

STRICTLY CONFIDENTIAL

ank/IDA
Mtg.,
Tuesday,
6/18/68,
ELK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

- - -

JOINT MEETING

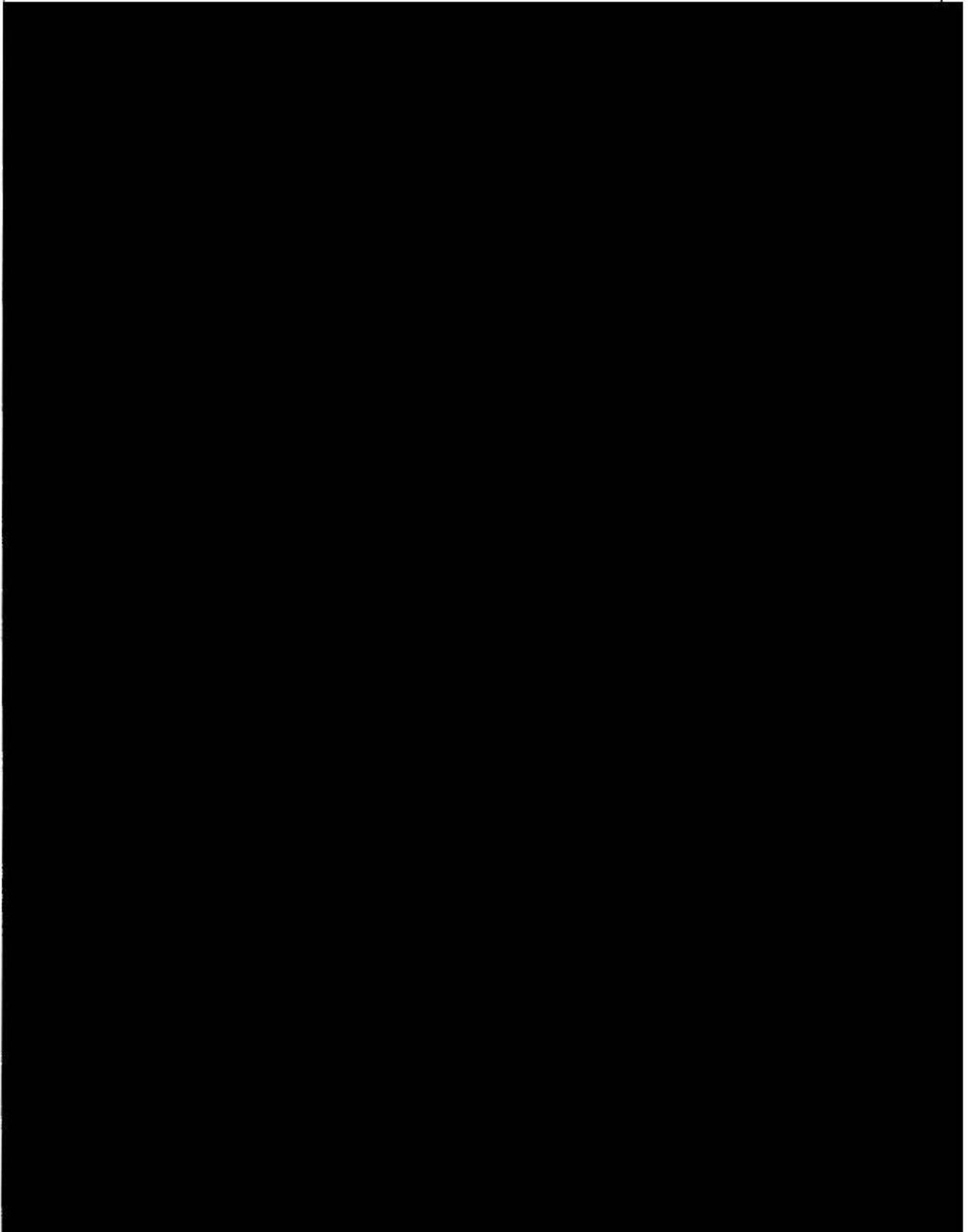
Washington, D. C.
Tuesday, June 18, 1968

A meeting of the Executive Directors of the Bank, jointly with the Executive Directors of the International Development Association, was convened at 10:03 o'clock, a.m., in the Board Room, 1818 H Street, N. W., Washington, D. C., by Mr. Robert S. McNamara, President, presiding.

C O N T E N T S

ITEM:

PAGE:



CONTENTS [Continued]

<u>ITEM:</u>	<u>PAGE:</u>
5. Administrative Budgets of Bank and IDA - 1968-69 (R68-94, IDA/R68-26)	
<u>Remarks by:</u>	
Mr. McNamara	115
Mr. Liefstinck	118, 127, 233
Proposed resolution by Dr. Liefