President
Davidson Sommers - Chairman, Equitable Life Assurance Society of the U.S.; former Vice-President of the Bank.
Richard Demuth - Director, Development Services
James Twining - Director, Administrative Services
John King - Office of the Director, Projects
Leif Christoffersen - Division Chief, West Africa
Harold Messenger - Division Chief, Organization and Procedures
August Schumacher - Agriculture Projects
Important Unresolved Issues

A. Procedure for policy formulation needs to be worked out in more detail.

B. Procedures
   (i) What are the objectives and performance criteria by which the new managers will be judged?
   (ii) What operational planning system should the Bank Group follow?
   (iii) Can the project cycle be improved, if so how?
   (iv) How can "bunching" be minimized?

C. Role of resident missions
   (i) What criteria should the Bank use for establishing and/or expanding overseas missions?
   (ii) What should they do?
   (iii) How much authority should they have?
   (iv) To whom should they report?

D. Other
   (i) How will the regional organizations work internally?
   (ii) How should the support functions be organized?
   (iii) If the present "management style" of the Bank is a problem, how and in what respects should it be changed?
   (iv) What additional authority is to be delegated, to whom and on what conditions?
   (v) Role of New York, Paris, Tokyo offices.
July 31, 1972

Comments from Mr. Demuth re McKinsey Report
On Recommended Organization Structure

1. I agree with the general approach.

2. I believe that three rather than five regional bureaux would be better initially -

   (a) much less disruptive;
   (b) much smaller central technical pool;
   (c) much easier to staff regional technical divisions;
   (d) regional technical units would be of a size constituting a "critical mass" - sufficient technical expertise to permit interchange of ideas and reinforcement. Not possible with five - single agronomist vs livestock specialist.

Three should be step towards five ultimately.

3. I agree on merger of Economics Department Divisions and technical personnel into Sector Policy Units but I do not agree that Sector Policy Units should be combined with Research and Economic Studies. I would combine with Sector Support staff under Vice President, Sectoral Support and Operational Policy, and put him under SVP, Operations.

4. I believe we need a Policy Committee - also a General Policy Planning Staff, including economists and others. This could be put under Vice President, Research and Economic Studies - but I would put it together with P & B and Program Evaluation as an additional function.

5. I am not clear why Administrative Services goes under SVP, Finance, instead of under a VP, Administration (instead of Organization and Personnel). Whether SVP, Finance, should do IDA Replenishment should be decided later.

6. European and Tokyo Offices are left unassigned.
Here is the memorandum on the Organizational Study of which I spoke to you this morning, for whatever use you wish to make of it.

One argument is implied but perhaps should have more emphasis. The McKinsey team have stressed the importance of making operations more sensitive to regional and country differences; but they assign operational policy and standards to the group most remote from the countries and regions and from actual operations.
OFFICE MEMORANDUM

TO: Mr. M. Shoaib
FROM: D. Sommers
SUBJECT: McKinsey Organization Report

DATE: July 31, 1972

1. I agree with the main recommendation, i.e. to organize operations by regions under Regional Vice Presidents who will have both "area" and "projects" staff and be responsible for country and project aspects. This development seems inevitable in view of the loads now borne by the Chairman of the Loan Committee and the Director of Projects and the prospect that these will greatly increase in the future. In addition, I agree that this line operation structure is desirable because it will fix responsibility instead of dividing it, thereby facilitating much-needed delegation of authority and permitting greater adaptability and sensitivity to regional differences. It will also have the significant advantage of offering better career advancement opportunities and affording better training for management succession.

2. Whether there should be three, four or five regions is a practical matter on which others have more basis for judgment than I do.

3. There are various points on which the report seems to me to be more specific than is necessary or useful. (This is not a criticism of McKinsey's work; they were asked to be specific.) It is not clear to me, for example, that external relations should always include information; that finance should always include IDA replenishment; or, as the report recognizes, that finance should always include administration. These assignments must be made in the light of the qualifications of the people involved and the "style" interests and experience of the President.

4. My major reservation relates to the proposal for a Senior Vice President for Research and Policy Planning. This seems to me to provide an unsound structure, to repeat in different form the main defect in the Bank's present organization, and to be inconsistent with the principles on which the regional organization is recommended. The report does not adequately state my objections and its justification of this proposal tends to confirm rather than remove my doubts.

Basically my difference is that I consider formulation and recommendation of operational policy and standards (as distinguished from long-range planning and evaluation) to be part of operations and not a function that should be assigned to a separate and parallel organization. To do so is to divide what seems to me an indivisible responsibility (as the Bank has previously done in the area-projects split). The confusion is reflected in the report which describes the Senior Vice President Operations as "responsible for guiding and coordinating the work of the regional departments", but then assigns the same function, formulation of "guidelines", including policies and standards, to someone else.
Put in a different way, this proposal continues the weakening of the position of the VP Chairman of Loan Committee that has been going on for years, for example, by the establishment of the "Economic Advisor to the President" and by putting projects on a coordinate Vice Presidential level. If the VP Chairman's role of deciding day-to-day area-projects issues is to be delegated to the regional level, as it should be, the obvious remaining role for him is policy and standards formulation and coordination. But this would be assigned elsewhere and the staff he needs for the job would likewise be assigned elsewhere. I cannot recognize this as consistent with the principle of clearly assigned responsibility. If the SVP-OP is to do a real job he will need, in my view, a similar staff of his own.

Moreover this proposal is inconsistent with the objective of reducing the load of the President. "Guidelines" are to be formulated by the SVP-RPP and "agreed to by the operation organization". I would predict that much of the arbitration function previously performed by the Chairman of the Loan Committee will be moved up to the President's office by this proposal. The SVP-OP will be left as merely an additional level between the country work and the President.

The report defends this arrangement as "sound in principle". But when the McKinsey group were asked to give examples of similar schemes which had proved successful, none was forthcoming; whereas members of the study team offered at least two examples of somewhat similar arrangements (UNDP and AID) which had been regarded as unsuccessful.

My suggestion is as follows:

First choice: transfer the whole sector policy planning group, including its VP, to the staff of the SVP-OP, and merge it with the proposed sector support group, the merged group to be headed by a vice president.

Second choice: transfer at least such of the sector policy planning group as comes from the projects departments to the staff of the SVP-OP and merge it with the sector support group as above under a vice president. What sectoral staff remains in the research group should be called "sector studies" or "sector policy studies" or some such name and should be regarded as a service organization, the responsibility for formulating and recommending operational policy and standards clearly remaining with the operational organization.

Under either alternative what would remain in the research and sector studies group would not warrant a SVP title in my opinion. The group should continue to be called the Economic Services Staff and should be headed by an Economic Advisor with the rank, and if desired the title, of Vice President.
Mr. Shoaib

You asked me to put a few thoughts on paper regarding reorganization. The belated result is enclosed. I had to put all this together hastily if it was to be done at all. I hope it will be of some use.

As you know, I was very interested in the organizational study at the start and still feel it would be a fascinating problem to work on. To my consternation I have not had a chance to talk to any of the team - except once in a hurry about the Delhi office just before that team's trip was postponed! If there is any useful purpose to be served by my meeting one or more of the team, please do not hesitate to let me know on August lst.

Gregory Votaw

Attachment
Notes on Reorganization

1. The operations of the World Bank can be substantially improved, in my judgment, by efforts to define issues early in the project and economic/sector reporting cycle and to agree on the Bank's approach to those issues. Early definition of issues (and consequently tasks) would mean that for any proposed project, sector study or economic report, there would be a conscious effort to define in advance specific objectives, difficulties, resistances within the borrowing country, areas in which the Bank could or could not compromise, desirable as well as minimal solutions, etc.

2. It will be alleged that this is present practice, but the degree of detailed early definition of issues which I have in mind is rarely achieved - or even attempted. The Country Program exercise, while helpful, is too broad, general and far-reaching to dig deeply into specific project/study problems. Typically, terms of reference for missions - even appraisal missions following a series of identification, preappraisal and other costly steps - are very general, embodying a checklist of all points to be considered briefly rather than a carefully prepared theory of the particular case.

3. One symptom of weakness in present practice is the frequent allegation by borrowers that Bank staff members are constantly escalating demands, raising new points as they work through the project cycle, and bringing up long-foreseen issues only late in the negotiation process. Another clue to the importance of this practice is the frequency with which major issues come up just before or during formal "negotiations" - often without adequate information being available from preceding field missions for the Bank to deal knowledgeably with the issue, even though the issue itself reflects no new development but long-known phenomena.

4. Early definition of issues is possible under the present organization, but it is by no means necessary or common. There are few institutional incentives to early definition, and these appear to be substantial disincentives; individuals who let issues drift until very late in the project cycle not only survive but in fact seem to be rewarded with growing power.

5. Under the present system, loan officers (and also country economists) may be reluctant to raise issues early in a project cycle for fear of scaring off or delaying further processing of "their" projects. Loan officers are not supposed to know enough to give criticism of projects worth listening to. Moreover, they may not have enough hard information from visits to the country to make a well-educated assessment of real issues; even when they do have useful information, they are seldom asked for it, and it is not unknown for "volunteers" to be told to mind their own business. When Projects' personnel are enthusiastic about a project Area officers may be reluctant to express doubts; they want to make loans, they respect the judgment of the specialists, or they may wish to cooperate in one case to improve the chances of cooperation from Projects another time when the proposal originates with Area.
6. Fortunately, there are many cases where communication is candid and teamwork is fairly efficient at all stages of project development. But it is disturbing to note how often this is attributed to good personal working relationships among individuals involved. They can do good work despite the system! The fact is that nothing in the system demands early identification of or agreement on major issues; it can happen, but need not. Nor, so far as I can make out, are P&B and/or in-line supervisors judging departmental or professional performance on the basis of how often the individuals are surprised (and delayed) by important questions being raised late in the project cycle. Top management considers itself a court of last appeal to be brought into operational questions only after all efforts to reach a compromise (sic) at lower levels have failed — when, of course, much time has already been wasted and the issue is often so exacerbated that no constructive solution is possible.

7. Another evidence of weakness in the present system is the way in which the judgment of senior officers is employed in major lending (or economic study) operations. It is possible to consult senior officers — at Department Head and Vice Presidential levels — in the early stages of projects (or economic sector reports); but it is by no means required nor is it common practice. As a result, senior judgment is often brought to bear for the first time after field appraisal, after most of the budgeted man-months have already been spent. One even hears advocates of the present system boast that they can make a more objective evaluation of project proposals because they come to them fresh at Loan Committee stage, never acknowledging the extent to which this "freshness" is paid for by very considerable waste in the preceding one or two years of work by appraisal personnel, consultants, other UN agencies and the borrowers' already overworked economic management teams. Is the Loan Committee stage a good time to raise important issues? What mechanisms exist to encourage flagging (and deciding) most of these issues earlier? Most of the important issues clearly can be identified early. How many suboptimal decisions are taken now "because it is too late" to begin discussing the real problems at L.C. or negotiation stage?

8. The organizational alternative which strikes me as most likely to overcome present wastage is an arrangement under which issues are identified early at the level of a single Department Head. It is important that issues be specified, to the extent possible, before much manpower or other effort is expended. Doubtful points, e.g., on the specific interpretation of general policies to any particular case (project or study), would be referred to the appropriate Vice President (or loan/policy committee) for guidance — again before most of the preparation-appraisal process. Needless to say, such a procedure would not — and should not — preclude post-appraisal review; but it should make more efficient use of preparation/appraisal resources and also might well reduce negotiation and supervisory costs.

9. Under the proposed arrangement a Department consisting of 50-70 professionals would include both generalist "loan officers" and economists as well as specialists in the main sectors of lending for that Department. I see no alternative to organizing such Departments along geographic lines, since
the main unit of economic management in the world we serve is the nation state. The simplest case to illustrate is for the largest borrowers of the Bank Group, e.g., India, Indonesia, Brazil, etc., where about 50-70 man-years of effort, taking the Bank as a whole, (and including field offices, legal work, research economists, etc.) are already deployed annually - or so I would imagine and P&B could verify. Such Departments could easily be divided into five or six sector Divisions within each country Department. Other multicountry units could doubtless be defined in terms of similar workloads - either past or projected. There would still be a need for substantial residual pools of specialists - for example, in the family planning field - to be tapped by all Departments. There might also be significant interchange of specialists among countries as well as longer term transfers from area to area to reflect changing work loads.

10. The most profound objection to this type of organization is that it seems to fly in the face of the present "adversary" procedure between Projects and Area. I have already said that in my experience this "adversary" procedure is not only inefficient in the use of manpower but also unsatisfactory as a means of maintaining meaningful quality control. It is not really a procedure comparable to adversary proceedings in law nor is our work suited to that sort of treatment. The greater teamwork of the recommended organization would improve quality, in my judgment, whereas the present structure is competitive in only the worst bureaucratic sense, without significantly improving the substance of the argument or the content of decisions. Specialists and generalists working together under a single department head are more likely to reach accurate and searching judgments than under present procedures of inter-departmental competition - with all the secrecy, jealousy and infighting that separate bureaucratic units tend toward. Professionals of the level of integrity employed by the Bank will continue to express differing points of view, even if they work in a system which offers fairly quick adjudication. Under the proposed system decisions should be arrived at more promptly and sustained more consistently through the project cycle than at present. The system is likely to improve staff morale without in any way undermining or dampening the critical faculties of professional and other staff members. Issues might well be debated more freely within a departmental unit than they are at present, since staff members, especially at lower echelons, now fear that a particular finding will embarrass immediate supervisors in front of other (competing) supervisors (including Department Heads).

11. Another major objection to the reform here recommended reflects the very practical and immediate problem of reassigning fairly senior officers in the present structure. Will the Deputy Director for South Asia, who fancies himself having some influence over all programs in eight countries, be prepared to assume greater control over (and responsibility for) a similar number of professionals, but all working on a smaller geographic area - even if he is "rewarded" with the (devalued) title of Department Head? Will a Projects Department Head be content only to retain his present rank and be given real responsibility for diverse programs in a limited geographic area? Such psychological adjustments will be difficult, even if properly prepared. But if the organizational principles outlined are appropriate for the Bank in the 1980's, then movement in that direction should be started immediately, perhaps with attractive options outside the organization for those who consider the adjustment too difficult.
12. A third objection to the proposed organization is that it would increase the tendency toward interference by the Bank in member countries' sovereign concerns. Countries would be dealing with one Department Head rather than several, and with a somewhat more coherent, tightly defined country program than at present. There are risks in that, but I think they are well worth taking. After all, the department head will still be operating under a management that decides at what level to lend and broadly for what purposes; the department head will make recommendations regarding these major parameters and then be responsible for maximizing returns (however he and management agree to define them) from that level of investment. There is no doubt in my mind that it would be more efficient; partly for that reason such a system would expose weaknesses and strengths of senior officers in a different light than the present one we are used to. Of course, under the present arrangement each department blames its difficulties on another - and is usually accurate in doing so! I suspect that under a streamlined administration "interventionism" would increase but would be more effective and would also be less offensive to member countries (e.g., less likely to beat dead horses or press untimely issues). Aid, being handled more efficiently, might become less "fatiguing" to donors and recipients alike.

13. Obviously, if the general concept proposed here were to be considered seriously for implementation, much more would need to be written - e.g., to be sure we agree on the Bank's overall objectives and to work out organizational details within and among new departmental units. Lending operations and economic sector work have to be lumped together (largely so as not to forget important economic "operations" altogether) but these are distinctions that need to be made (since, for example, the adversary principle does not work much at all in the economic field, where it might make more sense). Cases could be cited although this is treacherous, since every good bureaucrat will insist that he saw all foreseeable issues at the earliest possible moment; moreover, some issues which I consider silly or irrelevant are obviously considered very important by some of my colleagues. But there is no point in going into such elaborations of the basic theme, if the central concepts are not accepted by Management.

14. In any case, from the foregoing it will already be clear that my principal criteria for judging any proposed reorganization of the relationship between Projects and Area, which McNamara has called the core of the Bank, would be the effects of that reorganization in making more efficient use of the Bank's manpower. Quicker decisions. Shorter, simpler chains of command. No "tabla rosa" approach to appraisals and other field missions. No pretended adversary procedure, but rather a freer interchange of ideas in the midst of a Director with power to decide and manage. Shorter distribution lists for shorter reports; let a few people go through these documents carefully - and let them be sent quickly to borrowers (and other knowledgeable readers) for comment; let's drop the long distribution lists as well as the long reports.

15. Comments would be welcome!

G.B. Votaw
July 1972
Mr. Mohammed Shoaib  
Vice- President  
IBRD  
1818 H Street, N.W.  
Washington, D.C. 20433  

Dear Mr. Shoaib,  

1. You asked me to put down before my home leave my reaction to the draft McKinsey report and the subsequent discussions you had with the McKinsey team. Due to an unforeseen need to attend a Ghana debt meeting in London during most of this week, my comments would have to be briefer than I had planned, but I think they cover the major points which I have expressed during our discussions and should enable you to see how you could "count my vote" when you finalize your Committee's report.  

2. I fully support the regional approach suggested by McKinsey. The Bank has grown too large to operate effectively under its present organizational structure:  

- because of larger scale operations, present Area/Projects relations lead to often to destructive tension rather than creative tension.  

- because of larger scale, projects staff become too far removed from country considerations. Result: project approach may more often diverge from the countries development objectives.  

- because of larger scale, borrowers find it more cumbersome to deal with the Bank. Borrowers view its organization as too fragmented with a seemingly large number of units (departments and divisions) dealing with substantive decisions affecting their country. This causes confusion, irritation, and resentment.  

- Bank field offices can't operate properly now. These can and should become more important in our operation work and the regional approach would seem to enable this to take place.
at the staff level we certainly need more and better team work approaches to development problems and Bank operations. Again the regional approach seems to provide this more effectively than today.

Inter-sectoral approaches to development problems are now most difficult to bring about. The regional approach would seem to make it more readily workable.

3. In determining what type of regional structure is best suited for the Bank, the following points seem important:

(a) since there is no "tidy" solution which will give each regional unit fuller control over all staff needed for project work, it may be better to have three or four regional units rather than five. In the first place, three or four regional units would reduce substantially the relatively large and apparently cumbersome unallocated technical pool under a structure of five regional units. Secondly, the problem of borrowing staff from other regional units - because of the peak problem - the use of project staff would seem better accommodated under less than five regional units.

(b) it is utmost important in my opinion to have the Regional Vice-Presidents report directly to the President. The proposal to establish a Senior Vice-President for Operations does not seem advisable. On the other hand, an Executive Vice-President working directly under the President as his substitute whenever required, has merits. (If a Senior Vice-President for Operations is needed temporarily it would seem better to make him an Executive Vice-President in the President's office - even if there have to be two bearing that title temporarily.

(c) A regional decentralization of the project work is not enough in itself to do the Bank's work more effectively. Equally urgent is a regional decentralization of the Bank's economic work. As a logical corollary to McKinsey's Area/Projects "core" recommendation, the regional units should also absorb parts of the central economic complex. The basic objective behind such a move should be to staff each regional unit with enough economists to staff their own economic missions - or at least most of the staff required. While today Area departments do have country economists, they can frequently only staff less than twenty-five percent of staffing needed for field economic missions. Consequently, I would recommend that regional units be staffed with their own fiscal economists, sector economists, commodity experts, statisticians, etc.
(d) the Vice-President for technical policy (or whatever the latest title given to him by McKinsey) should be given control over what remains of the economic work done by today's Economic department (except what has been shifted to the regional units). This would overcome a basic organizational problem we face today — namely, the inadequate coordination between the technical and economic work done by projects department on one hand, and the projects related economic work done by the Economics department on the other hand. (This problem still remains, although it has been reduced relative to what it used to before, under the leadership of the new director.)

(e) the long term development planning unit should, I believe, be separated from the others under a Vice-President. However, its staff should be relatively small. The emphasis here should be on quality staff rather than quantity. To ensure that it does not become an "ivory tower" unit removed from the mainstream of the Bank's operational work, frequent rotation of higher caliber staff should be envisaged — both between it and the regional units and also exchanges with the technical policy staff.

(f) in order to sharpen up the economic work done within the divisions of the regional units, and to ensure a more logical and attractive career path for country economists, each of the divisions on the Program side of the regional units should have a senior divisional economist who can supervise and provide more dynamic leadership to country economic work. At present the division chiefs far too often fail to do this job properly and the senior economists from the Front Office of today's Area departments are too far removed from the action to be effective.

(g) in order to provide effective use of the Bank's Cooperative Program with other international organizations it would seem necessary to organize the sub-units of the Cooperative Program staff on the same basis as the Bank's regional units.

(h) In the implementation of the regional units it is, I believe, of utmost importance for the acceptability of such reorganization to the Bank's staff that it is made clear that it is a reorganization that not only is directed towards the project staff, but that also a re-evaluation of today's Area departments is envisaged. Consequently, it is important to stress that the staffing of present Area units will not necessarily remain unchanged. It would seem particularly important to the acceptability of projects staff if one of the regional vice-presidents could be appointed from within the present Projects complex. If this is not possible, at least one should recruit project staff for some of the Assistant Vice-Presidents for Program and the Program division chief jobs.
While I strongly agree with the need for a speedy decision on the basic "con" problem and would hope that the President can announce such a decision by mid-August, I strongly recommend that much more time be given to the subsequent stage of that implementation—namely, the appointment of staff for all jobs in the new regional units proposed to be completed by mid-September. This is going to look too much like a steamroller operation and more time should be allowed—particularly if, as I thought we agreed, it is necessary to take a complete audit of Bank staff resources before appointments to the new positions in the regional units are finalized.

Sincerely yours,

Leif E. Christoffersen
The point I was trying to make when I saw you on the sidewalk this noon was as follows:

(1) I believe that any new top management structure would be seriously handicapped by the continuation of the President's Council, in actuality or in concept. I have always been dubious about the idea, but it is essential in my opinion that under a new structure the President be free to adopt different forms of top level consultative arrangements at different times and for different purposes.

Whether or not McKinsey mentions this, I think your Group ought to express a view.

cc: Mr. Rohrbacher
Minutes of a meeting between Maureen, Shadb and Gabriel on June 19, 1972

Mr. Gabriel began by saying that he had not been prepared to discuss the regionalization scheme, which seemed to be on everybody's mind, but responding to Mr. Shadb's request for an indication of his views, he said that regionalization appealed to him as offering a net improvement over the present state of affairs. He thought that there were times in the evolution of an organization when change became desirable almost for its own sake as a means of getting established tenets reviewed and overhauled. He said it was a toss-up whether the benefits of including the Controller's disbursement staff and some lawyers in the regional bureaus made up for the drawbacks; he did not have a view on how the Economics Department could best be fitted into a regionalized organization. He agreed that regionalization was no cure-all and that it would not completely resolve the problem of conflicting priorities on the part of staff working on several countries, but thought that the task-force concept and the idea of giving each region most of the tools it needed to carry out its assignment offered important advantages over the present arrangements under which responsibilities were diffused and no one seemed truly accountable for resources and results.

Mr. Gabriel felt the "working party" had been abolished just at a time when it could have made its greatest contribution to facilitate the absorption of large numbers of new staff. He conceded that under some inept chairmen working parties had also wasted time and delayed action.

Mr. Gabriel agreed with Mr. Shadb that a prime goal of any reorganization was the establishment of accountability. He thought that regionalization would further this objective, because the performance of the regions could be compared, there would be an element of competition, and it would be easier to establish yardsticks of performance which now were lacking.

As an interim measure on the way to regionalization or to try it out, Mr. Gabriel agreed that "regional" divisions could be established within existing departments and thought that this was already being done to some extent. He was concerned that mobility of staff between regions not be curtailed under any change.

In another aside, Mr. Gabriel said he thought that many of the benefits of reorganization could be obtained without the disruption accompanying it if the Bank made a more concerted effort to adapt existing procedures. He said that it made little sense to run the organization in roughly the same way as it had been run 10 years ago when staff and volume had more than tripled in the interim. As an example, he listed the present methods of preparing projects for Board discussion. He thought the documentation could be further simplified and shortened without damage to quality and substance.

On the financial side, Mr. Gabriel thought there were two basic alternatives. One was to group the financial and administrative service functions, including BFO, under the VP - Finance and Administration, under the scheme, more of the substantive fund-raising activities now handled by the VP would
fall on the Treasurer, who seemed unutilized at present, thus leaving
the VP free to spend time on the other departments in his portfolio. The
other alternative was to combine the VP-Finance and the Treasurer's
positions in one, to recombine the present Treasurer's and Controller's
staff in a financial services department and to eliminate the Controller's
position.

Turning to the Controller's Department, Mr. Gabriel said his department
at present handled some activities normally in the Treasurer's area and was
not responsible for others normally in Controller's. As example of the
former, he said that Controller's provided complete back-up for all investment
work to Treasurer's and had de facto the investment responsibility for M&F;
the Investment Division consolidated in Treasurer's at the time of the split-up
of the two departments had never been staffed. He agreed to prepare a note
for Mr. Shoab on the relative roles of Treasurer's and Controller's in
respect to the handling of investments. As example of the latter, he thought
that the budget and financial projection functions assigned to P & B. should
more appropriately be handled by Controller's. Mr. Gabriel felt that one
organizational unit, whatever its name, should be the primary source of
financial information for the Bank Group. Also, the Bank had to decide whether
it wanted to have the appearance or the substance of budgetary control; he
agreed that transfer of the responsibility from one organizational unit to the
other would not bring improvements unless the management was firmly behind
the effort to improve control. He added also that the Bank had more to gain
from improving the financial decision-making process than from improved control
over administrative expenses but that as a taxpayer-supported entity the Bank
had to be concerned about its image.
INVESTMENT FUNCTIONS IN THE WORLD BANK GROUP

The investment functions relate to the management of liquid assets of the Bank Group and its Trust Funds. The purpose of this note is to summarize the present distribution of the related responsibilities between Treasurer's and Controller's.

1. Cash Management

Treasurer's is responsible for day-to-day handling of cash balances.
Controller's provides back-up services, forecasts cash-flow, schedules cash requirements, and daily determines the amounts of funds that can be invested or may be disinvested.

2. Investment Decision

Treasurer's makes the decisions on investing liquid assets, except that for IDA and Trust Funds Controller's has de facto responsibility for these decisions. Treasurer also decides, based on Controller's forecasts of requirements, what currencies to recall for borrowers and what currencies to invest or to use for disbursements, all with the objective to optimize the return on investments.

3. Transactions

a. General

Treasurer's and Controller's share the task of executing investment transactions. This task comprises initiating purchases, sales, switches and opening or closing time deposits by cable, telephone or letter. As a rule, transactions that require negotiation, like the opening of US Time Deposits or purchases of large amounts, are executed by the Treasurer's. Controller's initiates routine transactions like purchases and sales of treasury bills.
b. IDA

Controller's has reached agreement with several member governments
to invest their IDA contributions in certain types of investments
that are stipulated by the respective government. When such invest-
ments mature, Controller's determines the amount and maturity of the
investment in accordance with IDA's anticipated cash requirements.

4. Analysis

Controller's prepares financial analyses for investment switches and other
major transactions.

5. For accounting and Reporting

Controller's is also responsible for the accounting and reporting on
investment holdings, transactions, yields and capital gains or losses.

6. Staff Retirement Investments

Investment decisions are made by two outside advisors under the general
direction of the Investment Committee; accounting and reporting for the
staff retirement fund is a function of the Controller's.

GENERAL

The present distribution of the investment responsibilities between
Treasurer's and Controller's Departments has developed after the split-up of
the two departments. The Treasurer and the Controller agree that the present
arrangements make most efficient use of the staff involved and have contributed
to the improved results obtained on the Bank's liquid assets.

June 27, 1972
Dear Shoaib:

I read over the draft McKinsey report on the plane coming to Europe yesterday and, as promised, I am writing to give you my impressions. I do not have time to set forth my views at length, but since you are familiar with them I don't think it is necessary in any event. In the body of this letter I am making the points which seem to me to be of major importance; minor comments are set forth in the attachment.

1. The report seems to me a vast improvement in presentation over its immediate predecessor.

2. I think McKinsey makes a persuasive case for almost all the steps it recommends up to the final step of "substantial modification of basic structure". The report states that the changes recommended through step 4 "come very close to meeting most of the objectives of change" (p. 2-10). The only additional arguments for going to step 5 are that somehow this step will make the other changes easier to accomplish (the opposite could easily be argued), and, more importantly, the concept that step 5 would firmly establish "accountability for country program development and achievement of planned program results" (p. 2-11). It seems to me that this concept, while admittedly of some validity, is far more applicable to a commercial venture than to an institution such as the Bank.

Mr. Mohamed Shoaib
Vice President
International Bank for Reconstruction and Development
Washington, D.C.
The establishment of accountability, in any event, is not even possible at this stage under step 5. As against these doubtful advantages, adoption of step 5 now would cause a major disruption of staff and would inevitably create an unfortunately large "pool" of manpower. Accordingly, I do not believe McKinsey has made a persuasive case for adoption of step 5 at this time, and I am not persuaded that a change should be made.

3. The real argument in favour of step 5 seems to me a quite different one than McKinsey has advanced, i.e. that by 1980, or some time sooner, the Projects Department will become too large to be manageable and the Bank will therefore need to be broken up into what will be, in effect, three, four or five regional Banks. It is clear from the figures given by McKinsey that this state of affairs is still a few years off. I think what we should do, therefore, is to move towards solution 5 but delay its full implementations for another four or five years.

4. The way to move towards full implementation, it seems to me, is to make now almost all the changes which McKinsey recommends but propose should be delayed because of the disruption which would be caused by step 5. In other words, I would take the first four steps recommended on page 2-2 and, in addition, most of the other recommended changes in the rest of the Bank's structure, all of which would facilitate adoption of step 5 at an appropriate later stage when it could be done without creating a large pool. Proceeding in this way would mean creating the position of Executive Vice President immediately and avoiding the unnecessary step of having a Senior Operating Vice President. It would also give us ample time to work out the substantial personnel reassignments which step 5 involves.

5. I have some doubt whether the new Vice President - Finance should be responsible for IDA Replenishment as well as for Bank marketing operations and financial policy. Dealing with the market and dealing with governments are two very different things. Depending upon the personalities involved, the IDA Replenishment task could be assigned to any of three persons: the Executive Vice President, the Vice President - Finance, or the Vice President - External Affairs.

6. I believe there is a real question whether the planning and evaluation functions should be combined under a single Vice President. My reaction, in the absence of discussion of the problem, is that there should be a Vice President - Planning, and that the evaluation function
should be assigned to the Senior Vice President for Economic and Technical Policy. Similarly, I do not see any particular merit (although there may be some) in transferring responsibility for "organization and processes" from the Vice President - Management Services to the Vice President - Planning and Evaluation.

7. I believe the recommendations on page 3-13 with respect to IFC are inadequate. To give the Executive Vice President of IFC the title of Vice President of the Bank seems appropriate, but so long as he is responsible for IFC operations and not for Bank operations, I do not believe that he will be effective in coordinating the Bank Group's overall industrial strategy. As you know, we tried something similar through the creation of the Industrial Coordination Committee, under Bill Gaud, and it did not work. The reason for this, I believe, is that the IFC work is so demanding that the man in charge will necessarily give it priority unless he is also responsible for the industrial work within the Bank. That is why I proposed, and I still believe it would be desirable, to create a Bank Vice President for Industry and to delegate to him responsibility for supervising the work of IFC, the Industrial Projects Department, the DFC Department and the Economics of Industry Division.

8. A final word about the central economic and policy staff. I still remain of the view that it is unlikely that we will be able to attract and hold quality technical staff for purely staff functions. It is easier to do this with economists who are used to staff functions than it is with technical personnel who are generally operationally oriented. AID never succeeded in getting top-notch people into its central technical group and neither has UNDP where somewhat the same kind of reorganization recommended by McKinsey has been carried out. That is one of the reasons why I think it is important to combine the economic and technical policy groups and to see how they work together before we go through with the full implementations of step 5.

* * * * * *

I don't suppose any of the foregoing will be of a surprise to you but I thought it might be helpful to put my views on paper nonetheless.
I wish I could be with you Wednesday morning.

Best regards,

Sincerely yours,

Att.

Richard H. Demuth
Minor Comments

1. Page iv - ten lines from the bottom - insert the word "more" before the phrase "lending to poorer countries".

2. Page v - six lines from the bottom - delete the word "more" or indicate what comparison is intended.

3. Page 1-4 - five lines from the bottom. It is incorrect to say that water supply is one of the four basic sectors in which the Bank initially established its lending operations. It took a long time -- I think almost until 1960 -- before the management was convinced that water supply was a respectable object of lending. Lending for agriculture preceded water supply by many years.

4. I do not agree that the procedural changes suggested will be facilitated by structural changes. If we want to introduce the proposed procedural changes in the processing of projects, I think the best way to do it would be to convince Messrs. Chadenet and Baum of the desirability of the changes and not to remove Projects personnel from under their technical control.

5. I find the last paragraph on page 2-9 wholly unconvincing.

6. The absence of any evaluation of the contribution of the Development Research Center to the Bank's objectives seems to be a noticeable omission from the report.

7. Page 3-17 - next to last sentence. I believe the projects selected for review should be chosen by the Senior Vice President - Economic and Technical Policy in consultation with the Regional Vice President, instead of vice versa.

8. On page 4-3, in the paragraph numbered 2, "technical assistance" should be added as one of the non-financial assistance activities that the Bank carries out.

9. On page 5-4, the statement "that the slightly 'civil service' atmosphere that prevails can and will be blown away" by the McKinsey recommendations strikes me as a little silly.

* * * * *
I am not commenting on all the exhibits and appendices which I am sure the Committee will go over carefully. I do want to note, however, that I found the very large number of these charts and tables, and the order in which they are presented, thoroughly confusing. I believe a number of them could be omitted without any loss. In particular, I find Exhibit V complicated, confusing and in many respects erroneous. I also do not believe that presentations such as Exhibits XXIV and XXV add much in the case of a sophisticated organization such as the Bank.

One final remark. The "Present Appraisal Cycle" in Exhibit XXVII still does not contain the important step of the "back-to-office report".
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib
FROM: John A. King
DATE: June 21, 1972
SUBJECT: Organization Study: My Views

1. Since I will be on leave when the consultants submit their next effort, I thought it might be useful if I were to set down my ideas on the consultants' work and their proposals for change.

2. As I indicated to you earlier (memorandum of March 23), I have had some reservations about how the consultants have gone about their work. In brief, I think they have spent too much time listening to what people say about the Bank and its operating characteristics and not enough in experiencing and analyzing these characteristics. As a result, they do not fully understand, I believe, some of these characteristics or such matters as how quality is achieved and maintained and the physiology of the project cycle. As a result, their conclusions and recommendations are somewhat distorted. In addition, this approach means that their proposals are based on hearsay, and makes it very hard to examine those bases in a rigorous and objective way.

3. Furthermore, in spite of the number of interviews, I think that for the Projects Departments as a whole there is a feeling or an impression that the interviews have not provided a good coverage of key staff, or conveyed a clear impression of the consultants' objectives or of their interest in trying to understand the whole project cycle or how project work is done.

4. I understand and share the consultants' very real concern for (a) greater delegation, particularly at the top levels of the organization, (b) a country focus in the Bank's work, and (c) efficiency, but I share the fears of the Study Committee that the consultants' Solution IV, as elaborated at present, will provide these benefits at a very high cost and possibly will not provide some of them at all. The reasons for this are summarized in the minutes of the Study Committee, particularly those of meetings on June 12 and June 13, and in a more fragmentary form in my memorandum to Mr. Graves of June 20 on the Presentation of June 8. I also believe that there are other less costly ways of achieving these benefits.

5. The consultants appear to have concluded that risks of reducing project quality should be accepted in the interest of speeding the appraisal report cycle and achieving some of the objectives described above. Solutions I through IV all introduce measures limiting quality control, the most extreme being those in Solution IV where quality control is removed from contact with operations and made ex post facto and where the conditions of work make it unlikely that top quality staff can be attracted to this work. Given the enormous pressures to get on with lending which now exist and will, I believe, persist, it seems highly likely that these measures will, in fact, result in projects of lower quality. It is just so much easier to leave out certain elements of a project such as training or institutional changes, to accept the country's view of the future demand for power instead of making an inde-
2.

dependent analysis, not to require changes in the lending rates for credit projects and the like that these difficult but important elements of projects will drop by the wayside under Solution IV. For this and other reasons, I am opposed to Solution IV, as elaborated at present, and I do not share the consultants' confidence that the gaps, flaws and inconsistencies in it can be so easily repaired.

6. Two other characteristics of the consultants' work also trouble me:

   a) One is the use in the Presentation of June 8 and elsewhere of the word "technical" in describing project work (e.g. item 4 on page 12 - "with the projects departments responsible for the technical soundness of projects"). The technical aspects of a project are only part of the project and certainly not the most difficult part. If the use of this language in describing project work means that Projects Department staff are to be concerned only with the technical side of a project, the concept of a project and of project work has been completely altered and drastically downgraded.

   Current thinking about projects is that they are designed to provide the borrower and the member country not only with a capital investment which will contribute directly to economic development by providing an adequate rate of return but which will also provide such other benefits as the transfer of knowledge and experience, institutional and policy changes or social and human development through training and demonstration. To achieve these results, organizational soundness is at least as important as technical soundness and probably more so. Furthermore, it is well known that analysis of "problem projects" reveals few projects which are in difficulties for purely technical reasons; most of the problems relate to institutional and organizational matters. It seems to me, therefore, that if the consultants really mean what they appear to be saying, they are making a serious mistake which will adversely affect the Bank's work and development generally.

   b) My other concern is over the consultants' apparent concentration, not on the project cycle as a whole from identification through disbursement (or longer in some cases), but on that part of it from field appraisal to Board approval, what might be called the appraisal report cycle. They have concentrated on the appraisal report cycle and on suggestions for speeding it up and have paid little attention to elements of the project cycle outside this and problems to be found there such as delays in disbursements and project execution. Since the main business of the Bank is not to have loans approved but to foster economic and social development, this concentration seems to be wrong.

7. I would favor a solution along the following lines:

   a) Improvements in the planning system. As I pointed out in my memorandum of June 15 to you on this subject, such improvements can and should be made independently of any other structural or procedural changes.
3.

b) Maintenance of the Projects and Area complexes as they now are with the exceptions set forth below:

i) The staff of the Projects Departments would be assigned to the greatest extent possible to countries within a single Area. Scheduling of project work would continue to be under the control of the Projects Departments but Area would be expected to participate in the planning.

ii) The Industrial Projects Department, the IFC, the Development Finance Companies Department and the Economics of Industry Division would be grouped together under a separate vice president in order to achieve a coherent approach to industry and industrialization. To the greatest extent possible staff would be assigned to countries within a single Area.

c) Improvement in procedures. From the beginning of the study, Mr. Demuth has urged the consultants to devote as much thought to improving procedures as to structural changes. I am not certain that all of the procedural improvements suggested in the consultants' proposals of June 8 will work as they suggest, but some of them are worth trying and I understand there are more ideas which have not yet been displayed to the Study Committee. I believe that improvement in procedures has considerable potential.

d) Delegation. I believe that some of Mr. Knapp's work in resolving differences between the Area and Projects Departments could be delegated. Some of the problems come up repeatedly - the on-lending rate in credit projects, approval or consultation for appointments to key posts, rate-of-return covenants, expatriate managements and the like. These questions could be delegated to specialized individuals who could act as trial examiners making an initial judgment for review by Mr. Knapp. Alternatively, as you have suggested, these and other responsibilities such as the allocation of IDA funds could be delegated to two or three regional vice-presidents.

I also believe there may be opportunities for greater delegation within the Projects Departments to Division Chiefs and Senior Chiefs of Mission, particularly now that staff is not being increased so rapidly.

8. Such a solution, particularly improvements in planning, would test whether the risks and costs connected with a major structural change like Solution IV need to be seriously considered. If such a solution brought about significant improvements in Bank operations, as I believe it would, it would be unnecessary to consider drastic structural change. On the other hand, if it did not, many of the measures would be elements in or constitute a basis for structural change.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger, Schumacher

JAKing: lb
OFFICE MEMORANDUM

TO: Mr. Michael Graves

DATE: June 20, 1972

FROM: John A. King

SUBJECT: Presentation to the Organization Study Committee of June 8, 1972

1. Because it is difficult at the same time to talk and take notes of the meetings of the Study Committee, I thought it might be useful for me to supplement my oral comments on the Presentation to the Organization Study Committee dated June 8, 1972. I am keenly aware of the very difficult task presented to the consultants and the pressures of time under which they have worked, and I would hope that you would accept my comments, which might appear somewhat critical, as made with the best of intentions.

2. Page 3 - Step I: Understand Bank Objectives: The Study Committee has already commented on the basic statement of Bank objectives, but I find the statement as expressed on page 3 so wrong in tone and emphasis as to give me great doubts of the consultants' understanding of the Bank and its objectives as they exist today.

3. Page 5 - The Table "The Bank's Role is Changing": Such a table is obviously very useful and should be a part of the consultants' report, but the table, as presented, has a number of flaws. Some of these have already been noted by the Study Committee, particularly those relating to supervision and donor coordination, but, if I understand correctly what is meant by the heavy lines and arrows, I am left with a very confused impression. For example, the Bank has been giving advice on country development through the means of general economic surveys since 1949; donor coordination has been going on since 1958 and so on, so that these are not new departures. I believe major work is required on this table.

4. Page 6 - The Bank's Major Management Requirements for Effectiveness: Mr. Demuth has already commented on A. Country Based Approach (i.e., countries determine their own objectives; the Bank helps them in developing strategies to carry them out), and I would join him in his comments. Under B. Technical/Financial Soundness of Projects, a number of points should be made. First, projects should be sound from more aspects than the technical and financial (i.e., economic, managerial, organizational, environmental, etc.). Second, the Study Committee has already raised questions concerning item 7 "Responsibility for reviewing projects should be separated from responsibility for project preparation and execution". Third, I believe responsibility for establishing standards and policies relating to the soundness of projects is already clearly defined and is the responsibility of the Office of the Director, Projects. Conditions, particularly conditions relating to projects, are a matter of judgment, and in arriving at that judgment, considerations relating to the technical characteristics of the project must be balanced against macro-economic and political considerations relating to the country. Responsibility with respect to exercising this judgment is also clearly defined; it is the responsibility of the Chairman of the Lean Committee. You may believe that
this responsibility is located in the wrong place, but at present it is
clearly defined. Fourth, as was reflected in the discussions of the Study
Committee, the conditions set in items 9 through 14 were not fully met by
Solution IV, as elaborated at present.

5. Page 7 - Summary Evaluation of Current Bank Organization; Item 2 sug-
gests that Area Departments are unable to exercise any control over the
activities of other departments with relation to the countries for which they
are responsible. I do not believe the situation is nearly as bad as you
suggest here and I wonder if, in fact, you really mean to say that it is. In
my experience with training activities, for example, the Projects Departments
are rather careful to work closely with the Area Departments in this politi-
cally sensitive area.

In Item 3 you suggest that the dual organization structure prevents effective
delegation to resident field missions. I question whether that is the real
cause of this problem. I submit that there are more fundamental causes -
one human and one substantive. The human reason is that some technical staff
in the field offices have been recruited directly to work in these offices
without prior work at headquarters. As a result, technical staff at head-
quarters often do not know them personally and have not had the experience of
working with them. Under the circumstances, it is difficult for technical
staff at headquarters to delegate full responsibility. A more serious diffi-
culty, I think, is that technical work has many aspects and a single person
in the field may not have the capacity, experience, and training to cover all
these aspects. It is, therefore, impossible to delegate full responsibility
to him.

Item 5 suggests that operating procedures are too inflexible. I would submit
that they have considerable flexibility. For example, the degree of detailed
engineering required before presentation to the Board varies according to the
type of project. I have already commented on the fact that repeater projects
are not necessarily easier to process than new projects. I am not sure what
you mean by "simple loans". I would like to see substantiation of the state-
ment that "standard conditions are often applied irrespective of the nature
of the project and the specific problems of the country".

Item 6 suggests that it is difficult for some Projects staff to develop an in-
depth country knowledge. I would concede that more could be done in the way
of allocating technical staff to certain countries so as to acquire in-depth
country knowledge, but I would point out that substantial numbers of technical
staff do have in-depth country knowledge already, and that under any organi-
zational arrangements a certain number of technical staff will never have in-
depth country knowledge because they will always have world-wide responsi-
bilities. I would also add that tying technical staff too closely to
particular countries may limit their professional development and make the
working climate less appealing.

Item 7 implies that under the existing organization, quality might be sacrifi-
ced under pressure for lending because of the lack of an independent unit
with exclusive responsibility for policy formulation and quality control. As
was pointed out by Mr. Demuth, the Office of the Director, Projects, as presently
constituted and operating, provides quality control. In fact, in other parts
of the Presentation one gets the impression that the consultants believe it
provides too much quality control. Consequently, I do not think the risk of
poor quality is a serious one under the existing organization, but I do believe, however, that quality control may well suffer under Solution IV precisely because it is to be exercised ex post facto by a unit divorced from operations.

Item 8: I would submit that the establishment of policies and quality control standards is already the highest priority task of the Office of the Director, Projects.

Item 14 suggests that the project cycle seems over-elaborate and leads to unnecessary delays in the execution of projects. I am not sure whether you are referring to the entire project cycle (i.e. from identification till the loan is fully disbursed) or to what I might call the appraisal report cycle. I would submit that what may appear to be delays in the appraisal report cycle are often necessary to insure proper conditions and understandings necessary for successful execution of the project and may well shorten the total project cycle. As far as the overall project cycle is concerned, I would be interested in seeing any substantiation of the conclusion that procedures and practices relating to it are over-elaborate and time consuming.

6. Page 10 - Solution I: Mr. Demuth has already noted that Item 1 for improvement of Economic Work reflects steps which have already been taken. Item 1 under Project Work requires several comments. First, I have already commented on the differing characteristics of various repeater projects. Second, project preparation and appraisal are already very closely related and over the years numerous steps have been taken to have preparation work done in such a way as to facilitate and expedite appraisal.

Item 2 under Project Work reflects some misunderstandings. First, Area Departments receive copies of the white cover appraisal report as a matter of course. Second, in the past, loan documents were not prepared until after the green cover report had been approved by the Loan Committee. This often resulted in considerable delays in sending the invitation to negotiate. Today, however, the loan documents are prepared earlier and the invitation to negotiate goes out very shortly after approval of the green cover by the Loan Committee. Third, it is true that the President’s Report is prepared sequentially after the green cover and perhaps after negotiations are completed, but it is not on the “critical path” leading to Board presentation because the time required between negotiations and Board presentation for the government’s approval of the loan agreement as negotiated is more than adequate in most cases for preparing the President’s Report.

Item 3: The comments relating to the rewriting of the reports do not reflect the multiple purpose which these reports serve.

Item 1 under Loan Administration: I am not sure what is meant by "a gap in project implementation between appraisal and Board approval". The government needs a certain amount of time to approve the loan as negotiated. In recent years the Board has been very sensitive about retroactive financing. And Part I countries complain that accelerated procurement procedures before Board approval handicap the Bank's efforts to secure international competitive bidding.

Item 2: I would concede that supervision is a mixture of audit and providing assistance in the implementation of projects, but I am not sure what operational significance attaches to this. The Bank's philosophy of supervision has always
been that supervision is not for the purpose of pointing out errors or allot-
ting blame, but for the purpose of anticipating problems which may arise and
correcting those which have arisen so that the project can be carried out as
effectively as possible. I am not clear, therefore, on the point of this
distinction.

7. Page 12 - Solution II: Item 4: I am not sure what you mean by the
technical soundness of projects as contrasted with primary responsibility for
operations. If by technical soundness you mean the engineering characteristics
of the project only, Solution II will have rather dire consequences for pro-
ject quality. If, however, technical soundness describes all the elements of
a project for which the Projects Departments now have responsibility I do not
quite understand what Item 4 means.

8. Page 14 - Solution II - Examples of Delegation: Am I correct in under-
standing that the Office of the Director, Projects would have only ex post
fatto responsibility for quality control?

9. Page 15 - Tabular View of Solution III: I do not see how the organi-
zation presented in this table could work and I believe that to have been the
view of most members of the Study Committee when it was first presented to us.

Planning: As you probably know, steps have been instituted by P & B to
improve operational planning and to relate the aggregate of projects in the
Country Programs with the manpower and financial resources available.

11. Page 17 - Evaluation of Solutions I, II and III: I have already commented
on a number of points made here, including the alleged inability of the Area
Departments to coordinate the Bank’s contacts and activities in particular
countries, the cause of the difficulty in delegating technical work to the
field, the question of quality control by the Office of the Director, Projects
and the related question of responsibility for technical policy formulation
and the decrease in the flexibility of allocating scarce manpower resources
as we move from Solution I to Solution III. A new problem is raised under
Item 5, that of cross-sectoral projects. In recent years I believe the
Projects Departments have made a very considerable advance in working on
cross-sectoral projects - I refer to the work of the Transportation and
Public Utilities Projects Departments in support of Tourism Projects; to the
joint work of the Education and Agriculture Projects Departments in the field
of agricultural education; to the work of the Transportation Projects Depart-
ment in connection with Agricultural Projects and Rural Development Projects and the
like.

12. Page 18 - Solution IV Described: Item A.1 says that the five regional
bureaux would be responsible for maintaining and improving the technical
quality of the Bank’s work. How would they do this if quality control is
located elsewhere.

Item B says that you are not considering recommending structural changes in the
Central Economic Staff. In the oral presentation, however, you hinted that
you were considering such changes. What is the position?
13. Page 19 - Evaluation of Solution IV against Requirements: Item 2 states that each division (by which I assume you mean Area Division) would have wide responsibilities for the Bank's activities in their respective countries. It is hard to see why this should be so since Projects staff will be under the technical vice president who will be reporting, not to the area division chief or even to the assistant vice president program, but to the regional vice president.

Item 3: As I have suggested earlier, there may be technical and human reasons which make delegation to field missions difficult under any structural setup, and I do not believe Solution IV will provide any substantial improvement over the existing organization in this area.

Item 4: I believe that the Country Program Paper should be the basic planning document, and I believe that it should be made more useful and important than it is at present. Solution IV is not necessary to make it so.

Item 5: I agree that operating procedures should be flexible enough to meet the needs of each individual country, but again I do not think Solution IV is a necessary prerequisite for this purpose.

With respect to Items 7 and 8 I have already expressed my doubts that Solution IV would improve the soundness of projects. I am not clear how the technical policy staff would insure that policies and quality standards would be implemented.

For Items 9 through 14, questions could certainly be raised as to whether Solution IV would achieve what the table suggests it would. In other words, Solution IV does not insure the results suggested and in some cases is not the necessary means of achieving them.

14. Page 20 - Evaluation of Risks: Item - the risk of reduced objectivity: I wonder whether ex post facto review of quality will have much practical effect in managing this risk. I believe it will be very difficult to establish management performance criteria that include quality as well as volume considerations. Looking at the project cycle as a whole rather than concentrating on loan approval will have some beneficial effect, but it may lead to too much emphasis on quick-disbursing projects.

Item - risk of reducing creative tension: I believe that dividing up the Projects Departments and placing technical staff under the control of bureaux will tend to reduce the determination of technical staff to insist on those aspects of quality which are difficult from the political point of view. To what extent, I cannot estimate, and the results may not be altogether bad, but I do not believe that you can state that creative tension will be maintained at the same level as under a system that unified technical staff. How will the technical policy staff become involved in the project cycle at an early stage? It would seem that the incentives would all be in the other direction.

Item - risk of reduced cross-fertilization: I believe that the steps suggested to manage these risks will be reasonably effective, though to the extent that technical staff are rotated among the regional bureaux, their familiarity with
particular countries will be reduced. However, it should be pointed out that technical staff working on particular types of projects benefit from being in a coherent group of a reasonable size so that they can discuss technical problems with colleagues. The allocation of staff among the regional bureaux may make these groups too small for this purpose so that this benefit may be lost.

Item - risk of reduced flexibility in allocating technical staff: The measures proposed for managing this risk seem to be sound, but I think it is unrealistic to expect much lending of technical staff from region to region.

Item - the risk of policy staff becoming too remote from operations: This risk is very real and I am not sure how it can be managed. Your suggestions 1 and 2 sound very well, but I am not sure that they will work in practice. The same may be said concerning the difficulties of attracting qualified staff for this work.

15. Page 22 - Terms of the Industrial and Private Sector Work: I understand that the Development Finance Companies Department is capable of being easily divided among the regional bureaux, but I wonder whether this is, in fact, the best solution for work in the industrial private sector area. I was taken with Mr. Demuth's suggestion of grouping IFC, DFCD, Industrial Projects and the Economics of Industry Division so that coherent policies and practices in the industrial field could be worked out. Why do you believe that a task force suggested in paragraph 6 on page 23 would work any better than the existing Committee with the same terms of reference.

16. Page 27a - Summary Basic Responsibility: It is not clear to me how the staff from the central technical operating staff will be allocated to the regional bureaux.

17. Page 27b - Description of Basic Responsibilities: How does the assistant vice president program resolve operational and scheduling conflicts with the vice president technical? How does the program division chief manage all aspects of the operating cycle in his country, including the identification, preparation and appraisal of projects (why not supervision too) if the technical staff are not under his control? How does the program division chief provide appropriate implementation assistance for project administration? Does the chief economist provide guidance to the Project economists as well as to the Area economists or does guidance for Project economists come from the office of the vice president technical policy? Who are the senior regional managers that the planning and control officer provides staff assistance to?

With respect to the probable initial staffing requirements of the technical policy staff, I have the following questions (Page 34):

Who is the Project procedures adviser, is this a new post?
What has happened to the existing assistants of the various advisers?

18. What has happened to the Loan Committee?
How will IDA funds be allocated?
How will differences between technical policy staff and the regional bureaux, and among regions be resolved?

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger, Schumacher

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**Remarks**

For your organization papers

**From**

M.J. Allred  A.1215
TO: Mr. Mohamed Shoaib
FROM: John A. King
SUBJECT: Organization Study: The Planning System

DATE: June 15, 1972

1. One of the basic complaints heard repeatedly in the course of the organization study is that the Projects Departments can, and do, effectively negate country development plans, as expressed in the Country Program Papers, by their failure to allocate staff to do the project work necessary to bring the project to the Executive Directors for approval. As a description of what happens, this complaint is only partially true, and by itself, it does not provide a justification for structural change.

2. In considering this problem it is important to distinguish between:
   a) constraints on project work imposed by manpower shortages, and
   b) technical considerations relating to the project, the sector or the borrower which affect the justification of the project itself or its timing.

By the latter I mean, for example, such considerations as capacity of the sector or the borrower to absorb the project in question in the time indicated, the need for institutional change, the passage of legislation, the availability of data, and the like.

3. As far as constraints imposed by manpower shortages are concerned, I understand that only two sectors are affected - agriculture and, to a lesser degree, education. In the Agriculture Projects Department there is a real shortage of staff to do project work and this may make it impossible for that Department to do all the project work called for by the Country Program Papers in the time allotted. The Education Projects Department finds itself in a similar, though less serious, position. The charge, therefore, may have merit for some projects in these sectors, but this is not the case for the other Projects Departments, as I understand the situation, and there is therefore no need for them to do what is complained of.

4. Solution IV will, in my judgment, make the situation worse, as far as constraints imposed by shortages of manpower are concerned, by reducing flexibility in the use of skilled manpower. In agriculture the problem will be particularly acute because in working out the allocation of technical staff, the consultants appear to have assumed that agronomists are completely fungible whereas in fact they are not, particularly in General Agriculture. Though the regional vice president will be able to determine priorities within his region and assign technical staff under his control accordingly, less staff, in effect, will be available for all his projects than there is under the existing system. And Solution IV, as elaborated at present, does not resolve the question of determining priorities between projects in different regions when there is insufficient manpower in the "pool".
5. As far as technical considerations relating to the project or the sector are concerned, the Projects Departments must, when marshalling their manpower, take these considerations into account, for it is a waste of scarce resources to appraise a project which is not ready for appraisal. It may appear, therefore, that a Projects Department in scheduling its work is negating a Country Program by not scheduling work on a particular project for reasons of this kind. But the root of the problem is found in the project itself and not in the actions of the Projects Department in question.

6. It is hard to see how Solution IV will change this situation. It will not make projects ready for appraisal when they are not and presumably the regional vice president will not want to waste scarce manpower in appraising projects which are not ready for appraisal. Solution IV will permit him to assign manpower to particular projects to try to bring them to the appraisal stage more rapidly, but this will be at the expense of other project work and he may find that this use of scarce resources is not the most effective one, because some of these technical difficulties are of a kind which are not solved by the assignment of Bank staff. He will also be able to downgrade the importance of certain technical considerations which may be delaying the appraisal or presentation to the Board, but this may well cause difficulties and delays in project execution and prevent the project from achieving its objectives.*

7. It seems to me, therefore, that before any rational choice can be made among the existing organization and the consultants' proposed solutions, some effort should be made to develop a mechanism for improving the planning system so that the various priorities can be determined and the aggregate of Country Programs can be reconciled with the technical manpower available for executing them. I believe that such improvements would have the effect of removing much of the basis for dissatisfaction with the existing organization. P & B has just initiated such an effort (a copy of their proposal is attached).

8. The consultants' outline report of June 8 places improvement of planning in Solution III. While this enhances the elegance in the gradation of change from Solution I to Solution IV, it seems to me quite arbitrary because improvement in the Bank's planning system is needed in any of the Solutions and has in fact been initiated, as noted above, within the existing organization.

Attachment

cc: Mr. Christoffersen

* This point is made in greater detail in my memoranda to you of May 23 concerning project "quality" (particularly paragraph 7) and June 5 concerning the project cycle.
OFFICE MEMORANDUM

TO: Area, DFCs and Projects Department Directors

FROM: John Blaxall

DATE: June 9, 1972

SUBJECT: Programming of Lending Operations

1. It is essential that realistic processing schedules be prepared for all operations being processed. At present there are two different senses in which schedules are not realistic. On the one hand, projects in the operations program often have individually unrealistic schedules; the answer to this problem is to ask Loan and Project Officers to pay more attention to the timing of projects than seems to be the case at present. As soon as we have finished analyzing the FY72 outcome, we will provide departments with a set of tables showing the distribution of actual processing times of projects approved by the Board in the last four fiscal years. On the other hand, too many projects are included in the operations program, particularly for the period 13 to 25 months ahead. Some overprogramming is, of course, desirable, since we know that there will be delays and difficulties in some of the projects, and we allow for this slippage. From time to time, however, we find ourselves facing a more than the normal degree of overprogramming; for example we already know that we will not have the capacity to process all the projects now in the operations program for FY74, even after allowing for normal slippage. And the process of trimming down the FY74 program will no doubt lead initially to overprogramming in the operations program for FY75.

2. The solution must therefore be some method of regularly rationing the Bank's scarce project processing capacity (and more particularly the Agriculture Projects Department's capacity). In doing this departments should not be inhibited from proposing changes in the program, especially in connection with Country Program Reviews; a project should not have priority just because it has been in the operations program for a long time. At the same time, we should prevent the development of "bulges" in the operations program, such as the one which has now developed in the period 13 to 25 months ahead, and which we shall soon have to reduce rather drastically.

3. It has therefore been decided to establish a regular quarterly rationing procedure along the following lines. At the end of each quarter, P & B will ask each of the Projects Departments affected by overprogramming to make recommendations on which projects, from the sector or project perspective, should be postponed or dropped from the program. The recommendations will take into account the state of project preparation, the need for continuity in a sector, institution building aspects, and so on. They will be addressed to Area Departments, with copies to Mr. Knapp, Mr. Aldewereld and P & B; to the extent that issues are not resolved in discussion between the Projects and Area Departments, they will be compiled by P & B for discussion with Mr. Knapp and Mr. Aldewereld, and for final decision by Mr. Knapp.
4. The effect of this procedure will be to eliminate at the beginning of each quarter all excessive overprogramming. During the following three months a few new projects (or advancements of old projects) may enter the operations program, but this rationing would take place at the end of the quarter and prevent any large "bulges" from developing in the program.

5. Immediate action is needed with regard to the FY73 operations program. As far as we can ascertain, the Agriculture Projects Department is at present the only one where uncertainty about the most appropriate composition of the operations program exists. I have therefore addressed a separate memorandum to Mr. Evans inviting him to make recommendations along the lines mentioned in para. 3. Other departments are, of course, free to do the same. The memoranda should reach the Area Departments by the close of business of June 16. If necessary, Messrs. Knapp and Aldewereld will meet in the week starting June 19 to discuss open issues.

6. With regard to FY74, we propose to wait till after Mr. Aldewereld's next review of that program before inviting rationing suggestions. Meetings to review the FY74 program will take place in mid-July.

7. In order to focus special attention on this matter, two small changes in our other procedures will be made. The first is that in Attachment 1 to the Country Program Paper all projects which are either completely new or were previously scheduled for later years should be marked with an asterisk against the amount. The second is that in Table IVb (showing the operations program for each year) any projects added to the year's program since the last quarterly round of rationing will be specially marked.

H. Schulmann/J. Blaxall/ed

cc: Messrs. McNamara, Knapp, Aldewereld, Chenery, Cope/Williams, Chadenet/Baum
OFFICE MEMORANDUM

TO: Files
FROM: John A. King

DATE: June 19, 1972

1. On June 13, 1972 the fourteenth regular meeting with McKinsey was held; present were Messrs. Shoaib, Demuth, Twining, Christoffersen, Messenger and King for the Bank and Messrs. Rohrbacher, Graves, and Lynn for McKinsey. The purpose of the meeting was to continue the review of the outline of the proposed report submitted to the Study Committee on June 8.

2. The first topic was the proposed compromise, "Solution 3.5", submitted by Mr. Christoffersen on June 8, under which project appraisal would continue to be done by a central group resembling the existing Projects Departments and identification/preparation and supervision would be done by technical staff in the regional bureaux.

   a) The rationale for this alternative suggested by Mr. Christoffersen was that it was a less drastic step than Solution IV, maintaining the existing Projects structure, but would have most of the advantages of Solution IV. It would also meet some of the difficulties foreseen in the quality control and technical pool unit, if it were combined with them, by providing a more rewarding working climate for professional staff and by associating policy staff with operations.

   b) The consultants indicated that one serious consequence of the proposal would be that only 2:10 of the Projects Departments staff could be assigned to the regional bureaux under this solution (with about 176 assigned to the appraisal unit and the balance in the pool) as contrasted with 400 allocated to the regional bureaux under Solution IV.

   c) In the consultants' view, this solution was subject to three major defects:

      i) It diluted the regional approach.
      ii) It was more vulnerable to scheduling problems.
      iii) It introduced discontinuities into the operational cycle.

   d) Several members of the Study Committee considered the proposal unworkable for two major reasons:

      i) It was unrealistic to consider breaking up the project cycle which was a continuous process.

      ii) It would be difficult to identify appraisal staff as opposed to other technical staff working on projects. Appraisal staff were not necessarily those with the highest skills or specialists as contrasted with generalists.
2. e) It was concluded that this alternative did not seem worth considering further, though discussing it had generated many interesting insights relating to the other alternatives.

3. Mr. Rohrbacher pointed out that the consultants had concluded that there were three major reasons for changing the Bank's structure and style of operations.

a) As a result of growth in the Bank's size and in the variety of activities it was undertaking, top management was overloaded. Delegation of some sort was necessary. The consultants believed that this view was widely held in the Bank.

b) The Bank was taking a broader view of development needs and as a result was entering new fields of lending and providing a broader range of services. For this to be effective, there should be a better integration and interrelationship of projects in particular countries. There was therefore need for a country focus resulting in a country strategy. The consultants believed that this view was also widely held in the Bank, though less widely than (a).

c) In order to ensure efficiency in the use of the Bank's resources and effective impact on country development, there was need for improved management techniques. The consultants believed that there was considerable support in the Bank for this view though less than for (a) and (b).

Mr. Rohrbacher went on to say that the consultants had examined every conceivable structural alternative for meeting these criteria and had concluded that Solution IV provided the best answer. He said that if the Study Committee did not agree with these criteria of delegation, country focus and efficiency, it should say so.

4. There was general support in the Study Committee for the criteria but there was considerable doubt that Solution IV, as elaborated at present, met them at all or met them without excessive cost. It was pointed out that more delegation could be achieved in other ways, as could country focus. It was suggested that the existing organization made more efficient use of the Bank's resources of technical manpower than Solution IV.

5. Mr. Rohrbacher pointed out that the consultants were advocating not only structural change but changes in processes and in managerial style and that the latter two were easier to achieve when accompanied by structural change than without it. He also conceded that a line/staff organization (Solution IV) was more difficult to run than a line organization.

6. Mr. Rohrbacher went on to say the consultants were convinced that Solution IV was the best alternative and that, given time (it was not clear how much but more than a fortnight), they could correct the flaws, difficulties and inconsistencies in the existing presentation of this Solution. To do so, however, would be much easier if a decision, in principle, to go ahead with Solution IV were taken and if key appointments were made so that the consultants could work with these persons on implementation. Mr. Rohrbacher implied that the consultants had thought that Mr. McNamara would be prepared to make such a decision before discussions with the President's Council and Senior Staff. Mr. Shaib said that this had never been the case and that Mr. McNamara wished to get the views of these bodies before making up his mind.
7. It was agreed that the meeting scheduled for June 16 would be postponed a week and that the consultants would prepare a paper which would make a "persuasive case for the core organization" (i.e., the projects/area solution) in the perspective of a skeleton outline of what, in their view, should be the final ideal organization for the entire Bank.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger

JAKing: lb
1. On June 12, 1972, the thirteenth regular meeting with McKinsey was held; present were Messrs. Shoaib, Denuth, Twining, Christoffersen, Messenger and King for the Bank and Messrs. Rohrbacher and Lynn for McKinsey. The purpose of the meeting was to continue the review of the outline of the proposed report submitted to the Study Committee on June 8. Mr. Shoaib once again emphasized that no decisions had been taken and that all options were still open.

2. The discussion began with a statement of objectives prepared by Mr. Sommers. It was agreed that a revised form of that statement, which follows, would be an improvement over what had been stated in page 3 of the consultants' outline. There was no discussion as to whether this relatively brief statement was fully sufficient.

The World Bank Group is a complex of international organizations whose basic objective is to promote, in the interest of all its member countries, the development of its less developed members, primarily by mobilizing and providing capital, by furnishing technical and other advisory services and by assisting and, where appropriate, coordinating similar activities undertaken by others.

3. There was considerable discussion of the consultants' Solution IV and most people present found difficulties with it, some believing the costs involved were greater than the benefits, although a number of them were basically sympathetic to the concept of regionalization. The principal points made were:

a) Under the present system the Area Departments were subject to control from three sources of authority - the Chairman of the Loan Committee, the Office of the Director, Projects, and the Economic Adviser. Under Solution IV this problem would persist because the senior vice president for operations would exercise a control similar to that of the Chairman of the Loan Committee, the vice president technical policy would exercise a control similar to that of the Office of the Director, Projects, and the vice president economic policy would exercise a control similar to that of the Economic Adviser. In the discussion which followed it became apparent that the vice president technical policy would not have the same measure of control as the Office
of the Director, Projects, because all quality control would be *ex post facto*. Nevertheless, he would have some measure of control through allocation of the technical staff in the pool.

b) There was concern as to how well quality control would be maintained if it was exercised only *ex post facto*.

c) It was pointed out that under Solution IV the regional vice presidents would not control all the resources necessary to carry out their functions because they would be dependent upon the technical pool. This might lead to a distortion in lending with regional vice presidents pursuing projects for which they had the resources at the expense of projects which would have to be prepared, appraised and supervised out of the pool.

d) Solution IV reduced the flexibility in assigning technical staff and made for a less efficient use of skilled manpower. It also tended to isolate specialists from others working on the same technical problems. Arrangements for quality control suffered from two defects. It would be difficult to attract high quality staff for this work because it was so remote from operations and completely *ex post facto*. The quality of the work of the staff on matters of policy and quality control would suffer because of the remoteness of staff from operations.

e) A number of people were concerned about the size of the pool. It was pointed out that the Bank's experience with large pools of manpower had not been good. Administration of the pool and allocation of its resources would be very difficult. If planning techniques for the allocation of pool staff could be developed, they could also be developed for all Projects staff under the existing organization. It was suggested that as far as Area Division Chiefs were concerned Solution IV was more complicated than the existing organization in that they would have to deal with two sets of technical staff - the Projects Department within their regional organization and the technical pool. The consultants suggested that further refinements might result in decreasing the size of the pool, but some of the assumptions on which staff had been allocated under Solution IV were challenged, particularly the assumptions that any staff member with a grade of 'C' and two years experience could be a Mission Chief, that 1.5 appraisal teams per sub-sector per region were adequate, and that certain specialists, such as agronomists, were as fungible as assumed - so that the size of the pool might have to be increased. In connection with the pool, a number of questions were raised concerning the morale of staff assigned to the pool, whether it would be more difficult for them to have a satisfactory career, promotion and the like.
f) It was noted that Solution IV, though it permitted increased delegation (from one vice president to five vice presidents) made it much more difficult to coordinate policies and practices and to insure quality control.

4. The consultants stressed their strong belief that Solution IV was the best solution. Under the present organization, the President had no one to whom he could delegate except the Chairman of the Loan Committee and it was very important for him to have the possibility of further delegation. Solution IV provided this opportunity. Furthermore, some kind of reorganization was absolutely necessary because of the size of some operating units and because of the breakdown of the existing system of creative tension between Area and Projects. Solution IV also helped to blend country and technical expertise and tended to facilitate the management of field offices. The consultants did not vouch for the accuracy of the staff allocations under Solution IV; they had been made merely to test its feasibility. The consultants believed that an early decision on the "core organization" was required. They appeared to believe that many of the difficulties mentioned above could be worked out after that decision had been reached.

5. A number of other points were made:

a) The outline (on page 7) was critical of the Country Program system. It was pointed out that this system was new, was being improved and was capable of further improvement. The consultants indicated that in fact they shared this view and that the outline would be rewritten to remove any doubts.

b) It was urged that economic and technical policy work should be merged and that economic and technical staff doing sectoral work should be merged. The consultants indicated they were studying this question and might make such a recommendation.

c) It was pointed out that repeater projects were not necessarily easier to process than new projects. They might be so from a purely technical point of view, but not from the institutional or financial points of view for example. In addition, projects were tending to become more complicated and more elements were being included in design and appraisal with the result that more effort was required.

6. There was some support for a solution, something like Solution II, under which the existing Projects organization would be maintained but staff within the sectoral departments would be assigned as much as possible on a regional basis, and under which the Country Program system would be improved to provide a better matching of technical resources for executing programs with the programs themselves.
7. Mr. Shoaib indicated that the discussion would continue on June 13, that the consultants could rewrite the outline on June 14 and 15 and the revised outline could be discussed on June 16. *

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger

*Subsequently this schedule was altered by cancelling the meeting on June 16 and setting it tentatively for June 23.
1. On June 8, 1972 the twelfth regular meeting with McKinsey was held; present were Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger and King for the Bank and Messrs. Garrity, Rohrbacher and Graves for McKinsey. The purpose of the meeting was to review an outline of a proposed report to present to the President's Council (and possibly Senior Staff) the recommendations of the consultants. The outline was presented to the Study Committee only at the meeting and the discussion which followed was based on a hasty reading. It was agreed that the report would be further discussed on Monday and Tuesday, June 12 and 13, at 3.00 pm. In addition, there would be a further meeting of the Committee on Friday, June 16, at 3.00 pm. It might also be necessary to hold additional meetings between Tuesday and Friday. It was also agreed that the consultants would attempt to up-date the report periodically in the light of the comments received at these meetings.

2. Mr. Shoaib pointed out that it was the responsibility of McKinsey to prepare and present their conclusions and the responsibility of the Study Committee to review those conclusions and make recommendations concerning them to Mr. McNamara.

3. The consultants pointed out that in this report they were presenting four alternative solutions to the Bank's need for procedural or structural change. These alternative solutions were built one upon the other so that Solution II included elements of I and Solution IV (formerly Hypothesis II) included elements of all three preceding solutions.

4. A number of specific points were made:

   Page 3 - Objectives: There was considerable criticism of the basic statement of Bank objectives by the Study Committee and it was concluded that in its present form it was unsatisfactory. There was a difference of view in the Study Committee as to whether any statement of Bank objectives was needed in the consultants' report. This question was not resolved.

   Page 5 - Tabular View of the Bank's Role: The concept of a tabular presentation of this kind was accepted but the details of the broad presentation were criticized in several respects, in particular the treatment of supervision and donor coordination.

   Page 6 - The Bank's Major Management Requirements: The Study Committee pointed out that the report should make it clear that the Bank did not assist countries in determining their social and economic development objectives (that was the countries' responsibility) but assisted them in developing strategies to achieve these objectives.
It was agreed that item 7. was unclear and that the consultants would rephrase it. They apparently intended the paragraph to refer to quality control for project and economic work within the Bank.

Page 7 - Summary Evaluation of Bank Organization: Though the Committee was in general satisfied with the right-hand column of the table a number of reservations were expressed with respect to items in the center and left-hand columns. In particular, there was discussion of quality control and an affirmation that the present Bank structure could not be criticized for failing to provide quality control.

Page 10 - Solution I: Paragraph 1. under "improvement possibilities" described steps which had already been taken within the Bank.

Page 11 - Appraisal Cycle: The Study Committee expressed considerable sympathy for the concept advanced by the consultants of concentration on the substance of the project rather than report writing.

Page 12 - Solution II: The Study Committee questioned the accuracy of the description of some of the functions of the Chairman of the Loan Committee and stressed the importance of the step—approval of the back-to-office report.

5. A number of other more general points were made:

a) Mr. Christoffersen proposed another alternative organizational solution under which:

i) regional bureaux would be created and given the responsibility for project identification and preparation and for project supervision, and

ii) an independent project complex retained with responsibility for appraisal and for technical support when needed for project supervision.

b) Would Hypothesis II or Alternative IV permit the retention of leading project specialists? It was suggested that the consultants in considering the various solutions should consider their effect on:

i) placing existing staff,

ii) requiring additional new staff, and

iii) providing career opportunities for staff generally.

c) Mr. Sommers expressed his long-time concern that a great deal of time was spent in the Bank approving papers instead of actions or steps to be taken, and his belief that this situation should be changed.

cc: Messrs. Shoaib, Sommers, Demuth, Tuning, Christoffersen, Messenger

JAKing: 1b
To: Files

From: John A. King

Subject: Study of Organization and Procedures: Meeting of June 2, 1972

DATE: June 8, 1972

1. On June 2, 1972 the eleventh regular meeting with McKinsey was held; present were Messrs. Shoaib, Somers, Demuth, Twining, Christoffersen, Messenger and King for the Bank and Messrs. Garrity, Rohrbacher and Graves for McKinsey. The primary purpose of the meeting was to bring the Study Committee up-to-date on the work of the consultants. The consultants reported that at their meeting with Mr. McNamara on May 25 they had discussed Hypothesis I - i.e., changes in procedure but no structural changes. They noted that there were many opportunities for change and improvement within the existing organization, but that most of these changes and improvements would be desirable if Hypothesis II were adopted.

2. In approaching Hypothesis I the consultants had attempted to analyze the tasks to be performed and the responsibility for them. These tasks and the responsibility for them were presented in a table which was provided to the Committee at Mr. Shoaib's request. The consultants pointed out that the present organization made it very difficult to assign responsibility to any individual in the Bank for the Bank's producing development assistance; as things stood, these responsibilities were shared. Under their Hypothesis I, therefore, to achieve accountability, they simply assigned to Area responsibility for all decisions including all decisions related to the project cycle. The Study Committee suggested that this solution was an unworkable one and that the real comparison should be made not between Hypothesis I so formulated and Hypothesis II, but between the existing organization with minor changes and Hypothesis II. The consultants appeared to agree to this view but added that they had considered a number of other alternative solutions for a "Hypothesis II" including more delegation of Mr. Knapp's functions, the particular solution described above, and additional tinkering with procedures (they had concluded that the additional tinkering would be required in Hypothesis II and had not pursued this alternative further).

3. The consultants were asked why they believed Hypothesis II was to be preferred over the existing system. They replied that while creative tension between Area and Projects Departments did produce projects of high quality and of undoubted technical viability, it had excessive costs - (a) there was no accountability for delivering development assistance to member countries; (b) it was expensive in time and staff, with decisions made at too high a level, and was inefficient managerially.

4. The Study Committee cautioned the consultants against exaggerating the benefits of Hypothesis II and suggested that Hypothesis II consisted merely of replicating the existing organization and the existing creative tensions within five regional bureaus.

5. The consultants reported that they were due to meet with Mr. McNamara on June 5. They believed he would wish to make a basic decision soon between the two Hypotheses and would announce his decision to the President's Council in about one week thereafter and subsequently also to Senior Staff.
6. There was considerable discussion of presentation of these decisions to the staff and to the Executive Directors. Among the points made by the Study Committee were the following:

a) Any discussion should examine the reasons why procedural changes within the existing organization would not achieve satisfactory results without imposing on the Bank the various costs of structural change.

b) Presentation to the Senior Staff should be postponed until the consultants were in a position to provide a fairly complete picture of any new organization. It would be very important to deal with the future of the Central Economic complex at the same time that decisions were announced with respect to the Area and Projects complexes (the consultants said they were somewhat less advanced in this phase of the work but believed it would be possible to make recommendations within a reasonable time with respect to it).

c) The policy functions of the Central Economic staff should be examined and the question of whether these should be combined with the new technical policy unit should be considered.

7. The consultants pointed out that most of the work on procedure could not be finalized until a regional structure had been decided on, until the regional vice presidents had been appointed and until the technical policy committee had been created. They distributed an outline for a phased program of change (assuming that Hypothesis II would be adopted) and believed that Phase I would be accomplished by the fall, perhaps in time for the Annual Meeting. It was agreed that the consultants would prepare a first draft of "the case for structural change" which would be submitted to the Study Committee for it to shoot at on June 8 at 2:30 pm.

cc: Messrs. Shaib, Sommers, Demuth, Twining, Christoffersen, Messenger

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**Remarks**

For your papers on the Organization study

**From**
M.J. Allred A.1215
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoalib

FROM: John A. King

DATE: June 7, 1972

SUBJECT: Organization Study: The Country Focus

1. One of the points stressed by the consultants is that the Bank's activities should have a "country focus" and this is contrasted with what has been described as one of the deficiencies of past operations, a concentration on individual projects without regard to their relation to the development of the sector of which they were a part or to the priorities of the country as a whole. If one is describing the past, particularly Bank lending in the 1940s and 1950s, this criticism may well be justified to a considerable extent, but it is not, I believe, an accurate description of current policy and practice. Furthermore, the prescription for the future, "country focus", has certain limitations. Both these points will be discussed below.

2. Project Lending Today: While there are limits imposed by technical or political considerations, it is Bank policy today to consider projects in sectoral terms and to examine sectoral needs in terms of national considerations. Bank projects are based increasingly on a study of the sector which analyzes the needs for various types of facilities and determines their economic priority. The analysis also covers policy questions relating to the organization and management of the sector. These studies provide the basis, therefore, for a sound sector strategy and for a rational identification, selection and design of projects. In Brazil, for example, the Bank's large lending programs for power and transport are based on comprehensive studies made in the late 1960s of both sectors which determined the priorities for each. Furthermore, in certain sectors, such as education and telecommunications and sometimes power or railways, projects tend by their nature to be sectoral projects. On the other hand, the emphasis on agriculture projects in recent years reflects a recognition of the importance of agricultural development for many or most countries (i.e. a recognition of national priorities), and the selection of individual agricultural projects is based for the most part on an analysis of sectoral needs and national priorities (e.g. maintaining or increasing foreign exchange earnings, bringing farmers into the money economy and the like). In other words, projects today are based on an analysis of country and sectoral needs.

3. There is an increasing tendency today for Bank lending to be determined through consideration of three interrelated sets - the total investment program for the sector in question, that part of the sector program constituting the project and the elements of the project being financed by the Bank. Often, the Bank seeks a wide definition of the project, and a close correlation between the project and the sector program, in order to get wide application of the policy changes and sector strategy it is advocating. Under this approach Bank lending and the project are increasingly conceived of and carried out in terms of the sector.
4. The Limitations of "Country Focus": In any given country, Bank lending will constitute only a very small fraction of that country's development needs. If the Bank's lending is to have more than marginal significance, it must be given some special attributes and the Bank has found that the best way to do so is to lend for well-designed projects which will have a developmental impact greater than the mere transfer of funds by introducing technical or institutional innovation, by having a demonstration or catalytic effect, by producing reform or social change and the like. In other words, "country focus" gets you only so far; you still have to have well defined projects with specific objectives. Those projects, however, should be selected and designed with the country's needs clearly in mind.

cc: Mr. Christoffersen

JAKing: lb
1. At the meeting with the consultants on June 2, they confirmed that, according to present thinking under Hypothesis II, there would be five as opposed to four regions. In their presentation on the feasibility of Hypothesis II to Mr. Molamara on May 12, the consultants made their hypothetical allocation of Projects Departments staff on the basis of four regional departments. Have they since made such an allocation on the basis of five regional departments? If they have not, it would seem very important for them to do so because the addition of another region complicates the allocation of staff and reduces flexibility.

2. If they have done so, their hypothetical allocation should be reviewed by a Bank team intimately familiar with the scheduling of operations to check the validity of their paper exercise. The same team should also make a similar review of the allocation on the basis of four regional departments.

3. One of the problems with the consultants exercise, if I understand correctly what was done, is that it tends to demonstrate that one could do with the new organization what actually was done with the existing organization during the period in question, but it gives no assurance that the new organization would have the same flexibility as the old to deal with the changes in scheduling and work patterns which actually took place during that period and which can be expected to take place in any period. It is, in effect, an after-the-fact type of analysis and as such does not fully demonstrate the feasibility of what is proposed.
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib
FROM: John A. King

DATE: June 5, 1972

SUBJECT: Organization Study: The Project Cycle

The Question

1. Many of the comments on the project cycle and many of the suggested schemes for reorganization appear to consider that the project cycle ends with Board presentation and contain elements which appear to be based on a notion that if some aspects of what is now project work, particularly those relating to institutional matters and financial viability, were treated as non-technical matters removed from the control of projects-type staff, the system would work better. This approach is most explicit in Mr. Benjenk's second memorandum from which the following is taken as an example:

"A word of caution is necessary here. While it is stressed above that technical staff must be given considerable professional scope and that quality must be checked at the highest independent level in the hierarchy, there must be no confusion of functions. The making of decisions as to what constitutes or does not constitute 'leverage' for the Bank in its lending conditions to a borrower is not an appropriate function for technical staff. It should be the task of technical staff to help prepare the most viable project possible since, in strictly technical matters, few risks can be taken without risking complete failure. But where matters such as passage of legislation, the need for consultation or Bank approval on the appointment of a manager, the application of an appropriate rate of return covenant in any particular year, etc., are concerned, these all necessitate the exercise of a 'risk judgment' which is best exercised by those who view the country relationship as a whole, and who know that the Bank's real 'leverage' is in its future lending over the whole spectrum of sectors, rather than in a single loan. Even in individual loans, it is necessary that the task of appraising projects, the key element in the lending process, be performed in such a way that, where nontechnical matters are concerned, the country staff participate and, in the end, play a determining role in deciding what constitutes an acceptable development banking risk and how 'leverage' is appropriately exercised."

Comments

2. I believe this approach to be in error for the following reasons:

a) The purpose of the Bank is not merely to make loans but to foster economic and social development. It is not enough, therefore, to make a loan for a project; it is necessary to do everything possible to ensure that the project is carried out effectively and in a timely manner. This, in turn, may well require a variety of conditions relating to institutional changes, staffing, training, coordination with other institutions, supply of local currency for the project and the like. These
conditions may well be difficult politically and delay negotiations and presentation of the loan to the Executive Directors, but they may also be critical to the successful implementation of the project. Experience suggests that if they are watered down, there will be delays and failures in achieving project objectives.

b) It is all very well to say that these exercises of "risk judgment" should be in the hands of those "who view the country relationship as a whole", but each project is a discrete unit and its failure or success will be determined by the particular institutional and financial arrangements made for it and not by the general characteristics of such arrangements in projects throughout the country. The conditions appropriate for each project should be determined, therefore, by the characteristics of that project and the situation in which it will be executed and not through some general negotiations relating to conditions acceptable for a number of projects.

c) In general, conditions which are pre-"commitment", are much more likely to be complied with than those which are post-"commitment". This is because the remedies for failure to live up to post-commitment conditions, suspension of disbursements or cancellation, are usually too drastic to be applied. As a result, the postponement of the time when conditions should be met has the effect of watering down the condition itself.

d) The distinction between "strictly technical matters" (by which I assume Mr. Benjenk means the engineering characteristics of a road or a dam and perhaps the economic analysis) and other aspects of project work is a misleading guide to project viability. It is well known that analysis of "problem projects" reveals very few projects which are in difficulties on "strictly technical" grounds; most of the problems relate to institutional matters, management, staffing, tariff-making, passage of legislation and similar matters which Mr. Benjenk appears to believe should be beyond the competence and responsibilities of projects-type staff. He would appear to believe that conditions relating to these aspects of the project should be less demanding. From this it would seem that he is less concerned with project viability and project execution than the signing of loan agreements.

3. Quite apart from its effect on project quality and project execution the distinction proposed between "strictly technical" matters and other project matters would, if it were put into effect, have a disastrous effect on the morale of projects-type staff and would make it difficult to attract and retain the high quality staff the Bank needs for the "strictly technical" work. The best power, irrigation or highway engineers are interested not only in their designs but also in how they are to be carried out and in how the completed facilities are used. They have experience in these matters as well as in design and if they cannot apply this experience, the job will be less attractive.

cc: Mr. Christofferson
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib
DATE: May 31, 1972
FROM: John A. King
SUBJECT: Organization Study: The question of the Appraisal Report Cycle

The Question

1. The study team has come up with a number of questions relating to the Appraisal Report Cycle (i.e. the period from the beginning of field appraisal to Board presentation) - it takes too long, there is too much editing and reediting, there are too many levels of approval, in the later stages there are no improvements in substance but only changes in form and, a conflicting idea, substantive changes are introduced at the level of the Department Director or higher which were not discussed during appraisal, and the like.

Comments

2. It is important to get some of the facts in order. The attached table shows the median processing time from field appraisal to Board presentation in fiscal year 1971 for projects in some sectors and the percentage of that time devoted to three broad categories of work - (a) field appraisal, (b) report preparation through green cover, and (c) activities from green cover to Board presentation. This table indicates that between one third and two fifths of the appraisal report cycle is devoted to matters other than appraisal and report writing. This fact should be taken into account when the length of the cycle is considered. The table also shows that between three and five times more time is spent in report writing and clearance than is spent in field appraisal. This does suggest that there is a lot of editing and rewriting.

3. It is also important to recognize that though the white cover report goes through a number of editions, it is most unusual for the yellow cover to have more than one, and during the past several months the green cover has been omitted for a number of projects. A copy of the white cover goes, as a matter of course, to the Area Department.

4. There are a number of reasons for having the appraisal report go through a number of editions and through several levels of approval. First there is a group of reasons which can be described as mechanical. Projects Departments staff are not hired because of their writing skills, but for other attributes. Furthermore, English is not the native language for many of them, and this characteristic is increasing as efforts are made to increase the proportion of non-Anglo-American staff. This means that first drafts are likely to be unclear and difficult to understand. Though writing-courses and editorial staff help in coping with this situation, problems of this type persist and will continue to do so whatever the form of organization.

5. Second there are a number of more substantive reasons for editing and clearance:
a) Technical Adequacy: It is essential that the work of the appraisal mission be reviewed to make sure that it is technically adequate and that the project is viable from every point of view. Review of this sort is usually accomplished at the Division or Department level, though occasionally the economic or financial analysis or the institutional arrangements will provoke questions at the level of the Office of the Director, Projects.

b) Clarification: Frequently unclear expression in a report reflects conclusions or solutions that have not been fully thought through. Editorial assistance is not the answer here. Professional review and discussion are required to detect the lack of clarity and resolve the problems. This can be most effectively accomplished through a system of progressive review, which brings to bear the experience and knowledge of senior staff. To be sure, some of this review is devoted to non-substantive revisions of the report which will make it more acceptable to the Executive Directors. But the major purpose of clarification is to make sure that the objectives of the project are clearly understandable and that the report forms the basis for solid agreements between the borrower and the Bank so that the project can be executed and supervised in a satisfactory manner and its objectives achieved.

c) Education: In addition to providing a basis for decisions by management and the Executive Directors relating to the project, the appraisal report has other purposes. It is distributed in the borrowing country and to various entities concerned with development such as members of the UN family, regional development banks and the like. It thus acts as an indication of Bank policy and practice and provides examples of the issues and considerations which the Bank regards as important in project design and execution. In particular, for the borrower and government officials concerned with the project and the sector, it constitutes a statement of the critical issues and the objectives of the project. A clear statement on these matters is necessary to arrive at basic understandings on which successful project execution and supervision depend and to realize the catalytic and demonstration effects which are usually sought as part of the project. A system of progressive review is necessary to make sure that Bank policy and practice are clearly and correctly stated and that the reports can have their educational impact.

d) Internal Training: The system of progressive review also provides the opportunity for continuous training of Projects Departments staff. With the large numbers of new staff added in the recent past and with the newer elements, such as concern for the environment or distribution of income, which have been added to projects and their appraisal, such training has been urgently needed. At the level of the Office of the Director, Projects, the various Advisers can make staff aware of techniques and approaches used by other Projects Departments when dealing with similar issues, of innovations and technical
developments affecting project design and appraisal, and even of Bank policies relating to project work. A particular benefit of review at this level is the possibility of making staff continuously aware that the Bank is more flexible and more willing to experiment than is often thought at the working level. And review at other levels can provide training in departmental or divisional approaches and policies, in Bank quality standards, and the like. Training in the framework of the appraisal cycle is a most effective type of training.

6. These characteristics of the appraisal report cycle will persist as long as the concept of a project, as something more than a mere transfer of funds, remains central to Bank lending. The characteristics and skills of Projects staff will persist, as will the need for quality control, for training staff and introducing them to new ideas and techniques, and for educating borrowers and others. The consultants appear to believe that the training aspects can be taken care of through the use of written materials, such as checklists, and refer to Mr. Lee's success in introducing environmental considerations into appraisal through the use of checklists. My own judgment would be otherwise. Having participated in a considerable number of yellow cover reviews at the Office of the Director, Projects level, I am convinced that they are a significant training device and essential to getting staff to accept and use new ideas and concepts relating to project design and appraisal. For example, the great improvement which has taken place over the last eighteen months or so with respect to the training element in projects is attributable in large measure, in my opinion, to the system of progressive review, including review at that level.

7. This is not to say that the appraisal report cycle is perfect and that it cannot be improved and the time devoted to it reduced. But something like it will continue to be needed as long as project-lending continues, regardless of the form of organization adopted.

Attachment

c: Mr. Christoffersen

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<th>Percentage of Median Processing Time by Stages in the Appraisal Report Cycle (FY 1971)</th>
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<td>Median Processing Time (days)</td>
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<tr>
<td>Percentage of time spent in:</td>
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<td>Report Preparation through Green Cover</td>
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<td>Green Cover to Board Presentation</td>
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OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib
FROM: John A. King
DATE: May 23, 1972

SUBJECT: Organization Study: The Question of Excessive Concern for Excellence and Quality in Project Work

The Question

1. You told me that Mr. Sommers had raised again his question as to whether there was too much concern with excellence for its own sake in the Bank's project work. Similar questions have been raised by the consultants as a result of their interviews with Bank staff; these can be summarized as - does concentration on project quality distract the Bank from what should be its main focus, country development?

Comments

2. Central to this question is what is meant by quality or excellence. Those asking the question often give, as an example, excessive refinement of rate of return calculations or the editing and reediting of appraisal reports, but the question appears broader than that and can perhaps be rephrased as - from the point of view of a country's development is a good project better than an excellent project?

3. But before discussing this question, it should be pointed out that the interviews with Bank staff also exposed an opposite view with respect to quality, i.e. that, in fact, quality was declining as a result of lending targets and the problems of meeting them. These problems are said to range from simple ones, such as making what should be conditions for negotiations or Board presentation conditions of effectiveness, to much more subtle ones, such as preferring conventional projects or approaches over innovations with the potential for greater developmental impact.

4. Central to the issue of quality, I believe is the concept of a project. If a project is viewed primarily as a transfer of funds, then much of what constitutes "quality" can be disregarded. But if projects are to be vehicles for reform, for institutional or technical change, or for demonstration, if they are to take into account employment, income distribution, or the environment, then there must be great concern with quality - the suitability and reliability of the techniques being introduced, the adequacy of the manpower needed and the means for strengthening its skills if necessary, the adequacy of the finances and the financial system, the economic justification, the risks involved and the safeguards to minimize them and the like. As the Willoughby exercise demonstrates, if the Bank has learned anything over the years, more rather than less concern with these matters is needed. Furthermore, more and more considerations are being found relevant in project design and execution as time goes on. Broadly speaking, more quality translates itself into more development. And agreement that the principal focus is the country does not change the situation, unless the project is regarded merely as a vehicle for the transfer of funds.
5. Mr. Sommers has suggested that the origin of the emphasis on quality lay in a concern for the money markets. He suggests that these markets could now tolerate somewhat less quality. The argument would go as follows: When the Bank was formed, international lending was in bad repute and a great many of the Bank's members were in default on their external debt. In fact, the Bank's Articles contained a number of provisions intended to prevent a recurrence of some of the practices of international lending that had led to this situation, of which the requirement of project lending was one. Today, the argument continues, after a quarter of a century of successful operations, the Bank's reputation in the money market is such that they could accept somewhat lower standards of lending. The truth of the matter today is, however, that concern over the money market is only a minor element in the emphasis on quality. As noted above, the real basis for that emphasis is concern for the developmental impact of the project—does it include the elements necessary for it to be technically, economically, institutionally and financially successful and for it to have an impact on the country greater than the mere transfer of resources involved. It is worth adding, however, that the money markets closely and have shown themselves sensitive to suggestions that the quality of projects for which the Bank lends may be changing.

6. It should be noted, in addition, that some of the external manifestations of today's emphasis on quality reflect the extremely rapid growth of the Projects Department in the last three or four years and their decentralization. With new Department Directors (six of the eight hold their present positions for less than three years), new Division Chiefs and large numbers of staff new to the Bank and with large increases in the numbers and varieties of projects, emphasis on quality was essential and it often resulted in such frustrating exercises as rewriting reports. If there were five hundred professionals with the experience and gifts of Mr. Knapp working on projects, there could be emphasis on quality with much less quality control, but this is not the case and never will be. It can be expected, however, that quality control can become less direct, continuous and obvious as the staff becomes more experienced and the rates of change less rapid.

7. The concern over the emphasis on quality in projects arises from a feeling that it causes delays in the project cycle. Making sure that all the critical elements are considered in project design and appraisal and agreed upon during negotiations may well take more time than a less complete study, and requiring conditions considered essential to achieving project objectives may delay disbursements. On the other hand, the omission of parts of the analysis or of some of these conditions is likely to lead to misallocation of resources and waste and a failure to achieve developmental objectives. And in many cases, insistence on quality in project design and appraisal, including insistence on appropriate conditions for lending, may actually speed up the later phases of the project cycle after the loan has been approved or result in savings in costs which far outweigh the time required to analyze the problem.

8. There are elements of judgment in this. What are appropriate conditions for lending, how many alternative solutions should be examined in design and appraisal, how detailed or far-reaching should the market analysis be, and the like. And it is possible to go too far. But a conscious decision to reduce quality in general to save time is likely to have costly consequences for the borrowing country. This is not to say that quality should be pursued at any cost; the test should be a comparison of the costs of requiring particular elements of quality with the benefits likely to flow from each of them.
9. In short, there must be emphasis on quality; a project should be not merely good; it should be the best project possible in that country under the circumstances and at that time. At the same time, some of the frustrating consequences of quality control are likely to disappear in time.

cc: Mr. Christoffersen

JAKing:lb
OFFICE MEMORANDUM

TO: Files
FROM: John A. King
SUBJECT: Study of Organization and Procedures: Meeting of May 4, 1972

DATE: May 11, 1972

1. On May 4, 1972 the ninth regular meeting with McKinsey was held; present were Messrs. Shaib, Sommers, Demuth, Twining, Messenger and King for the Bank and Messrs. Rohrbacher, Lynn and Lethem (Bank) for McKinsey.

2. The purpose of the meeting was essentially to continue the discussion of the two hypotheses proposed to Mr. McNamara by the study team - Hypothesis I: no substantial changes in organization but changes in procedures so as to improve operations, and Hypothesis II: a major structural reorganization based on the creation of several regional bureaux which would include both Area and Projects staff (the latter only so far as functional specialization permitted). Mr. Rohrbacher indicated that the study team had had a second meeting with Mr. McNamara (on May 1) and had discussed these hypotheses and how each might work. The study team was in the process of developing information bearing on these questions and an initial review indicated that under Hypothesis II 60 percent of Projects staff could be allocated satisfactorily to the regional bureaux, leaving only 20 percent for the central technical pool, and only about 10 additional Projects staff would be required to round out the technical staff of the bureaux.

3. In response to questions, Mr. Rohrbacher indicated that the study team had not yet fully analyzed the economic complex and the industrial/private sector complex or examined how they would fit into either hypothesis. It was suggested that the study team might consider another alternative under which a separate Industrial Bureau might be created outside the Regional Bureau, if Hypothesis II was adopted, and regionalization of work in this sector might be postponed until an integrated approach to industrialization and the work of IFD and the Development Finance Companies Department had been worked out.

4. Mr. Rohrbacher indicated that in the view of the study team Hypothesis II had a great advantage over Hypothesis I in that it would greatly facilitate the introduction of line/staff concepts of management and organization and that the introduction of these concepts was very important for the effectiveness of the Bank in the coming years. Though procedures could be improved in the existing organization - a major target would be procedures relating to CIP concepts and work - and its effectiveness thereby increased, the team did not believe that this would be enough. The team, however, was working on recommendations for procedural improvement.

5. Members of the Study Committee made a number of points including the following:

a) There was no perfect organizational solution and any particular solution would have its merits and defects. Hypothesis II appeared (i) to offer opportunities for greater delegation
of authority, (ii) to increase focus on country programs and objectives and improve the planning and coordination of country work, (iii) increase the opportunities for experimentation in new fields (e.g., program lending or new types of projects). On the other hand, it appeared to be less likely (i) to produce uniformity in policy and approach (though questions were raised as to how serious a fault this might be), (ii) to maintain standards and quality of project work (though it was argued that these standards would be satisfactorily maintained by having, in effect, a Projects Department within each regional bureau with its own director responsible only to the vice president in charge of the bureau), and (iii) to be more costly in terms of technical staff.

b) The study team should consider three related questions - (i) was it physically possible to carry out a reorganization along the lines of Hypothesis II, (ii) should such a reorganization be carried out, (iii) what would be the costs of not carrying it out? These questions were raised in an alternative form - given the fact that the Bank was currently organized on a functional basis were the advantages of a structural change sufficient to compensate for the costs of that change?

6. The next meeting of the Study Committee would be on May 16 at 3:00 pm, following a meeting of the study team with Mr. McNamara on May 12.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger

JAKing:lb
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib

FROM: John A. King

DATE: April 24, 1972

SUBJECT: Study of Organization and Procedures: Staffing Patterns

1. This memorandum brings up-to-date the staffing assignments of the study team since my memorandum of February 28 on this subject.

2. During March Messrs. van Iede (McKinsey) and Winterton (IFC) have studied the IFC and made a preliminary report dated April 7 which was discussed at the Study Committee Meeting of April 10.

3. Messrs. Rohrbacher and Lynn (McKinsey) visited Japan, Indonesia and the Philippines and Messrs. Kubes (McKinsey) and Barry (Bank) visited Ivory Coast, Kenya, Ethiopia and Nigeria during the first half of March. On their return they discussed their impressions with Bank staff. They reported their tentative conclusions in a paper dated March 27, which was discussed at the Study Committee Meeting of March 29.

4. During the first week of April Messrs. Kavarana (McKinsey) and Dosik (Bank) visited Iran. This was intended originally to be one of a second group of country visits to gain an impression of the Bank's image from the point of view of its borrowers and to view its procedures from the other end of the telescopes, but other such visits have not yet been made. No special report of this visit has been prepared for consideration by the Study Committee, and the findings resulting from the visit are to be found in the general work and conclusions of the study team.

5. During March and April, I understand, the rest of the study team have been consolidating the diagnostic work needed for the study and have in effect concluded the first half of the study. In doing so, they report that they have reached factual conclusions with respect to:

   a) the objectives of the Bank,
   b) the organization of the Bank,
   c) its basic procedures,
   d) its management style,

and have some judgments concerning the strengths and weaknesses of each of these. These conclusions and judgments will be presented to Mr. McNamara in an organized form but without much detail on April 24. The detail, however, has been organized and is available.

6. In the next phase, the study team is concentrating on two areas -

   a) New organizational hypotheses and variations of them. An important element of this work is examining the risks inherent in these changes and how to minimize these risks. Messrs.
Lynn, Kavarana, van Lede (McKinsey), Richardson and Winterton (Bank) will be working in this area.

b) New procedures needed to overcome major weaknesses identified in management procedures, the project cycle and supervision. This work will be done on two levels - the procedures needed if the organizational changes mentioned above were to be accepted and those needed if the existing organization or something like it were to be maintained. Working in this area will be Messrs. Cornudet and Kubes (McKinsey) and Barry, Dosik and Lethem (Bank).

c) In connection with both efforts, Messrs. Graves (McKinsey) and Beazuelin (Bank) will prepare materials on "the case for change".

7. At the end of April and beginning of May, Messrs. Garrity (McKinsey) and Richardson (Bank) will visit Turkey to -

a) view and understand the last stages of an economic mission and an appraisal mission,

b) view and understand a supervision mission,

c) examine the case for and against a resident mission in Turkey,

d) interview DFC/IFC "customers" about their views of the institution,

e) interview other donors (U.S., UNDP) about their views on the Bank Group's effectiveness and on coordination problems,

f) ascertain from key Turkish officials their perceptions of Bank Group strengths and weaknesses.

In early May Messrs. Graves (McKinsey) and Beazuelin (Bank) will visit India to test some of the hypotheses of the study group in the field.

cc: Messrs. Demuth, Twining, Christoffersen, Messenger

JAKing:lb
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib  
FROM: John A. King  
SUBJECT: Pearson Commission Staff Work on IFC

DATE: May 9, 1972

1. There are three background papers dealing with private foreign investment prepared by the staff of the Pearson Commission, and two of these (actually two versions of the same paper) speak, inter alia, of the IFC, but they do not add much to what is said in the Commission's report itself. In fact, the text of the report on these questions is based largely on one of these papers. The relevant parts of Partners in Development are:

"... because of their links with the private sectors of both developed and developing countries, IFC, and organizations like it, are logical agents for project identification and investment promotion work, accordingly recommend that they become much more active in this field.

"We hope that a reorientation of IFC policy toward greater regard for economic considerations and influence on policy with respect to industrialization is possible, for the sake of the economic impact of its own investment and even more for that of the new investments we believe it is well placed to promote. However, we would also recommend that other international institutions, such as the World Bank and UNIDO, expand further their advisory role regarding industrial and foreign investment policies. These activities could eventually be fully transferred to IFC if the proposed reorientation of IFC is successfully achieved."

2. The specific references to IFC are found in Pearson Commission Staff Paper No.15 dated May 29, 1969, entitled "The Contribution of the Foreign Private Sector", prepared by Donald Erash.

a) It recommends the establishment in IFC of a separate office to engage actively in investment promotion work. The argument in favor of this is as follows: "Secondly, we feel that there is a real and urgent need for better and more carefully targeted promotional programs than now exist. Most of the present incentive schemes are designed to prevent an investor deciding against an investment which he already has under consideration, and those investment surveys which are made are often too general to be of much value in promotional work. The International Finance Corporation has in the past interpreted the clause in its Articles requiring it to finance only projects 'where sufficient private capital is not available on reasonable terms' to mean that it should leave all project initiative to others. As a result, even its own financing activities have been on a small scale. But there are some signs that IFC is now beginning to appreciate the role it could play in actively seeking out investment opportunities and bringing together domestic and foreign partners to execute them. Because of its
position as a multilateral institution with links with the private sectors of both developed and developing countries, it seems a logical place for major expansion of promotional activities. We accordingly urge the establishment in IFC of a separate office to engage actively in investment promotion work. Although IFC is concerned only with private sector investment, its affiliation to the United Nations might well make such an office an appropriate recipient of UNDP financial support.

b) A recommendation that IBRD take a more active advisory role in the industrial and foreign investment policies of the LDCs. The argument in support of that recommendation is as follows: We believe that the international development community could play a useful role in advising developing countries in their policies towards foreign direct investment. In the past, IFC has been the only international organization active in the field of private foreign investment, though the creation of UNIDO has changed the situation somewhat in recent years. The IBRD has tended to delegate much of its industrial work to the IFC and its discussions with member countries primarily involve fiscal affairs. This has been unfortunate. To begin with, IFC deliberately avoids becoming involved in government policy issues wherever possible. Its own investments require no host government guarantee and it normally behaves in very much the same manner as an ordinary commercial investment house, i.e. it takes government policies as given. More seriously, to judge from its own investment pattern IFC is not competent to judge government policies from an economic point of view. Many of the projects in which IFC has participated have certainly benefited the host country involved, but many others, regrettably, have been of the type noted earlier as contributing marginally if at all to economic development. In particular, they have often been in sectors subsidized by very high levels of effective tariff protection. In very few cases are investments preceded by an economic analysis of their impact. In practice, profitability has been the principal criterion used in assessing investments and, while this is clearly a necessary criterion for any agency which would stimulate the growth of the private sector, it is hardly a sufficient criterion for an agency purporting to be concerned with economic development.1/

"We very much hope that some reorientation in IFC's perspective is possible, for the sake of the economic impact of its own investments and even more for that of the new investments we believe it is well-placed to promote. If in practice it is not possible to combine a concern for private profitability with an

1/ The implicit distinction drawn between private profitability and social economic desirability might be without much real meaning in developed countries: it assumes very great importance in developing societies where market prices are often very poor indicators of social cost."
3. The paper has a few interesting remarks on the different connotations of direct private investment: "Discussion of the economic impact of direct investment has tended to employ highly emotive language. To capital-exporting countries, direct investment means all the advantages of the free enterprise system, along with foreign exchange, technical knowledge, management skill, and, often, access to markets. For LDCs, direct investment spells high cost capital, foreign control of key sectors of the economy, insensitive foreign managers, and undue competitive pressure for domestic entrepreneurs."

4. The President's memoranda dealing with Pearson Commission Recommendations Nos. 7, 9 and 10, all dated December 11, 1969, in effect, accepted the merit of the comments in Partners in Development and indicated that IFC policy was already being changed in these directions.

5. The potential conflict between private profitability and social/economic desirability referred to in paragraph 2(b) nevertheless remains and is probably the reason behind the comments frequently heard by the study team of the need for a separate organization for private investors who do not want to be dealing with Bank staff whose principal work is in the public sector and with public sector officials. I surmise, but do not know, that this potential conflict may also lie behind the cases, referred to by the study team, where the Bank and IFC have taken differing positions with respect to the same project. This potential conflict presents, in my judgment, the most difficult organizational issue in the industrial/private sector area.

cc: Messrs. Somers, Demuth, Twining, Christoffersen, Messenger

JAKing: lb
Mr. M. Shoaib

H. W. Messenger

Questions You Raised After The Last Steering Committee Meeting

Last week after the Steering Committee meeting you asked me to look into two questions that had arisen during the discussions. First, you asked the extent of the Bank/IDA multiplier (the ratio of local and other foreign financing to Bank/IDA (IFC) financing for projects). The report presented by McKinsey concerning IFC had indicated a multiplier of 5.3 in 1971. You can see from Attachment I that the Bank/IDA multiplier in FY1970 was about 3 while in FY1972 it has dropped to about 1.3. The average multiplier for the 2½ years is about 2, the same as the assumption used in the paper presented to the Steering Committee.

One possible conclusion to be drawn from the declining multiplier index for the Bank/IDA is that the Bank/IDA is financing a larger share of each project on average than it has in the past. This perhaps partially explains the increase in the Bank's volume of lending compared with the lesser increase in the number of projects. In any event, it would appear that the IFC multiplier has been and continues to be greater than the Bank/IDA multiplier.

Second, you asked the extent of Bank/IDA participation in the private sector. Attachment II shows that Bank/IDA participation in the private sector from FY1957 (the beginning of IFC operations) through FY1971 was about $1.5 billion compared with about $0.5 billion for IFC in the same period. The number of IFC projects is about twice as great as that for the Bank/IDA over the comparable period, thus illustrating that the average size of Bank/IDA operations is larger. Most but not all of the Bank/IDA operations in the private sector have been in the development finance companies and the industrial sector both of which were formerly in the IFC; about 38% of the operations included in the totals listed in the attachment were actually entered into at a time when the IFC was acting as "executing agency" for the Bank/IDA.

Attachments
cc: Mr. Twining
    Mr. King
    Mr. Saunders
## Extent of Multiplier Effect on Projects Financed by IBRD and IDA

**FY's 1970, 1971 and 1st half 1972**

<table>
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<th></th>
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<th>IBRD/IDA Contribution</th>
<th>Other Sources</th>
<th>Multiplier Effect</th>
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<tr>
<td>FY'70</td>
<td>6,269.6</td>
<td>1,664.2</td>
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<td>FY'71</td>
<td>6,616.9</td>
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<td>(Half) FY'72</td>
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<td>Total</td>
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<tr>
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<td>4,177.6</td>
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<td>FY'71</td>
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1/ Both local and foreign.

(Source: PanDB)

(T.S. 4/20/72)
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<th>Extent of IBRD and IDA Participation in the Private Sector ¹/</th>
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<td>$(Millions)</td>
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<td>Original Commitments</td>
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<td>----------------------</td>
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<tr>
<td>Total</td>
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<td>Development Finance Corporations ²/</td>
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<td>Industry ²/ ³/ ⁴/</td>
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<td>Tourism ⁴/</td>
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¹/ A borrower in the Private Sector is defined as an entity with more than 50% of its equity held by private individuals or concerns themselves outside of government control.

²/ From April, 1965, through October, 1969, IFC acted as "executing agency" for both IBRD and IDA's industrial projects. IBRD and IDA, however, provided the finance for these loans/credits. A similar arrangement existed for the Development Finance Companies projects through November, 1968, at which time the Development Finance Companies Department was transferred from IFC to IBRD.

³/ Excludes loans amounting to $359.2 million to the Netherlands, Italy and Japan.

⁴/ Includes loans to Yugoslavia.

(T.S. 4/21/72)
OFFICE MEMORANDUM

TO: Files
DATE: April 14, 1972

FROM: John A. King

SUBJECT: Study of Organization and Procedures: Meeting of April 10, 1972

1. On April 10, 1972 the seventh regular meeting with McKinsey was held; present were Messrs. Shaib, Sommers, Twining, Christoffersen, Messenger and King for the Bank and Messrs. Rohrbacher, Graves, van Lede and Winterton (IFC) for McKinsey. The meeting was devoted to the study team's preliminary assessment of the IFC, dated April 7, 1972.

2. The meeting opened with a number of general comments on the McKinsey report:

a) The study team was advised that the Bank Group was committed, by decision of its member governments, to serving the private sector and that the study team should not study the question of whether or not the Bank Group should do so.

b) Mr. Sommers believed it was wrong to describe IFC as the private investment arm of the Bank Group; it was merely an arm for this purpose. He noted that IFC had been established as a separate identity for particular reasons which were relevant when it first was being considered and which may have been overtaken by events, at least for many countries; it had continued in this form for historical and personality reasons. He believed there was still a need to perform the basic functions belonging to IFC, but said the study team should examine whether this separate identity should be continued or whether some other organizational solution would be more appropriate. He also suggested that IFC's separateness tended to make it continue on its own way without considering what else it might profitably undertake. Others suggested that this tendency had been modified since Mr. Caud had become Executive Vice President.

c) He pointed out that IFC had been compelled by its institutional characteristics and the facts of economic life to serve the more advanced of the LDCs. It, therefore, could not fairly be criticized for failing to serve the non-industrialized LDCs or those lacking a private industrial sector. He noted that the language of the Articles, "particularly in the less developed areas", was intended to refer to the underdeveloped countries generally as opposed to the developed countries, and not to the poorer LDCs as opposed to the richer LDCs.

d) It was noted that the Bank was active in the private sector in the field of industry, development finance companies, tourism and agriculture.

e) It was recognized that overall economic planning and macro-economic analysis had not played a significant role in IFC investments. Nevertheless, in recent years the role in IFC of
economists had increased (there were now four economists including an Economic Adviser) and more than lip-service was now paid to economic considerations in making investment decisions.

f) It was noted that in theory, IFC relied on development finance companies to create future opportunities for IFC in countries where there was no immediate opportunity for IFC investment but that, in fact, few efforts were made to ensure that this reliance produced the effects sought.

3. A number of specific comments on the report were also made:

a) Page 1-3: The description of the Bank as "primarily public sector financing" with a few exceptions was somewhat misleading. As a matter of fact, the Bank did considerable amounts of private sector financing in industry, development finance companies, tourism and agriculture.

b) Page 1-4: There was some discussion of the word "vehicle". McKinsey did not intend it to be the equivalent of "organization", but gave it a rather open-ended meaning. It was suggested that the time comparisons were unfair, comparing non-comparable items. The concept that the qualifications of IFC staff should be drastically different from Bank staff was questioned, and reference was made to evidence to the contrary on page 4-5.

c) Page 1-5: Exception was taken to the phrase - "it is doubtful if IFC could effectively compete with normal investment and commercial banks". As is pointed out in the following sentence, it would be contrary to IFC's Articles for it to try to do so.

d) Page 2: It was noted that the Articles called for IFC to act "in association with other investors" and that this affected its way of doing business. It was also noted that in some quarters there was a belief that IFC was quite right in developing passively in response to needs expressed to it, rather than adopting an aggressive developmental policy. Others believed that this may have led to an imbalance in the use of its resources.

e) Page 2-2: A question was raised as to what proportion of the additional capital mobilized by IFC was foreign and what local.

f) Page 2-6: It was suggested that, though they had fallen since 1962, administrative costs were still high.

g) Page 3: The need for a single management mind and a coordinated strategy for the Bank and IFC was accepted.

h) Page 3-4: Mr. Shoaib asked for details of the conflicts listed.

i) Page 4-3: It was suggested that the criticism of the Personnel Department was unjustified and that the views of the other Departments criticized should be sought.
3.

j) Page 5: The general concept that further analysis of IFC by the study team should be in the general framework of the Bank's work in the private sector was accepted. The basic questions were how much and how should the Bank Group serve the private sector.

h. The next meeting was set for April 25, at 3.00 pm.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Christoffersen, Messenger

JAKing: lb
April 10, 1972

TO: Mr. Denton
FROM: J. E. Twining, Jr.

At the meeting of today's date, I told the McKinsey team members that I did not agree that the comments made about the Personnel Department were accurate as an indication that sufficient services were not provided to IFC.

It was generally agreed around the table that these points, as well perhaps as those referring to the Treasurer's and Controller's Departments and the Information and Public Affairs Department, were not supported by facts and it was suggested that the McKinsey team members should talk to the representatives of the Departments cited before reaching such conclusions.

Attachment (page 4 - 3 of report of April 7, 1972).
Attending were Messrs. Shoaib, Demuth, Sommers, Twining, Christoffersen, and Messenger for the Bank; Messrs. Garrity, Rohrbacher, Graves, Kubes, and Barry for the Study Team.

Mr. Rohrbacher gave the highlights of the trip that he and Mr. Lynn took to Tokyo, Djakarta, and Manila. In Tokyo, in addition to talking with the staff of the Tokyo Office, Messrs. Rohrbacher and Lynn interviewed several officials of the Japanese Ministry of Finance. It was thought that the views of the individuals they spoke with were representative and that the discussions were helpful. In Djakarta, discussions took place with almost all of the Bank's staff members stationed there and with several Government ministry people. Also in Djakarta, several of the donor organizations with representatives there were contacted. A field trip was made to one of the Bank's projects, a large irrigation scheme. In Manila, officials of the Asian Development Bank were interviewed, as well as a group of Philippine officials.

Mr. Kubes reported that he and Mr. Barry visited Ivory Coast, Ethiopia, Kenya and Nigeria in Africa and in each place they spoke with the Bank's staff stationed there, with donor organizations, with representatives in the countries, and with various government officials. Mr. Kubes felt that the trip had been useful in that it had given him and Mr. Barry quite a different perspective on some of the Bank's problems.

Mr. Shoaib enquired about criticisms the travellers might have heard of the Bank and its operations. Mr. Rohrbacher said that the lapse of time between the departure of an appraisal mission from the field and the time when the borrowers are "summoned" to negotiate a loan or credit is felt to be excessively long. The borrowers feel that they are not kept informed of what is transpiring during the period or what they are being summoned to negotiate. They claim that in the interim the project or the terms to be negotiated have often been changed by the Bank. Mr. Shoaib said that in his experience borrowers usually receive, at least on an unofficial basis, a copy of the draft appraisal report prior to negotiations. Mr. Graves noted that criticism was also heard of the Bank's procurement and disbursements practices and the numbers of missions. The Team is presently in the process of gathering data that will permit a determination of how valid these criticisms may be. A short discussion of the cost of sending staff members from headquarters into the field on mission versus maintaining field offices followed during which it was noted that one of the non-quantifiable costs associated with sending missions from headquarters is the irritation felt by borrowers of too frequent missions.
In deciding what, if any, additional authority can be delegated to the field, the question of projects standards and decision criteria was raised. Mr. Shoaib noted that the Study Team will need a clear description of the project cycle together with the failings as perceived by the recipient countries and an analysis of the time that the cycle requires.

Mr. Rohrbacher said that both Team missions had heard statements about the Bank's arrogance. This referred to both arrogance on the part of individuals and on the part of the institution itself. The individuals most frequently "accused" are on economic missions and tend to be staff members new to the Bank with little practical experience - a shortcoming also mentioned by Bank staff stationed abroad. The institution was felt by some donors to be arrogant in the way it handles negotiations and in some of its other discussions with governments. Mr. Sommers noted that perhaps "arrogance" is an occupational hazard in the kind of work in which the Bank is engaged.

Mr. Sommers also noted that it should not be surprising that the various Bank resident missions are different - they were created for varying reasons. The countries are different and no single pattern of Bank behaviour will be satisfactory in all. He urged the Study Team to take this into account in their recommendations to be flexible, and to be willing to recommend experimentation.

Mr. Rohrbacher noted that there seems to be more dialogue between the Bank and its recipient countries on economic reports than on project reports. Mr. Twining said that this is probably explained by the fact that the economic report tends to be more of a joint Bank/country exercise than the project report. The former is intended to analyze and present a summary of the country's economic position, not only for the Bank, but for the country and other potential donors as well, whereas the project appraisal report is a decision-making document intended, primarily at least, for the Bank's internal consumption.

It was noted that appraisal reports are intended to do two quite different things: (i) to present a summary memorandum of the terms for negotiation of the project and (ii) an analysis of why the particular positions were reached. It was suggested that perhaps the two should be in separate documents.

Mr. Graves announced that the Study Team plans three missions during the early part of April; one to India and Iran, a second to Turkey to observe an appraisal mission at work, and a third to South America, probably to observe an economic mission at work, possibly in Colombia and/or Brazil. Mr. Shoaib emphasized the importance of the Team seeing the various kinds of Bank missions in action.
Mr. Graves prefaced the discussion of the Study Team's interim report, dated March 27, by stating that with respect to the field missions the Team had reached two very tentative conclusions:

(i) there is a *prima facie* case for stronger field missions than now exist to do Bank operational work; and

(ii) it is difficult to see how an effective field organization with greater authority can be created, given the present headquarters organization.

In enquiring why the Bank's present headquarters organization was much of a handicap to expanding field missions, Mr. Shoaib cited the United States as an example where several of its departments, e.g. State, Defense, Agriculture, all have programs in the same recipient countries and the embassies reporting to the State Department appear to be able to coordinate all of these activities. Why then, it was asked, is it considered necessary that the Area/Projects split be somehow removed in order to have effective delegation to the field? Mr. Graves replied that there was no certainty that the Team will recommend a change in the Area/Projects relationship. However, it would appear at least that if some work now under the authority of the Area and Projects Departments were to be delegated to the field, some arrangement would have to be made to avoid the field offices reporting to two or more headquarters units.

Mr. Graves said that there is some feeling among borrowing countries that the Bank tends to be dogmatic and rigid in the application of its rules. Mr. Shoaib said that perhaps this is because we have more in-experienced people now than we had in, say, the early sixties or before. This feeling that the Bank applies its rules rigidly is somewhat anomalous because relatively few of the Bank's rules and policies are committed to writing. Therefore, if true, it is a rigid application of the practice of doing things the way they were done before.

Mr. Demuth commented that an additional reason for the Bank having more of its operational work done in field missions is to be able to coordinate better with the other donors. He felt that this is something that was overlooked in the Team report but is a factor that is of considerable importance.

Mr. Demuth also questioned whether the headquarters organization must be changed to have useful overseas offices, but conceded that our overseas offices might be made more effective with improved headquarters organization. He noted that our present offices overseas are by and large discharging the limited responsibilities that they have been given. Additional responsibilities could be delegated even with the present headquarters organization if it were decided to do so.
The next meeting of the Steering Committee will be held one week from Monday, on April 10, at 3 p.m.

cc: Mr. Shoaib
    Mr. Sommers
    Mr. Demuth
    Mr. Twining
    Mr. King
    Mr. Christoffersen
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib
FROM: John A. King
DATE: March 23, 1972
SUBJECT: The McKinsey Study

1. Since I will not have a chance to see you before the meeting with the study team next Wednesday, I thought I might set down a few thoughts about the way the study is going. I have no direct experience with studies of this kind or how they should be conducted, however, and so some of these ideas may be mistaken.

2. My first thought is that while the interview technique may be useful for getting insights, it also tends to generate one-sided or oversimplified statements of the issues and a certain amount of froth arising out of the real frustrations of Bank staff with certain aspects of their work. Carried beyond a certain point, it tends to produce a Gallup poll, which probably has some bearing on the implementation of the recommendations of a study, but which is certainly not the study itself.

3. It seems to me, therefore, that it is important for the study team to grapple with and analyze the Bank's operating characteristics themselves, rather than with what people say about them. To do this requires them, among other things I believe, to take part in sector missions, economic missions, appraisal and supervision missions, negotiations, yellow-cover meetings, Loan Committee meetings, CPP meetings and discussions of the CPP in the Economic Committee, Board Meetings and the like. This sort of investigation is important because the Bank is different from most of the enterprises that McKinsey analyzes; consequently the study team cannot approach this study with the same fund of experience and background as it would other studies. Any such program of work should be planned so that they can take part in typical but significant missions with experienced mission leaders and in useful and informative meetings of other types. This will take some effort.

4. In view of the fact that only two or three members of the study team have had operational experience, this immersion in actual Bank work will take a little time, probably more than the present schedule allows. Consideration should be given, therefore, to revising this schedule.

cc: Messrs. Sommers, Demuth, Twining, Christoffersen, Messenger
TO: Mr. Michael Graves  
DATE: March 23, 1972  
FROM: John A. King  
SUBJECT: The Problem Definition Statements of February 25, 1972

1. I have been over the Problem Definition Statements prepared in connection with the review session of February 25. Though I recognize that these are preliminary and tentative, I thought it might be useful if I set down my reactions to some of them, which seemed to me mistaken or oversimplified. I shall identify them by the name of the author and the principal issue. Let me add, however, that I found a number of the PDS penetrating and very much worth pursuing.

a) Lynn - Supervision: I am not sure that supervision "is the first activity to be sidetracked when target lending pressure is applied"; I suspect that sector economic work would be the first victim. Not only does supervision enjoy a higher theoretical priority than sector work, but supervision work can be more easily combined with appraisal work than can sector work. At any rate, the ratio of supervision missions to the number of projects under way has steadily increased; at the end of 1967 - .70, 1968 - .90, 1969 - 1.27, 1970 - 1.15, 1971 - 1.25. I also believe that there is now more system in putting projects on the problem list and for taking corrective action than the PDS indicates.

b) Lynn - Project Appraisal Report Preparation, Review and Decision: It is extremely rare for more than one version of the yellow cover appraisal report to be made.

c) Lynn and Beuzelin - Lack of Delegation: While there appears to be a lack of delegation, there is in fact very large delegation of authority to preparation, appraisal and supervision missions which deal directly at a high level with officials of the borrower and its government and who have a great deal to say about the technical characteristics of the project, its size, its financial plan, the institutional changes associated with it and the like. This delegated authority is, of course, subject to review when the missions return to headquarters, but it is very real and far-reaching.

d) Lynn - Bunching of Appraisals: The fact of bunching is real but the two causes suggested (yearly lending targets and home leave in the summer) are not the only ones. Climatic conditions make appraisal difficult or impossible in many countries in July and August and holiday habits of government officials may have the same effect in others.

e) Lynn - Physical Decentralization: Comparisons with other organizations such as AID do not have much meaning, in my opinion, unless the Bank's concept of project-lending is changed.
2.

f) Adherence to lending targets tends to drive out other development assistance: This may be true but needs qualification. First, there is no point in making a loan for a "complicated" and hence more desirable project if it is not ready to go. Actually, if concern with lending targets had the potency the PDS suggest, slippage would not occur at all and projects would be presented to the Board with a lot of post-approval conditions. But disbursements for the project would not occur any earlier in either case. Second, the postponed project is not lost forever; it reappears in the lending program when it is ready to go. Third, substitution of another project provides a vehicle for the transfer of funds and early disbursements which may be needed by the country. It is inaccurate, therefore, to conclude that "rational country economic and social development ... may be overlooked as hasty nonintegrated projects are tacked on to meet Bank not country needs".

g) Smaller countries do not get the attention afforded larger countries: At best this statement is oversimplified, at worst, it appears wrong. To say that Ivory Coast, Tunisia, Senegal, or Bolivia, for example, (all countries with populations under five million) have been neglected by the Bank seems mistaken. Furthermore, I believe that a comparison on a per capita basis of loan/credits would also show in general that small countries have done better than large. In addition, since projects require about the same amount of work by Bank staff whatever their size and since projects in small countries tend to be smaller than those in large, the small countries are receiving a larger proportion of staff time. My memorandum of March 3 has already discussed the tentative conclusion that small countries have more problem projects than large countries and has suggested that this conclusion is not supported by the facts.

h) Excessive Paper Work: There is certainly a lot of paper work and some of it is certainly frustrating, but how much is excessive is not clear in my mind. As far as the appraisal report is concerned, much of the rewriting is concerned with getting all the elements precisely defined and the issues clearly stated. This is necessary to achieve the basic understandings on which management decisions are reached and on which successful project execution and supervision depend and to realize the catalytic and demonstration effects which are usually sought as part of the project. Rewriting is also necessary because of the large proportion of new staff and of staff whose professional background or native language means that first drafts need basic improvement.

i) Area Departments do not control the resources necessary to carry out the tasks for which they are accountable: "This places the Projects Departments in the position of selecting out projects which the Area Department may consider important." This concept requires several comments. First, even if the Area
Departments had direct control over project staff, not all the projects in the country programs could be processed because of the manpower constraints. Second, "selection out" has two aspects. One is the determination of priorities within the country and between countries and regions; the Projects Departments have no role in this. The second is the determination on project grounds, sector grounds or experience with the borrower whether the project is justified and if the timetables proposed in the country program are realistic. The Projects staff must have an important role in this determination under any organizational arrangement.

Graves - Objectives should be expressed in terms of development goals rather than lending targets: I applaud the concept but question one of your basic facts - "Most of the Bank's lending is in the same areas that it was 5-6 years ago". Using the "fever chart" to compare the number of projects under way (a measure which tends to understate the amount of change) at the end of 1966 with the end of 1971, we find that of 238 projects in 1966, 43% were in transport, 35% in public utilities, 17% in agriculture and 5% in education, while of the 455 projects in 1971 (excluding industry which was in IFC in 1966), 31% were in transport, 27% in public utilities, 27% in agriculture, 11% in education, 2% special projects and 1% in population. If we compare projects approved in 1965/66 with those approved in 1970/71 (excluding industry and development finance companies), we find that of the 38 projects approved in 1965/66 39% were in transport, 26% in public utilities, 23% in agriculture and 11% in education while of the 114 projects approved in 1970/71 32% were in agriculture, 27% in public utilities, 26% in transport, 12% in education, 2% in population and 1% in tourism. It should also be noted that there have been important changes in the patterns of lending within the larger sectors. Considering the amount of time required for preparation of the newer types of projects this represents a very considerable shift. From the point of view of organization and procedures, I believe that numbers of projects are a more significant measure than amounts.

You also say that there are very few small projects. Of the 114 loans approved in the last fiscal year mentioned above, 31, or 27%, were for $5 million or less.

It is, I think, fair to say that it is difficult for the Bank to expand its operations into areas where the principal costs are current costs or, to a much lesser extent, local currency costs.

cc: Messrs. Shoaib, Demuth, Twining, Christoffersen, Messenger

JAKing:lb
OFFICE MEMORANDUM

TO: Files
FROM: John A. King
SUBJECT: Study of Organization and Procedures: Meeting of March 9, 1972

DATE: March 15, 1972

1. On March 9, 1972 the fifth regular meeting with McKinsey was held; present were Messrs. Shaalb, Sommers, Demuth, Twining, Messenger and King for the Bank and Messrs. Garrity, Graves and Kavarana for McKinsey.

2. The meeting was devoted to the study team's "report to the committee" dated March 9. It was made clear that this report was merely a tool in carrying out the study and not in any way a part of the formal conclusions. Mr. Graves pointed out also that the "report" had been completed a week earlier and some of its tentative conclusions had been overtaken by more information leading to somewhat different views.

3. Mr. Sommers expressed his reservations about defining general objectives; he believed they were meaningless or open-ended. Nevertheless, he and members of the Steering Committee believed the statement of the Bank's ultimate purpose (page 1-1 and exhibit I) incorrectly presented the relationship between the Bank and its members, particularly with the developed countries. The fundamental basis for these relationships was that the Bank was an instrument of the international community through which economic and social development could be advanced. A number of specific points were also made:
   a) Social change was not universally desired among the member countries.
   b) Improvement in the quality of life was an element, but was hard to define.
   c) The concept of "informal partnership" between the Bank and the developing countries could be misunderstood.
   d) There was suspicion of the Bank, in some LDCs, as an agent of neo-colonialism.

4. With respect to the three objectives described on page 1-2, some questions were raised as to the order of these objectives, to the apparent primacy given to financial resources. It was also pointed out that while no objection could be taken to the coordinating objective as stated, the main coordinating role in the UN system had been placed elsewhere by the UN Charter.

5. With respect to the roles set forth on page 1-3 it was agreed that-
   a) The term "investment banker" was not entirely appropriate; "mobilizer of resources" was to be preferred.
   b) Though the Bank was, in a number of respects, acting as a "thought leader on development problems", it was not clear that this role was generally accepted.
6. With respect to page 2-1, it was agreed that though treasury functions did pose problems, they were not of the same significance and order of magnitude as those connected with the lending and development assistance functions. The questions concerning the Bank's role as a leading development institution were good.

7. With respect to page 2-3, there was considerable discussion about "the perceived lowering of quality standards and neglect of non-lending objectives". The study team explained that the perception was not that of the study team but that of those being interviewed, and that "non-lending objectives" meant development activities not directly related to the transfer of funds. Concern was expressed about this conclusion, particularly that part of it referring to quality standards. Did Bank staff really believe that quality standards were being lowered or was this feeling part of their frustration with lending targets? The study team indicated that the real concern, in general, of those interviewed was with lending targets and the impact of the targets on choice of project and country (i.e. in order to achieve targets conventional and easy projects and countries with good absorptive capacity were preferred).

8. With respect to page 2-4, Mr. Shoaib pointed out that the CPPs as a planning device were relatively new and in the process of evolution. Nevertheless the study team believed that management planning at a high level was lacking and there was no anchor for planning and management other than the lending targets.

9. With respect to page 2-5, there were questions about the meaning of "project cycle" as used in the text and exhibit IV and about the standards against which it was being measured, and Mr. Graves expressed some reservations about the basic conclusion (concerning use of time and manpower) as stated. There was some discussion of the time consumed in preparing the appraisal report and other documents associated with Board approval, and a number of purposes in preparing and revising such reports were suggested - internal training for Bank staff, establishment of policies and attitudes for the Bank, and making the appraisal report a coherent, self-sufficient document suitable for consideration by the Board and for use as a guide in project implementation and supervision. The format of exhibit IV was questioned.

10. With respect to supervision, it was noted that exhibit V did not reflect all the supervision activities of the Bank (e.g. "loan administration" by the Area Departments). It was pointed out that the question of supervision had important organizational implications, and it appeared that the study team was only just beginning to examine this subject. A number of suggestions were made as to leads for them to follow.

11. With respect to page 2-6, the study team indicated that though they had identified a number of weaknesses in the areas of planning, control and evaluation, it was too early to say whether any wholesale organizational change was called for.

12. During the discussion of item 3 - major issues and next steps - the following points were made:

   a) The tasks identified on pages 3-1 and 3-2 were sound and replaced the earlier "issues papers".
b) The study team was still completely open as to organizational solutions.

c) The role of IFC and its relation to other departments dealing with industry (Industrial Projects, DFC, Economic and Agro-Industry) would be examined.

d) The present institutional character of IDA was accepted and a new organizational structure would not be studied.

13. The next meeting was set for March 29 at 3.00 pm.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Messenger

JAKing:lb
OFFICE MEMORANDUM

TO: Files
FROM: John A. King
DATE: March 1, 1972
SUBJECT: Study of Organization and Procedures: Meeting of February 24, 1972

1. On February 24, 1972 the fourth regular meeting with McKinsey was held; present were Messrs. Shaib, Sommers, Demuth, Twining, Messenger and King for the Bank and Messrs. Garrity, Rohrbacher, Graves and Lynn of McKinsey.

2. The meeting was primarily a review of the progress of the study and McKinsey's summary of this is attached.

3. Field Visits: There was some discussion of the proposed field visits. McKinsey reported that four were planned - two immediately to Africa and Asia primarily for fact-finding and two later to Latin America and Asia for testing analyses and alternative conclusions. In addition, there would be a visit to Mexico in connection with a McKinsey partners' meeting there. If it was necessary to conduct interviews in Europe, that could be done through the McKinsey offices there.

4. Mr. Shaib urged the consultants to allow enough lead-time for these field visits, noting that, for the most part, they were dealing with busy government officials. It was suggested that the study team, in preparing for these visits, take advantage of Bank staff in Washington with intimate knowledge of field operations (e.g. Messrs. Gordon or Lithgow) and, in carrying them out, talk to borrowers as well as high officials in the key Ministries. It was also suggested that, to get a better understanding of the Bank's field operations, the study team take part in a few typical missions (economic, sector, appraisal or supervision) in addition to seeing resident missions.

5. Costs of Doing Business: Mr. Sommers urged the study team to examine ways by which the administrative costs of the Bank could be measured and compared with the volume of loans and other activities. It would also be important to be able to compare the costs of alternative organizational solutions.

6. Work Programs: The study team would expect to have a clear statement of the issues derived from the data collected in the fact-finding phase by mid-March and a complete analysis of the Bank's problems by the end of March. As far as the Bank's objectives were concerned, the study team had had difficulties in penetrating below the generalities.

7. Mr. Shaib reported that Mr. Knapp had invited the Area Department Directors to submit their views on organization, comparable to the Chadenet 1980 exercise. He believed it would be desirable to get the views of other departments - particularly the central economic complex and the Development Finance Company Department.

8. In this connection the study team was asked to look at the central economic complex closely and especially at its working relationships with the Area and Projects Departments.
9. As a result of concerns expressed by some staff, it was agreed that in future interviews the Bank member of the interview team would invariably leave the interview before the end in order to give the person interviewed an opportunity to present his view to the McKinsey man alone. The next meeting was set for Thursday, March 9 at 3.00 pm.

Attachment

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Messenger

JAKing: 1b
SUMMARY OF PROGRESS AND IMMEDIATE PLANS

WORLD BANK STUDY

February 24, 1972

I. Progress to Date

1. Initial fact-finding interviews completed in most areas
   a. Department Directors
   b. Some Division Directors
   c. Selected Professional Staff

2. Review of key Bank documents underway
   a. Sector Program Papers
   b. Country Program Papers
   c. Appraisal Reports

3. Initial analysis of Bank operating data completed.

4. Initial analysis of project cycle prepared.

5. Summary of the evolution of the Bank's organization prepared.

II. Immediate Plans - Rest of February

1. Conduct team meeting to review initial understanding of how the Bank operates and discuss preliminary definition of major issues (Friday, February 25).

2. Complete fact-finding interviews in the major departments of the Bank.
III. Major Tasks for First Half of March

1. Carry out first two field trips:
   a. Japan and Indonesia
   b. Ivory Coast, Kenya, Ethiopia, and Nigeria

2. Carry out initial diagnostic survey of IFC

3. Begin work on detailed analysis of major issues identified at end of February.
1. In the foreword to the Capacity Study, Sir Robert Jackson says, after noting that the UN system as a whole has become unmanageable, that the Bank and Fund are "largely untouched" by this conclusion because they are "independent and well-managed". (page iii)

2. He then goes on to comment (page vii):

"The second comment is prompted by the question that many thoughtful people have asked me: 'Is it worthwhile going to all this fuss and bother to try and reform the machine? IBRD is efficient; why not let UNDP go on as it is, even if its capacity diminishes as the machine grows more unwieldy, and let the Bank do the rest?' There are at least three reasons for rejecting this approach. The first is that it is in the interests of all Member States for the United Nations to carry on the technical co-operation work which it has pioneered and has shown can be handled successfully as an international operation. Hence, UNDP should be strengthened so that it can effectively accomplish its role and, simultaneously, help to bring the machine under reasonable control. Next, evidence presented to the Study indicates that the Third World would prefer to remain in effective partnership with UNDP as far as development co-operation is concerned for, much as it respects the World Bank Group (and rightly so), there are misgivings about its weighted voting and limited membership. Finally, although I obviously cannot speak for the President of the Bank, I have the impression that the Bank would prefer to see UNDP and the UN development system as a whole operating with efficiency and interlocking their operations in the field of preinvestment with the Bank Group."

3. It is clear that Sir Robert regarded the Bank and Fund as members of the UN development system only in a special sense (footnote 2, page 3 and footnote 2, page 36):

"In the terminology used by the Capacity Study, the UN development system covers the organs of the United Nations (including UNICEF and WFP) and the professional and technical secretariats which serve them and the Specialized Agencies concerned in the promotion of economic and social development. Where the IBRD and IMF are included, this is specifically indicated. Because the inherent indivisibility of capacity has been accentuated in the case of UNDP by the practice of operating indirectly through other arms of the UN development system, it would have been impossible to carry out the Study by examining UNDP only. For this reason, all the various components and inter-relationships of the UN development system had to be considered as a whole."
There are relatively few references to the IMF in the Study, but its operations, of course, exercise a profound influence on development in the widest sense. I hope that UNDP-IMF relations become much stronger: the more closely the IMF, the World Bank Group, and UNDP (as the co-ordinating body for the UN development system) could work together at the country level, the more effective would be the contribution of the United Nations to the developing Member States.

All references to the Bank, however, have a favorable tone.

4. But his view of the Bank formed the basis for his proposal for reorganizing UNDP. He pointed to four themes in the Bank's program to carry out its responsibilities in the field of development, which were of particular relevance to UNDP:

a) Rapid expansion
b) Growing links with the specialized agencies
c) Country programming
d) Possible changes in the role of IDA (as recommended by the Pearson Commission)

He then continues:

54. "Taken together, these developments all point in one direction. Thus, if the supply of preinvestment studies is inadequate in relation to the Bank's rate of expansion, it will have no alternative but to prepare them itself. Again, IBRD's arrangements with FAO and UNESCO constitute a new preinvestment axis, even though much of their work may be based on UNDP-financed projects. So, too, with programming. If UNDP does not take the lead in integrated programming at the country level of preinvestment needs to be met from the concerted resources of the UN development system, then the Bank will once again have no option but to do so, in support of its own investment programming.

55. "The relationship between UNDP and the World Bank Group in the fields of preinvestment and investment must therefore be of crucial importance. It must be understood - and clearly understood - by all concerned. In my judgement, there is a proper role for each of these organizations. The World Bank Group should be the chief arm of the UN system in the field of capital investment, while UNDP should perform the same function for basic technical co-operation and preinvestment. However, as I have indicated, a number of forces, now converging on both organizations - not all of which are under their control - could produce a very different balance between them. There is, therefore, a very real danger that the centre of gravity for preinvestment work could be pulled away from UNDP to IBRD. If this happened, the result would be a negation of one of the basic functions for which UNDP was specifically created: to fill the 'preinvestment gap'. If governments do not give UNDP all the resources it needs to play its full role then, in plain language, it must become, by sheer force of circumstances, a junior partner of the World Bank in that field. Is this the wish of governments?
56. "For myself, I believe categorically that UNDP could be transformed by governments into an efficient medium for providing both technical co-operation on a substantial scale and preinvestment projects in numbers and of a standard suitable for the Bank's requirements. Of course, neither UNDP nor UN Development system is exclusive: the latter cannot provide all the preinvestment studies needed by the developing countries, and the Bank cannot provide all the capital they need. It is self-evident, however, that UNDP's operations must expand at about the same rate as those of the Bank.

57. "The relationship between UNDP and the World Bank Group is not the whole of the problem, however."

5. In the Plan of Action, he urged that the Bank be closely associated with the UNDP country programming exercise. The Study also rejected a number of alternative organizational proposals, including one that would transfer UNDP's preinvestment function (but not its technical assistance function) to IDA.

cc: Messrs. Demuth, Twining, Messenger

JAKing:1b
OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib
FROM: John A. King

DATE: February 28, 1972
SUBJECT: Study of Organization and Procedures: Staffing Patterns

1. During the initial fact-finding, which was virtually completed by February 25, the study team headed by Mr. Graves (McKinsey) was organized into three groups:

   Messrs. Lynn (McKinsey), Benecelin and Lethem (Bank) on analysis of the Projects, Departments.

   Messrs. Kubes (McKinsey), Barry and Dosik (Bank) on analysis of the Area and Economics Departments.

   Messrs. Kavarana (McKinsey) and Richardson (Bank) on analysis of the support departments.

   Messrs. Bower, Garrity and Rohrbacher (McKinsey) also took part in some of this work.

2. For the period February 28-March 10, the following assignments have been made:

   All teams in the first phase to complete any outstanding work from that phase, including completing and recording interviews and basic fact sheets.

   Messrs. Rohrbacher and Lynn (McKinsey) to visit Japan, Indonesia and the Philippines.

   Messrs. Kubes (McKinsey) and Barry (Bank) to visit Ivory Coast, Kenya, Ethiopia and Nigeria. (The purpose of these two trips is to gain an initial understanding of the Bank's overseas operations.)

   Messrs. van Lede (McKinsey) and Winterton (Bank) to make an initial study of IFC.

3. For the same period the following tasks have been identified:

   Construct a hierarchy of issues derived from the data already collected and prepare work programs to study them in detail.

   Carry out a detailed analysis of the central economics complex.

   Identify the priorities and objectives of the Bank reflected in the Sector Program Papers.

   Carry out a critical analysis of selected CPP papers, project appraisal reports and economic survey reports.
Define the role of the President's Council and its consequence for management.

cc: Messrs. Demuth, Twining, Messenger

JAKing:1b
<table>
<thead>
<tr>
<th>NAME</th>
<th>CITIZENSHIP</th>
<th>MCKINSEY OFFICES</th>
<th>COUNTRIES WORKED IN</th>
<th>DEGREES</th>
<th>LANGUAGES</th>
<th>FIELD OF SPECIALIZATION</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graves, Michael J.</td>
<td>Great Britain</td>
<td>London, Chicago</td>
<td>U.S.A., Great Britain, Tanzania, Sierra Leone</td>
<td>MBA, Economics, University of Chicago; BA, Economics, Cambridge University</td>
<td>English, French</td>
<td>Organization; systems; developing countries</td>
<td>Assistant to Common Market, Advisor and Export Sales Director - Thomas &amp; Baalden Ltd.</td>
</tr>
<tr>
<td>Havanara, Farnesh K.</td>
<td>India</td>
<td>London</td>
<td>U.S.A., England, Northern Ireland</td>
<td>MBA, Economics, Wharton School of Finance; B.Com., Economics, University of Bombay</td>
<td>English, French, Hindi, Gujarati</td>
<td>Financing; banking; strategic planning; developing countries</td>
<td>Dissertation: Impact of Development on India's Balance of Payments</td>
</tr>
<tr>
<td>Kubas, Z. Jan</td>
<td>U.S.A.; born in Austria of Czech parents</td>
<td>Dusseldorf</td>
<td>U.S.A., Germany, Switzerland, Yugoslavia, England, Sweden, Lebanon, Syria, Austria</td>
<td>MBA, International Business, Harvard Business School; BA, Princeton University, Woodrow Wilson School of Public and International Affairs</td>
<td>English, German, Russian, Czech, French, Arabic</td>
<td>Organization; planning, budgeting, and control; mergers and acquisitions; financial planning</td>
<td>Published article on International monetary systems; Thesis – East-West trade</td>
</tr>
<tr>
<td>Van Leu, Kees</td>
<td>Holland</td>
<td>Amsterdam</td>
<td>The Netherlands, Belgium, Germany, France</td>
<td>Mech and Physics, Law - Leiden University, Business Administration (INSEAD)</td>
<td>Dutch, French, German</td>
<td>Organization; mergers and acquisitions; marketing strategy</td>
<td>Shell Oil Co., The Hague Assistant to Marketing Manager</td>
</tr>
<tr>
<td>Cormelet, Jean-Michel</td>
<td>France</td>
<td>Paris</td>
<td>France, Algeria</td>
<td>INSEAD – with distinction</td>
<td>French, English, German</td>
<td>Organization; strategic planning</td>
<td>SONATRACH - Algeria Bank Groups - France</td>
</tr>
<tr>
<td>Bell, P. Jackson</td>
<td>U.S.A.</td>
<td>Washington</td>
<td>U.S.A., Brazil, Switzerland</td>
<td>MBA, International Affairs, University of South Carolina</td>
<td>English, Portuguese</td>
<td>Organization; planning and control; developing countries</td>
<td>Currently managing World Bank compensation study</td>
</tr>
</tbody>
</table>
Mr. van Lede has participated in several important organization and strategic planning engagements since joining the Firm's Amsterdam Office. He has been involved in our work for the following companies with world-wide operations: Compagnie Lambert pour l'Industrie et la Finance, S.A., a holding and investment company in Brussels; Steenkolen-Handelsvereeniging N.V. (SHV), a shipping firm in The Netherlands; and Akzo, N.V., a paint and industrial chemicals company, also in The Netherlands.

The study for Companie Lambert was directed at developing a long-term organization structure and identifying opportunities for strengthening relationships between the parent company and its subsidiaries. At Steenkolen-Handelsvereeniging Mr. van Lede participated in a top management study which involved an analysis of the advantages of product diversification and the development of a long-range strategy and organization for effectively managing the company's diverse activities. In another effort for SHV he helped design an organization structure for integrating two newly acquired companies.

In a series of studies for Akzo, Mr. van Lede was involved in assessing potential benefits from the acquisition of German and French subsidiaries and designing the organization for a multi-national division of the company; conducting a product/market analysis; and implementing the market strategy and organization recommendations that resulted from the studies.

Mr. van Lede participated in the pilot test of our comprehensive planning recommendations to the Dutch Ministry of Education and Science; in that pilot test, the study team worked at three universities to develop short- and long-term plans that were submitted to the Ministry for testing the centralized review and consolidation procedures.

Prior to joining McKinsey, Mr. van Lede was assistant to the marketing manager of the Shell Oil Company in The Hague.

Mr. van Lede, who is Dutch, also speaks French, German, and English fluently. He holds degrees in mathematics and physics and in law from Leiden University, and a degree in business administration from INSEAD.
Mr. Cornudet has been on the staff of the Firm's Paris Office for over 3 years and in that time has made major contributions to organization and strategic planning studies in the banking field.

For Compagnie Bancaire, a rapidly expanding bank holding company, he participated in a top management organization study which focused on markets served, products offered, financing techniques used, management procedures, and organization. In subsequent studies he helped develop a growth strategy for the bank group and participated in a study to determine the capitalizing needs of a subsidiary. Mr. Cornudet was also a member of the McKinsey team that developed the strategy, organization, and management processes for Groupe PARIBAS to ensure the most effective long-term utilization of the resources of this unique investment banking group.

In a study for Source Perrier, he assisted in the development of a management structure and processes to enable the individual operating units of this diversified food company to work together as a group. More recently, Mr. Cornudet has managed a major organization study in Algiers for Societe Nationale de Transport et de Commercialisation des Hydrocarbures (SONATRACH). This effort was the outgrowth of an earlier strategic planning study to help Algeria develop its infant plastics industry.

Mr. Cornudet also participated in a general examination of the basic chemical operations of Progil, S.A., in France. This study was focused on the organization and management methods needed to cope profitably with the increasingly complex character of this segment of the company's business and the problem of multiple participations with other chemical companies.

Prior to joining McKinsey, Mr. Cornudet was associated with Generale Alimentaire in Dijon, France, where he was responsible for economic and commercial studies.

A French national born in Algeria, Mr. Cornudet is also fluent in English and has a working knowledge of German. He holds a degree from Hautes Etudes Commerciales and was graduated with distinction from INSEAD.
Mr. Bell is currently managing the comprehensive compensation review study for the World Bank Group. A senior associate in the Firm's Washington Office, he is a specialist in organization and budget planning and control and is experienced in the problems of management organizations involved in development-related activities.

In the organization area, Mr. Bell has managed major reorganization studies for: (a) Peace Corps headquarters; (b) headquarters and subsidiaries of Construcoes e Comercio Camargo Correa, a Brazilian holding company; and (c) corporate headquarters of Equitable Life Insurance Company (EQUILIFE). More precisely, for the Peace Corps, he managed a series of efforts to evaluate and restructure the headquarters organization and management processes supporting both headquarters and field operations. With Camargo Correa, he managed the restructuring of the company in light of its goals and strategy to base its operations in the economic growth sectors of the Brazilian economy. In the organization effort with EQUILIFE, he helped develop an improved management structure to strengthen functional operations at the corporate level.

He has also worked extensively in the area of planning and budgeting process development. For example, in the Office of Management and Budget (OMB), two major studies were conducted - (1) to design and (2) to pilot test improvements in the federal government-wide processes for planning, budgeting, and program management. In the first study, Mr. Bell worked on the design of improvements in these processes and had special responsibilities for developing approaches to integrating appropriations, PPBS, and program management systems. In the second study, he managed the joint McKinsey/OMB team that pilot tested recommended improvements in the Departments of Agriculture, Commerce, and Labor.

In the economic development area, Mr. Bell has had experience with the management problems of economic development and of operating under development assistance programs. In the Peace Corps, for example, he managed our efforts to strengthen program development, resource allocation among competing priorities, and volunteer training. With Camargo Correa, the largest civil construction company in South America, he assisted the client in developing a long-term strategy for operating in Brazil's economic growth sectors, including construction, building materials, petrochemicals, agribusiness, and reforestation, most of which involved the use of development assistance financial or fiscal incentive arrangements.
Mr. Bell is an American citizen and has a working knowledge of Portuguese. He holds a B.S. degree in business administration from Northwestern University and an M.A. in international relations from the University of South Carolina.
Mr. Graves, a senior associate in our London Office, has had extensive international experience, particularly in working with developing economies.

During 1970 and 1971 he managed a major study for the Government of the United Republic of Tanzania. The objective of the study was to help establish the government machinery needed to manage development, and the work concentrated on the organization and procedures needed to manage rural development.

More recently, Mr. Graves completed a diagnostic survey of the management problems at the National Diamond Mining Company of Sierra Leone, Ltd., an organization that is controlled jointly by the Sierra Leone Government and private interests.

In the British private sector, Mr. Graves has served Sun Alliance & London Insurance Limited in studies of overall organization structure and management information systems; Barber-Green England Limited, in adapting to the executive compensation system developed by McKinsey for the parent company in the United States. Prior to these studies, he worked for several U.S. clients and was based in the Firm's Chicago Office for over 2 years.

Prior to joining McKinsey, Mr. Graves was associated with Richard Thomas & Baldwin Ltd. in London. As Assistant to the Common Market Advisor and Assistant to the Export Sales Director, he was largely concerned with export sales to Western European countries. He was also employed as a financial analyst with the Harris Trust & Savings Bank in Chicago.

Mr. Graves has been a guest speaker at business seminars of the Cambridge University Management Group and Imperial College of London University. He has also addressed the Overseas Development Institute on the need for institutional change in developing countries. He received a B.A. in economics from Cambridge University and an M.B.A. from the University of Chicago Graduate School of Business. Mr. Graves is British and until commencing the present assignment lived in London. He speaks German and has a working knowledge of French.
Recently returned to Washington from a 2-year assignment in our Paris Office, Mr. Lynn has in-depth experience with the management of public enterprise organizations in the United States and France, specializes in planning and control and government organization studies.

While in France, he capitalized on the public-enterprise management expertise gained in the previous 5 years in Washington by participating in a number of studies for units of the French national government. He managed the initial stages of our study for the Ministere de l'Economie et des Finances to determine the major changes needed to improve collection, dissemination, and analysis of economic and social information. He participated heavily in our assignment for the Ministere de l'Equipement et du Logement; that effort was aimed at analyzing the objectives and options of the organization and at introducing program-budgeting, first within the Highway Department and later at the Ministry level. He aided the Aeroport de Paris in installing top-management controls over airport operations. Mr. Lynn also participated in major investment planning and control and strategic planning studies respectively for the Chemical and Textile Divisions of Rhone-Poulenc, S.A.

In Washington, Mr. Lynn managed our study for the Department of Housing and Urban Development to implement throughout its regional offices a system of control of urban improvement program grants and loans. More specifically, he worked with HUD regional office personnel to put into operation the EDP-based management information system that enabled managers at the regional level to monitor and evaluate contractor and area office compliance and progress according to program guidelines and objectives.

In addition, he held major responsibility in our Office of Economic Opportunity study to develop organization plans for the Community Action Program regional structure; and he helped develop a comprehensive management information system for that program. Mr. Lynn managed our study to assist the Department of Labor in realigning the organization structure of the Manpower Administration, as well as our study for the Federal National Mortgage Association to assist that agency in shifting from HUD to a government-sponsored private corporation.

Mr. Lynn also served the Office of Management and Budget (then the Bureau of the Budget) on a study to design and develop an information system to support and to help integrate the planning-programming-budgeting processes of the Office. For this effort, Mr. Lynn was a member of the McKinsey/BoB
systems-requirements team responsible for developing a total program evaluation concept.

Mr. Lynn has a working knowledge of French. He has a B.A. from Hanover College and an M.A. from the University of Chicago.
Since joining the Firm's London office, Mr. Kavarana has participated in studies for two large banks in England and on an assignment with a government holding company in Northern Ireland.

His work with the National & Grindlays Bank Limited was part of a strategic planning and profit improvement study to identify and quantify opportunities for the Bank in non-traditional commercial banking activities in India. For the Midland Bank Limited he helped develop an organization structure that would strengthen Midland's ability to grow while continuing to improve its profit and its competitive position.

Mr. Kavarana also assisted the Northern Ireland Transport Holding Company in a study aimed at weighing the economic and social considerations of implementing several major railway developments; this involved assessing the interactions between private and competing forms of public transport in order to determine the desirability of moving ahead with planned programs.

Before joining McKinsey, Mr. Kavarana conducted statutory and operational audits of large international corporations for Whinney Murray & Co. in London and Ernst & Ernst in Philadelphia.

A member of the Institute of Chartered Accountants in England and Wales, Mr. Kavarana holds a degree in economics and accounting from the University of Bombay and an M.B.A. in finance from the Wharton School of Finance. His dissertation at Wharton was entitled "The Impact of Development on India's Balance of Payments, 1948-68"; and he also authored a paper on "Special Drawing Rights." He is an Indian citizen and is familiar with Hindi, Gujerati and French.
Mr. Kubes, a senior associate in our Dusseldorf Office, has broad experience in political affairs and international business and has served a variety of international clients on organization, planning and control, budgeting, and management information studies.

Since joining McKinsey he has participated in a major organization study for DEGUSSA, an international chemical and precious metals company located in Frankfurt, Germany; his participation was chiefly in developing an organization structure for the Finance Department; introducing the concept of project management; developing planning, budgeting, and control systems; and introducing an investment-planning system. He also worked with Dynamit Nobel, the West German chemical company, to help develop and install controllership principles and techniques in its finance department.

For Volkswagenwerk A.G., Mr. Kubes helped to develop planning and control and financial management systems that would support top management in implementing the world-wide organization structure we had recommended in a prior study. He served one of the largest coffee and tea companies in Germany, on a series of feasibility and organization studies relating to its merger with one of the largest coffee and tea companies in The Netherlands.

Immediately prior to his association with McKinsey & Company, Mr. Kubes was a staff member of IMEDE (Institute pour les Etudes des Methodes de Direction de l'Enterprise) in Lausanne, Switzerland. While at IMEDE, his consulting experience included participation in the merger of three Swiss watch companies; development of a sales organization for an electrical and communications equipment manufacturer in Yugoslavia; and determination of a financial policy for a London-based subsidiary of a large Swiss consumer products company. During a brief association with the First National Bank of Boston, he participated on policy and loan review meetings of the Bank's European Division, and carried out an independent project concerning the Bank's strategy vis-a-vis Eastern Europe.

Mr. Kubes holds a B.A. degree from Princeton University's Woodrow Wilson School of Public and International Affairs and an M.B.A. in international business from the Harvard Business School.

Among his published articles while at IMEDE is one dealing with the international monetary system. Mr. Kubes' thesis at Princeton dealt with economic and political relations between West Germany and the Arab East and involved
field research in West Germany, Lebanon, Syria. His research report at the Harvard Business School dealt with a commercial bank's strategy toward East-West trade. He is currently preparing an article on "Understanding Profit Dynamics of Marketing Decisions."

An American citizen, Mr. Kubes was born in Austria of Czech parents. In addition to English, he is fluent in Czech, Russian, and German, has a working knowledge of French and studied Arabic for 3 years while at Princeton.
OFFICE MEMORANDUM

TO: Files

FROM: John A. King

DATE: February 14, 1972

SUBJECT: Study of Organization and Procedures: Meeting of February 9, 1972

1. On February 9, 1972 the third regular meeting with McKinsey was held; present were Messrs. Shoaib, Sommers, Twining, Messenger and King for the Bank and Messrs. Garrity, Rohrbacher, Graves and Lynn of McKinsey.

2. Mr. Shoaib opened the meeting by suggesting to McKinsey that it take more time to prepare "the list of issues" for the study. McKinsey agreed noting that the draft of February 4 was a preliminary attempt to organize the issues raised in the staff memonanda (see minutes of the January 24 meeting) into the matrix of the work plan. Bank staff gave McKinsey a few preliminary comments on the February 4 draft.

3. Mr. Sommers noted that management succession was not included among the topics and asked whether or not it was intended to be covered in the study. Noting that some top management was near retirement and that the existing Bank structure was not conducive to the development of replacements, he suggested management succession could have important implications for the study in two ways - (a) the presence or absence of talent could affect the organizational solutions selected and (b) retirement could affect the implementation of organizational changes decided upon. It was agreed that this was an important topic which was included in the study.

4. Mr. Sommers also noted that there were certain groups of decisions which, if made at an early stage, could greatly simplify the work required for the study.

   a) In the early days of the Bank it was important that no project should fail and procedures were established providing for an extremely careful review of projects. Did the same considerations apply today, or could the Bank take more risks and streamline these procedures, or was the same care required today for other reasons?

   b) Should the Bank really be run from Washington, or should it be on a regional basis? Might it be run, as an experiment perhaps, on a regional basis for part of the world, say Latin America, and on a centralized basis for the rest?

   c) Some of the normal values associated with the operation of enterprises, such as speed and efficiency, had been deliberately downgraded, for valid reasons, in the early days of the Bank. Did these reasons still apply?

5. McKinsey noted that they were trying to develop a hierarchy of issues, but because the Bank was large, complex and unique, they had to proceed slowly, assuming nothing and finding the facts. The Bank should not expect much for about a month.
6. In this connection, it was noted that many of the issues had a long history in the Bank and that a variety of solutions to them had been tried. As a result, a number of Bank staff had taken firm positions on these issues, positions which might complicate implementation of the study. Implementation might have to be carried out step-by-step; this was perhaps the best way of proceeding because there was no ultimate organizational solution.

7. Mr. Twining noted that a meeting with the chief economists in the area departments had revealed a general dissatisfaction among area economists with opportunities for promotion and career development. These dissatisfactions were also related to the relationship of their work to that of central economic staff and of the projects departments (sector work). This raised the important questions of motivation and what organizational change could contribute to that. Mr. Twining suggested that there were limits to what organizational change could achieve; philosophical or policy changes might be needed as well.

8. On the more mundane side, McKinsey reported that the study team was becoming organized and getting down to work. Mr. Shoaib repeated his request for biodata on the McKinsey team and synopses of the interviews. The next regular meeting was set for February 21 at 3:00 pm. There will be a lunch for those associated with the study on February 28.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Messenger

JAKing:lb
Mr. Robert S. McNamara

February 8, 1972

M. Shaiban

Organization Study Team

1. Last week I promised to send you some information about the six Bank staff members seconded to the Organization Study Team. Attached are brief biographical data on each of the individuals.

2. For three of the Team members we were looking for Bank staff with knowledge of and experience in different substantive Bank operations. We considered that five years or more experience with the Bank was necessary to provide the level of experience that would be needed to help guide the Team in its deliberations. We were able to obtain: Mr. Dosik of the South America Area Department; Mr. Lether of the Education Projects Department; and Mr. Hinterton of the IFJ Legal Department.

3. We wanted one of the Team members to be familiar with the Bank's information requirements and procedures to be able to work on the support departments and systems. We were able to obtain Mr. Barry from the Programming and Budgeting Department.

4. We wanted two of the Team to be staff members who would be available to work on the implementation of the study recommendations that are agreed upon, after the Team disbands. We assigned Mr. Richardson and Mr. Benzelin from the Organization and Procedures Division, Administrative Services Department.

Attachments

HUM:JEB:bl

[Handwritten signature]
Memorandum to
Messrs. Shoaib, Demuth, King,
Messenger, Sommers, Twining

From: Mr. Rohrbacher

Subject: Draft Issue List for the Organization Study

Enclosed is a draft inventory of initial issues for the organization study. The list is designed to help orient the study team's work planning by major project and subproject, e.g., by suggesting analyses to be performed and data to be collected.

Of course, not all the issues listed will be examined in depth in the study and some are clearly more important than others. Further, a simple listing of this type neither suggests the close interdependency among the issues, nor the specific order in which they should be addressed in the study.

Our objective in sending this list to you at this time is to ensure that we do not overlook significant issues as we undertake our analyses. Accordingly, your comments on, or additions to, this list will be most appreciated.
OVERALL STUDY ISSUES

1. What is an appropriate level of decision authority delegation within the Bank (among the President, his Council, and the principal operating units)?

2. What is an appropriate division of effort between Washington headquarters and the resident missions in performing essential Bank operations?

3. Should there be a fundamental change in organization or working relationships among the three major Bank units (e.g., relating IFC more closely to IBRD/IDA, separating IDA operations from those of IBRD)?

4. What are the overall organization/implications of the current 5-year plan and the 1974-78 planning assumptions (e.g., implications of projected growth rates and changes in emphasis in the level and mix of lending and other essential bank activities)?

5. Given the Bank's current and probable future objectives, what is the optimum overall organization structure for the Bank Group (i.e., covering top management as well as operating and support staff functions)?

6. What major procedural changes are needed to accompany agreed-on organization changes (e.g., in management decision-making processes)?

* - Note: Not all issues on this list will be examined in depth in the study; no attempt has been made to indicate the relative weight of the issues or the order in which they will be addressed; other issues will be added as appropriate.

** - Issues that must be closely coordinated across major project lines (e.g., Bank objectives and Bank operations).
BANK OBJECTIVES AND
TOP-MANAGEMENT ORGANIZATION

Objectives

7. What are the current objectives of the Bank? *

a. What are the differences of opinion as to the Bank's current objectives among Bank staffs, Executive Directors, and selected borrowing and lending countries (e.g., in viewing the Bank as primarily a financial or development institution)?

b. What recent developments have occurred which may have modified these objectives (e.g., increased emphasis on institution building, applied research, aid to least-developed countries, broader Bank participation in a given country's overall development planning)?

8. Are some near-term (1972-74) changes in objectives - or major activity emphasis - foreseen and what are they (e.g., in nutrition, income redistribution)?

9. What changes in the Bank's objectives are foreseen over the period of the 1974-78 plan?

10. To what extent can the Bank establish objectives that are independent of those of its key counterparts (the UN and its specialized agencies, regional banks, IMF) and how can complementary or at least non-conflicting objectives be established vis-a-vis these organizations? **

Should we include under 9 or separately a reference to what expected changes in the growth & pattern of development assistance and economic trends will require a reorientation of Bank resources?

* This question will need to be reexamined following an analysis of major Bank operations.

** An in-depth review of these other organizations will not be possible as part of this study.
11. What will be the implications of Bank Group objectives (or changes in them) on its organization structure, on the activities it performs to achieve these objectives, and on its processes?

Top-Management Organization

12. What should be the responsibilities, role, and major activities of the most senior executives (e.g., those reporting directly to the President)?

13. Should the President have a Deputy or Executive Vice President, and if so, what should be his primary duties (e.g., overseeing area/project operations)?

14. Are senior committees needed in making decisions and, if so, what should be their duties and responsibilities?
   a. Would the current economic and loan committees be needed under various organizational alternatives?
   b. Would new committees be needed (e.g., for planning or finance)?

15. How can the secretariat and other services for top management be structured to best serve the needs of the President, the Executive Directors, and other top managers?

16. Should outside panels or advisory groups be established and what functions might they perform (e.g., advise on sectoral programs)?

17. What other persons or units should report directly to the President and on what subjects (e.g., policy formulation, broad program evaluation, management information)?

18. Given resolution of the above issues, what are feasible alternative top-management organization structures that could permit the President to manage the Bank more effectively and efficiently?

Decision-Making Processes

19. Is the process used by top management for initiating, developing, reviewing, and approving significant Bank policies adequate?
20. What should be the process by which the Bank establishes long-range objectives (e.g., those covering the period 1974-78)? Is there adequate participation in planning at key levels in the Bank to ensure soundness of projections and coherence of operating activities?

21. How is near-term financial and staff resource allocation accomplished and does it represent a sound basis for decisions within longer term objectives?

22. Should the process be modified by which area and project decisions are reached by Bank top management (e.g., by delegating selected investment decisions, by concentrating management review more on project highlights rather than lengthy details)?

23. What bottlenecks occur in the management decision-making process and how can they be reduced or eliminated (e.g., by delegating authority, by improving the scheduling of project reviews throughout the year)?

24. What regular or exceptional financial and other management information is reviewed by the President and other senior Bank officials as a basis for controlling performance and taking near-term corrective action; is there a single focal point for assembling and interpreting this information?

25. What impact could changes in top management procedures have on the Executive Directors' activities in the overall Bank decision-making process?**

**BANK OPERATIONS**

Major Operations

Organization Issues

26. Is the current split between area and project operations efficient and effective (i.e., does the "creative tension" between the two staffs

* - Objectives and operations project teams.

** - A review of the Executive Directors' role is outside the scope of the study.
offset the problems that are or will be encountered in coordination, particularly as growth in Bank activities creates more demands on their time)?

a. Should project staffs be merged into operating units which would have both area and sector expertise?

If so,

1. How can Bank-wide consistency be maintained and quality be assured?
2. What would happen to disciplines with a comparatively small number of experts?
3. At what level might the merger occur — i.e., region or country?

b. Should project staffs retain a separate identity, perhaps with some further specialization within sectors?

27. How can cross-regional or cross-sector problems be coordinated better (e.g., by increasing reliance on special project staffs)?

28. Is the current geographic division appropriate for covering area operations:

a. Should there be fewer, but more important, regional units, perhaps each under a vice president (e.g., for Europe/Africa/Middle East, Asia, Western Hemisphere)?

b. Should there be a larger number of regional divisions than at present?

29. Is the central economics staff used effectively in support of area and project operations; how should economics staff resources be allocated between broad Bank Group level activities and area/project operations?

30. Is the legal staff involvement in area/project operations appropriate? Should operating units have assigned legal staffs?
31. What should be the role and organizational status of EDI (e.g., in helping to meet overall Bank training assistance objectives)?

32. How should the Bank be organized to accomplish coordination with other donor institutions (a) world-wide and (b) country-by-country?

33. How effective are current cooperative program relationships (with WHO, FAO, UNESCO) and should similar arrangements be made to cover other areas (e.g., regional banks, other specialized agencies of the U.N.)?

Major Operations:

34. How can the processes for performing economic and sector analyses and resulting reports be improved?

35. Is the process for developing Bank Group country strategies effective?
   a. How are country strategies translated into operating guidelines?
   b. Is the Country Program Paper preparation and review process adequate?

36. How can the project cycle from inception to approval be made more efficient while retaining or improving project quality (e.g., through eliminating review bottlenecks)?

37. How can project supervision be made more effective and efficient?

38. Is the operations evaluation process adequate?

39. What should be the Bank Group's involvement in industrial/private sector activities?

40. What are the current shortcomings in IFC, DFC, and related operations?

41. How should industrial/private sector operations be organized?
a. Are industrial sector operations too dispersed and un-coordinated (e.g., IFC, DFC's, Industrial Project Department, Economics of Industry Division of Economics, Agro-Industry Division of Agricultural Projects)?

b. Should IFC exist separately from IBRD/IDA? If so, how should complementary activities be coordinated?

c. Should DFC's and other industrial/private sector operations be brought together under IFC?

Decentralization

42. Given World Bank Group agreed-to objectives and the operations to be delegated by the President to other Bank officials, which activities could be performed more efficiently or effectively by resident missions?

43. What should be the role of resident missions, criteria for their further establishment, and their essential characteristics (e.g., what would be the model for a "complete" or "partial" mission)?

44. How can headquarters/field communications (e.g., to ensure project quality) be maintained appropriately if further decentralization is accomplished?

45. What should be the relationships between resident missions and counterpart development institutions (e.g., with UN country representatives)?

46. Should regional development banks be used to perform some elements of World Bank Group activities; and if so, which ones?

Financial Support

47. Should changes be made to the Controller function (e.g., to support operations, to provide financial reports to department-level managers) and what, if any, changes are needed in accounting and reporting systems?
48. Should changes be made to the Treasurer function (e.g., increasing
the Treasurer's role in medium-or long-range financial planning)?

49. What should be the role of internal audit (e.g., purely financial or
expanded to include management audit)?

Administrative

And Other Support

50. How can organization and methods activities contribute to management
decision making and operations (i.e., helping at headquarters to re-
vamp operating processes, providing managerial guidelines to develop-
ing countries)?

51. How can personnel policies and procedures contribute toward meeting
future staffing demands (e.g., for 1978), particularly for specialized
personnel?

52. How should computing activities be best used to carry out Bank Group
objectives (e.g., what are the relative priorities for using the com-
puter on broad economic modeling, operations, administrative support)?

53. What should be the role of Information and Public Affairs in promoting
Bank Group objectives and activities?

54. What should be Bank Group's role in basic and applied research; what
is the appropriate level of WBG's activity in high-risk pilot or demon-
stration projects?
# World Bank Group: Summary Organization Study Plan

## PHASE I
(Assess strengths and weaknesses, clarify Bank Group objectives, develop alternative organization structures)

### JANUARY (18-31)
- 1 McK, 1 WBG

### FEBRUARY
- 1 McK, 1 WBG

### MARCH
- 1 McK, 1 WBG

### APRIL
- 1 McK, 1 WBG (March - April)

### MAY
- 1 McK, 1 WBG (February - July 1)

### JUNE
- 1 McK, 1 WBG (March - July 1)

### JULY
- 1 McK, 2 WBG (Complete assessment, draft report sections)

### AUGUST
- 1 McK, 3 WBG (Refine alternatives, draft report sections)

### SEPTEMBER
- 1 McK, 3 WBG

### PHASE II
(Review and select from alternatives, prepare report and implementation program)

### OCTOBER
- Ongoing throughout duration of study

### PHASE II
(Strengths and weaknesses, alternative structures, given agreed to objectives)

### PHASE II
(Summary Report (Conclusions and recommendations on structures, processes, staffing; plans for implementation)

### PHASE II
(Draft reports by projects)

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### I. STUDY DIRECTION AND COORDINATION
1. Initial study planning
2. Progress review and report preparation
3. Study direction (e.g., progress control, coordinating Bank Group contacts, administrative support)

### II. BANK OBJECTIVES AND TOP MANAGEMENT ORGANIZATION
1. Clarify Bank Group objectives
2. Evaluate top management decision-making processes, delegation of authority
3. Evaluate top management organization including senior committee, secretariat structures.

### III. BANK OPERATIONS
1. Assess area/project operations
2. Determine operating approaches for industrial sector (IFC, DFC’s)
3. Determine level of delegation of operations within headquarters and to the field

### IV. BANK SUPPORT SERVICES
1. Evaluate financial support
2. Evaluate administrative and other support

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### STAFFING SUMMARY
1. McK, 1 WBG
2. McK, 6 WBG
3. McK, 3 WBG
4. McK, 5 WBG

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1. Included as a project for planning purposes; analyses to be performed in other projects.
2. See attached description.
3. Full-time McKinsey associates, WBG team members (i.e., not counting McK or WBG study direction, part-time specialists).
4. Including economics and legal support, key operating procedures.
## Project Title: **STUDY DIRECTION AND COORDINATION**

### Objective(s):  
1. Prepare initial engagement plans (and issue analysis worksheets for each major project)  
2. Serve as the overall study focal point for  
   a. Ensuring project completion and fulfilling study objectives  
   b. Maintaining client relations (i.e., contact logs)  
   c. Coordinating project recommendations  
   d. Preparing progress reviews and final reports  
   e. Providing administrative and logistics support

### Participation:  
   1 WBG equivalent full-time  
2. February 1 - September 30: McKinsey directors and associates part-time as needed (e.g., to consolidate reports), V.P. Administration part-time

### Units Contacted:  
Vice President Administration (Shoaib)

## Subprojects/Major Tasks:  
1. Prepare overall engagement plans (schedules, manloading, task descriptions, end products)  
2. Prepare major progress review  
3. Consolidate draft project reports into final report

### Principal End Products:  
1a. Summary engagement plans  
   b. Individual project plans  
      - schedule  
      - description  
      - issue analysis worksheets (including "must have" fact lists)  
   c. Initial client contact plan (i.e., for top management first round interviews, focused on WBG objectives, major organization issues)  
2. Visual presentation on agreed-to objectives, organization strengths and weaknesses, alternative structural improvements  
3. Written final report containing overall study findings, conclusions, and recommendations (on structure, decision processes, key procedures, and staffing implications); plans for implementation

* Included as a project for planning; all substantive analyses to be performed in other projects
<table>
<thead>
<tr>
<th>Project Title: BANK OBJECTIVES AND TOP MANAGEMENT ORGANIZATION</th>
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</thead>
<tbody>
<tr>
<td><strong>Objective(s):</strong></td>
</tr>
<tr>
<td>1 - Clarify World Bank Group objectives</td>
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<tr>
<td>2 - Identify organizational alternatives and recommend optimum structure for setting overall bank strategy and providing executive leadership and direction (within agreed-to objectives)</td>
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<table>
<thead>
<tr>
<th>Participation:</th>
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<tbody>
<tr>
<td>1 - February 1 - April 30: 2 McK, 2 WBG</td>
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<tr>
<td>2 - May 1 - September 30: 1 McK, 1 WBG</td>
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<table>
<thead>
<tr>
<th>Units Analyzed/Contacted:</th>
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<tbody>
<tr>
<td>1 - President</td>
</tr>
<tr>
<td>2 - President's Council</td>
</tr>
<tr>
<td>3 - Economic and Loan Committees</td>
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<tr>
<td>4 - Secretariat</td>
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<tr>
<td>5 - Program/Budgeting Unit</td>
</tr>
<tr>
<td>6 - Vice President of IFC</td>
</tr>
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<td>7 - Selected counterpart units (e.g., IMF, UNDP), clients</td>
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<thead>
<tr>
<th>Subprojects/Major Tasks:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
</tr>
<tr>
<td>1. Clarify current and possible future Bank Group objectives in consultation with senior officials (and selected outside parties)</td>
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<thead>
<tr>
<th>Processes</th>
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<tbody>
<tr>
<td>2. Examine adequacy of processes used to reach top management (i.e., President's Council) decisions, especially:</td>
</tr>
<tr>
<td>a. Policy formulation (e.g., changes to objectives)</td>
</tr>
<tr>
<td>b. Long-range planning (e.g., for 1974-78)</td>
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<tr>
<td>c. Programming/Budgeting (e.g., 1972-73)</td>
</tr>
<tr>
<td>d. Significant operating decisions (e.g., individual loan/credit decisions)</td>
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<tr>
<td><strong>Top Management Organization</strong></td>
</tr>
<tr>
<td>3. Determine optimum top management organization structure (i.e., for President and President's Council, those reporting directly to the President)</td>
</tr>
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<table>
<thead>
<tr>
<th>Principal End Products:</th>
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<tbody>
<tr>
<td>1a - Statement of current Bank Group objectives</td>
</tr>
<tr>
<td>1b - Possible future objectives (e.g., permanent, but covering 1980 needs) and accompanying rational for change</td>
</tr>
<tr>
<td>2 - Critique of decision-making processes and related procedures (Note: but not to include detailed process revisions)</td>
</tr>
<tr>
<td>3a - Organization criteria, based on agreed-to objectives</td>
</tr>
<tr>
<td>3b - Top management organizational alternatives, including pros and cons based on analysis of current strengths and weaknesses</td>
</tr>
</tbody>
</table>
### Project Title:
**BANK OBJECTIVES AND TOP MANAGEMENT ORGANIZATION (Continued)**

### Objective(s):

<table>
<thead>
<tr>
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<tr>
<th>Subprojects/Major Tasks:</th>
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<tbody>
<tr>
<td><strong>Top Management Organization (Continued):</strong></td>
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</table>

1. Assess appropriate senior committee and secretariat structures
2. Determine appropriate level of delegation of decision authority within Bank*
3. Inventory of decisions to be retained by top management, delegated to operating staffs
4. Recommended improvements (as needed) for senior committees and the secretariat (e.g., including roles, activities, rationale)
5. In coordination with Bank Operations project team

<table>
<thead>
<tr>
<th>Principal End Products:</th>
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* - In coordination with Bank Operations project team
<table>
<thead>
<tr>
<th>Project Title:</th>
<th>BANK OPERATIONS</th>
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</table>
| Objective(s):| 1 - Determine optimum organization structure for conducting essential bank operations (especially those dealing with areas and projects)  
| | 2 - Resolve industrial sector and operations decentralization issues |

<table>
<thead>
<tr>
<th>Participation:</th>
<th></th>
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</table>
| 1 - February 1 - June 30: 3 McK, 3 WBG  
| 2 - July 1 - September 15: 1 McK, 3 WBG  
| 3 - September 15 - September 30: 1 McK, 3 WBG |

<table>
<thead>
<tr>
<th>Units Analyzed/Contacted:</th>
<th></th>
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<tbody>
<tr>
<td>1 - Area Staffs</td>
<td>5 - IFC</td>
</tr>
<tr>
<td>2 - Project Staffs</td>
<td>6 - DFC's</td>
</tr>
<tr>
<td>3 - Legal Staff (less Secretariat)</td>
<td>7 - Development Services</td>
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<tr>
<td>4 - Economics Staff (less Computing activities)</td>
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</tbody>
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<thead>
<tr>
<th>Subprojects/Major Tasks:</th>
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<tbody>
<tr>
<td><strong>Operations</strong></td>
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</tr>
<tr>
<td>1. Review essential bank operations* covering geographic areas and projects and determine most effective way to organize and carry out operations</td>
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<tr>
<td>2. Assess roles/responsibilities of economics and legal staffs in essential bank operations</td>
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<tr>
<td>3. Determine role of Development Services, particularly as a complement to essential bank operations</td>
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<tr>
<td>4. Examine status of cooperative programs (WHO, FAO, UNESCO) to determine adequacy and further applicability</td>
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<tr>
<td><strong>Industrial Sector</strong></td>
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<tr>
<td>5. Examine industrial sector operations, Bank Group involvement in private investment, and the role of IFC, DFC's, and recommend optimum organization structure and relationships for these units</td>
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<table>
<thead>
<tr>
<th>Principal End Products:</th>
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<tbody>
<tr>
<td>1a - Organization criteria (for conducting operations)</td>
<td></td>
</tr>
<tr>
<td>1b - Inventory of organization strengths and weaknesses</td>
<td></td>
</tr>
<tr>
<td>1c - Assessment of adequacy of key operating processes</td>
<td></td>
</tr>
<tr>
<td>1d - Alternative organizational recommendations and rationale</td>
<td></td>
</tr>
<tr>
<td>1e - Outline of essential procedures</td>
<td></td>
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<tr>
<td>2a - Role of economic unit } in support of key operations**</td>
<td></td>
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<tr>
<td>2b - Role of legal staff</td>
<td></td>
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<tr>
<td>3 - Role and activities for Development Services</td>
<td></td>
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<tr>
<td>4 - Critique of cooperative relationship and recommendations for extending this approach to other programs</td>
<td></td>
</tr>
<tr>
<td>5a - Objectives for industrial sector operations, Bank Group role in private sector</td>
<td></td>
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<tr>
<td>5b - Role of IFC, DFC's</td>
<td></td>
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<tr>
<td>5c - Current strengths and weaknesses</td>
<td></td>
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<tr>
<td>5d - Alternative structures and rationale</td>
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</table>

* Including the project cycle and operations evaluation as well as area operations  
** Includes analyzing support rendered to top management (with Bank Objectives and Top Management Organization team)
<table>
<thead>
<tr>
<th>Project Title: BANK OPERATIONS (Continued)</th>
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<tbody>
<tr>
<td>Objective(s):</td>
<td>Units Analyzed/Contacted:</td>
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<table>
<thead>
<tr>
<th>Subprojects/Major Tasks:</th>
<th>Principal End Products:</th>
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<tbody>
<tr>
<td>Decentralization to the Field</td>
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<tr>
<td>6. Determine appropriate level of decentralization of operating responsibility to the field (based on representative field visits, headquarters analysis)*</td>
<td></td>
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<tr>
<td>6a - Decentralization criteria</td>
<td></td>
</tr>
<tr>
<td>6b - Configuration of field establishment and accompanying rationale</td>
<td></td>
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<tr>
<td>6c - Inventory of activities to be decentralized and rationale</td>
<td></td>
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* In coordination with Bank Objectives and Top Management Organization Team
Project Title: **BANK SUPPORT SERVICES**

Objective(s):

Determine optimum organization structure to provide essential support services, given Bank objectives and appropriate structure for operations

<table>
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<tbody>
<tr>
<td>1 - May 1 - June 30: 1 McK, 2 WBG</td>
</tr>
<tr>
<td>2 - July 15 - September 15: 1 McK, 2 WBG</td>
</tr>
<tr>
<td>3 - September 15 - September 30: 1 McK part-time, 2 WBG</td>
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<table>
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<tr>
<th>Units Analyzed/Contacted:</th>
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<tbody>
<tr>
<td>1 - Controller</td>
</tr>
<tr>
<td>2 - Treasurer</td>
</tr>
<tr>
<td>3 - Internal auditor</td>
</tr>
<tr>
<td>4 - Computing activities</td>
</tr>
<tr>
<td>5 - Information and Public Affairs</td>
</tr>
<tr>
<td>6 - Administrative services</td>
</tr>
<tr>
<td>7 - Personnel</td>
</tr>
<tr>
<td>8 - Research Center</td>
</tr>
</tbody>
</table>

Subprojects/Major Tasks:

1. Determine roles, responsibilities and organization structure for financial support
   a. Controller
   b. Treasurer
   c. Internal auditor

2. Determine roles, responsibilities and organization structures for administrative and other support
   a. Administrative Services
   b. Personnel
   c. Computing activities
   d. Information and Public Affairs
   e. Basic Research

Principal End Products:

For each support unit:

1 - Alternative structures and recommendations, including rationale
2 - Proposed function statements as appropriate
1. On January 31, 1972 the second regular Monday meeting with McKinsey was held; present were Messrs. Shoaib, Sommers, Demuth, Twining, Messenger and King for the Bank and Messrs. Rohrbacher and Lynn for McKinsey.

2. Mr. Rohrbacher described the status of the work:
   a) The first round of interviews (21) had been completed.
   b) McKinsey was making an inventory of formal, written statements of the Bank's objectives - statements in Mr. McNamara's speeches, in books and elsewhere.
   c) McKinsey was trying to pull together a factual profile of the Bank based on organization charts, trends in activities, numbers of staff and the like.
   d) The study team was being assembled. Three Bank staff members were being made available this week and a fourth next week. McKinsey was bringing a man each from its offices in Dusseldorf and Rotterdam. It hoped that the balance of its team would be nationals of developing countries. Mr. Shoaib asked for biographical data on the McKinsey staff assigned to the study team.
   e) The lists of issues to be covered in each of the subprojects was being worked on and was expected to be completed this week.

3. The interviews completed showed (a) complete agreement on the Bank's objectives at a very high level of generality (say, "to aid the developing countries in achieving economic and social development"), (b) some differences concerning the sorts of activities the Bank should undertake to carry out these objectives, and (c) wide differences on the appropriate organization for carrying out these activities. There were also wide differences on how the Bank could effectively exert its influence in developing countries.

4. The interviews had also revealed a variety of frustrations among younger staff - the new initiatives being proposed by Mr. McNamara were not being put into effect, a feeling of not belonging and of being under-utilized, wasted time in polishing and repolishing drafts and the like. It was agreed that the climate of the Bank in its earlier days, the feeling of being fully integrated into a highly professional, non-bureaucratic elite, had been lost and could not be recaptured. The study should seek, therefore, to discover an organization and procedures which would, among other things, be a substitute for the old climate and eliminate or minimize these frustrations.
5. Mr. Rohrbacher said that the interviews so far had helped McKinsey in getting an understanding of how the Bank works. Most of the subsequent interviews would be different from the first round, more factual and analytic, so that it would be appropriate for Bank staff on the study team to take part in them. Messrs. Shoaib and Demuth stressed that an opportunity should be given to persons interviewed to talk privately with a McKinsey man if they wished. They should also be invited to submit written comments.

6. Mr. Rohrbacher noted that the first round of interviews confirmed that the major issue was the relationship between the Projects and Area Departments. It was agreed that Mr. Shoaib would ask the Area Departments (through Mr. Knapp) to prepare papers equivalent to the Chadenet 1980 exercise of the Projects Departments.

7. Messrs. Demuth and Sommers stressed the importance of examining the relationships between the Bank, the UN, UNDP, the specialized agencies, and the regional development banks. This should be done not in the abstract but on particular issues as they arise and within the framework of delegation and decentralization, of how much and what the Bank should do.

8. A number of other points were made:

   a) The study will have to be carried out as if the relationships between the Bank and the Executive Directors, and their functions, remained unchanged, whereas in fact almost any organizational change would have some effect on them.

   b) The interviews revealed confusion over the role of the President's Council and concern over the ways in which policy was formulated.

   c) The interviews indicated that there were wide differences on whether support services within the Bank were well conceived and well-executed.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Messenger

JAKing: lb
OFFICE MEMORANDUM

TO: Files
FROM: John A. King
DATE: January 26, 1972
SUBJECT: Study of Organization and Procedures: Meeting of January 24, 1972

1. On January 24, 1972 the first of the proposed regular Monday progress meetings with McKinsey was held; present were Messrs. Shoaib, Sommers, Demuth, Twining, Messenger and King for the Bank and Messrs. Bower, Rohrbacher and Lynn for McKinsey.

2. Mr. Bower opened the meeting by saying that he had read the papers prepared by various staff members on the organization of the Bank* and had found them objective and useful. He noted that there was a general realization that the existing structure of the Bank had been outgrown and a recognition of a need for change, but that there was no agreement on what those changes should be. This climate gave McKinsey special opportunities and special responsibilities; they should be thoughtful and profound in examining what form the new organization should take and, after the decisions had been made in principle, in devising the best way of moving from the existing organization to the new one.

3. There followed some discussion of the ways in which the Bank and the consultants could work most effectively together. Among the points made were the following:

   a) Mr. Shoaib asked that he receive summaries of the interviews made giving the range of views expressed and their weight, but without attribution. It suggested that they might be made available for discussion at the regular Monday meetings. McKinsey undertook, in principle, to do this but could not guarantee that it would always be on a weekly basis.

   b) Mr. Sommers indicated that he would be glad to help in any way but he thought his contribution would be more effective in the later stages of the study. He was not sure how much time he could give, because of his commitments to the Equitable. He would, however, try to be present at as many of the Monday meetings as possible.

   c) The work plan, as revised in accordance with the Bank's suggestions (see minutes of the meeting on January 19), was accepted as a basis for going forward. The consultants pointed out that the work plan perhaps oversimplified things;

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* This was a reference to a collection of papers by such staff members as Shoaib, Aldewereld, Chenery, Demuth, Projects Departments staff (the 1960 exercise) and others given to the consultants by Mr. Shoaib.
for example, though the plan called for completion of the clarification of the Bank's objectives by March 1 (item IIA of the plan), this clarification would be affected by work on Bank Operations (item III of the plan) to be carried out in April, May and June.

d) The consultants pointed out that they had already begun the first round of interviews (the President's Council and twelve other staff suggested by the Bank). They asked for the Bank's help in selecting persons to be interviewed in subsequent rounds, suggesting two sets of criteria - first, those with objectivity, the capacity to speak forthrightly, and considerable experience in the Bank, and second, those with interesting ideas on organizational and procedural problems even if they lacked some of the other qualities mentioned above. When the consultants entered on phase III of the study, Bank Operations, the process of work would automatically determine those to be interviewed. The consultants noted that the interviews would, of course, be balanced by objective data collected in the course of the study.

e) Mr. Shoaib and Mr. Twining said that the Bank staff for the study had been largely agreed upon and that McKinsey should begin to fit them into the specific slots identified in the work plan. The consultants asked that they be permitted to use some individuals, who were not available full-time, as part-time help, particularly for testing their ideas and tentative conclusions. Mr. Shoaib agreed.

f) McKinsey asked that they be given organization charts in greater detail, showing the divisional structure. They also asked for the numbers of staff allocated to each department. Mr. Twining undertook to provide both, the former only to the extent that it was available.

4. A number of substantive points were also discussed:

a) The Bank's Objectives: It was agreed that there were several layers of objectives and probably no great differences of views within the Bank as to these objectives at the highest levels of generality. Differences did exist, however, both as to more specific objectives and as to the means of carrying out the larger objectives. An important difference had already been disclosed in the few interviews already made. This difference arose over a recognition that the Bank had changed considerably over the last few years and the operational conclusions to be drawn from that - should the Bank pause and consolidate or should it go ahead faster with these new activities.

b) Size: An important question which had arisen in the interviews was - how big can the Bank get? Implicit in that question is another - is it already too big? It was suggested that optimum
size for the Bank is a function of a number of considerations — such things as leadership, quality of staff, external political factors and the like — and that there is no objective norm for determining it.

c) Experience of AID: It was urged that the consultants make an early examination of AID's experience with regionalization. Mr. Shoaib is making a number of documents on this subject available to the consultants. It will be examined as part of items IIIA and C of the work plan.

cc: Messrs. Shoaib, Sommers, Demuth, Twining, Messenger
TO: Files  
FROM: John A. King  

DATE: January 24, 1972  

1. On January 21, 1972 Messrs. Rohrbacher and Lynn of McKinsey and Company met with Messrs. Shoaib, Twining, Messenger and King. The primary purpose was to discuss the Bank's comments on the McKinsey work plan; the discussion followed the points made in the meeting of January 19 which were generally accepted by McKinsey.

2. It was agreed that for the time being the work plan would not be distributed to members of the President's Council or Senior Staff, though it might be shown to individuals when they were being interviewed. At a later time, it might be desirable for McKinsey to make a presentation on the scope and character of the study to the President's Council or Senior Staff.

cc: Messrs. Shoaib, Twining, Messenger

JAKing:lb
OFFICE MEMORANDUM

TO: Files
FROM: John A. King
DATE: January 21, 1972


1. On January 19, 1972 Messrs. Shoaib, Demuth, Twining, Messenger and King met to discuss the McKinsey proposed work plan for the study and some related questions. A number of suggestions for additions to the plan or for clarifications or changes of emphasis were made, including the following:

a) To avoid confusion, the word "mission" should be replaced by "objectives" throughout the work plan. The phrase "study secretariat" should be replaced by "study staff". The qualifications for the Bank staff to be seconded to McKinsey for various phases of the study should be struck from the work plan.

b) An examination of the procedures for coordination of sectoral work should be included.

c) Item C of III Bank Operations should cover delegation of authority generally, including at headquarters, as well as the division of responsibilities between headquarters and the field.

d) The Project: Bank Strategy and Direction should include under subprojects/major tasks an item for "decision making at all levels". In this connection, the word "key" in "key decision-making processes" (last item under principal end-products) should be eliminated.

e) Under the Project: Bank Operations not enough attention was given to procedures as contrasted with organization. In this connection, subproject 1 should read "and determine the most effective way to organize and carry out operations". An examination of project supervision and evaluation should be included among the subprojects/major tasks, including an examination of what kinds of supervision and evaluation are appropriate, of where the responsibility for them should be located, and of the procedures for carrying them out. The Cooperative Programs should also be studied and relations with the UN system should be looked at more generally. In addition to examining the whole industrial activity of the Bank (subproject 3), the role of the Bank in promoting private foreign investment should also be studied. It might be more appropriate to study the Development Research Center under IV Bank Support Services than under III Bank Operations.

2. Mr. Shoaib proposed to discuss these points with Mr. Rohrbacher on Friday, January 21.
3. There was some discussion of the staff to be assigned to work with McKinsey. Decisions had been reached on all but the individual from the Area Departments.

4. There was a brief discussion of how the interviews will be conducted. McKinsey is developing a standard interview form so that the interviews will, in general, cover the same ground. This form will probably not be ready for the first round of interviews. Only McKinsey staff will conduct interviews with top-level staff, but the Bank staff assigned to the McKinsey team will take part in interviews with lower-level staff.

cc: Messrs. Shoaib, Demuth, Twining, Messenger

JAKing:lb
Here is a list of staff members as promised with whom you may wish to make interview arrangements. Their telephone and room numbers are all in the Telephone Directory. If you have any questions or want any further information please let me know.

From
J. E. Twining, Jr.
STAFF MEMBERS TO BE INCLUDED IN FIRST-ROUND INTERVIEWS

A. Members of the President's Council:

Messrs. Knapp
Aldewereld
Shoaib
Rickett
Broches
Demuth
Gaud
Chenery

B. Senior Staff (Directors, Deputy Directors, Chief Economists, etc.)

Messrs. J. Adler  Programming & Budgeting Dept.  US
B. Chadenet  Office of the Director, Projects  French
P.D. Henderson  Economics Department  UK
L. von Hoffmann  IFC - Vice President  German
J.H. Williams  Loan Committee  UK
E.P. Wright  Central America & Caribbean Dept.  UK

C. Other Staff

Messrs. J. Bravo  Information & Public Affairs Dept.  Chilean
L. de Azcarate  Kinshasa, Republic of Zaire  French
S. Kuriyama  South Asia Department  Japanese
G. Okurume  Eastern Africa Dept.  Nigerian
R. Venkateswaran  Special Projects Dept.  Indian
Miss G. Kaplan  East Asia & Pacific Dept.  South African

JETWINING:ian
January 19, 1972
Here is a suggested list. I have sent a copy to John King. If you agree with this list I will transmit it to John Garrity.
TO: Files

FROM: John A. King

DATE: January 19, 1972


1. On January 18, 1972 Mr. Shoaib met with Messrs. Garrity, Lynn and Rohrbacher of McKinsey and Company to discuss the Organization Study. Messrs. Twining, Messenger and King also participated.

2. Mr. Garrity presented for discussion a work plan for the study. Mr. Shoaib made a few preliminary comments - the Bank contribution to the working group might be limited to four rather than six persons and item IIIc should be revised to cover questions of delegation generally, whether within headquarters or between headquarters and the field - but reserved general discussion for a later date after the Bank had a better opportunity to study the work plan.

3. Mr. Garrity asked that an initial round of interviews, all members of the President's Council and say ten to twelve other staff, be started at once. The Bank agreed and will furnish a list within a day or so. A number of names were suggested including Messrs. Chadenet, Baum, John Adler, Henderson, von Hoffmann, Alter, Halbe, F.D.T. Reid, Bravo, Okuruma, John Williams, Peter Wright, Weiner.

4. Mr. Garrity recommended that the decision with respect to the creation of an Advisory Group, its composition and its role be postponed until the end of February. Mr. Shoaib agreed.

5. It was agreed that, for the time being, there would be regular meetings between the Bank and McKinsey on Mondays at 3:00 pm.

cc: Messrs. Shoaib, Twining, Messenger

JAKing:1b
STAFF MEMBERS TO BE INCLUDED IN FIRST-ROUND INTERVIEWS

A. Members of the President's Council:

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<th>Name</th>
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<tr>
<td>Messrs. Knapp</td>
<td>US</td>
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<tr>
<td>Aldewereld</td>
<td>Dutch</td>
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<td>Shosib</td>
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<td>Demuth</td>
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<td>Gaud</td>
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<td>Chenery</td>
<td>US</td>
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B. Senior Staff (Directors, Deputy Directors, Chief Economists, etc.):

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<tr>
<th>Name</th>
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<tbody>
<tr>
<td>Messrs. J. Adler</td>
<td>Programming &amp; Budgeting</td>
<td>US</td>
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<tr>
<td>B. Chadenet</td>
<td>Office of the Director, Projects</td>
<td>French</td>
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<td>P.D. Henderson</td>
<td>Economics Department</td>
<td>UK</td>
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<tr>
<td>L. von Hoffmann</td>
<td>IFC - Vice President</td>
<td>German</td>
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<tr>
<td>J.H. Williams</td>
<td>Loan Committee</td>
<td>UK</td>
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<td>E.P. Wright</td>
<td>Central America &amp; Caribbean Dept</td>
<td>UK</td>
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C. Other Staff:

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<tr>
<td>Messrs. J. Bravo</td>
<td>Information &amp; Public Affairs</td>
<td>Chilean</td>
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<td>L. de Azcarate</td>
<td>Kinshasa, Republic of Zaire</td>
<td>French</td>
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<tr>
<td>S. Kuriyama</td>
<td>South Asia Department</td>
<td>Japanese</td>
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<tr>
<td>G. Okurume</td>
<td>Eastern Africa Department</td>
<td>Nigerian</td>
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<tr>
<td>R. Venkateswaran</td>
<td>Special Projects</td>
<td>Indian</td>
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<tr>
<td>Miss C. Kaplan</td>
<td>East Asia &amp; Pacific Dept</td>
<td>South African</td>
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### POSSIBLE CHANGES IN RESPONSIBILITY - ASSIGNMENTS UNDER HYPOTHESIS 

#### TASKS

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#### COUNTRY PROGRAMMING

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#### ASSESSMENT

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#### BANK ADMINISTRATION

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#### OTHER AID/ASSISTANCE

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#### PROJECTS RELATED WORK

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#### HYPOTHESIS 1

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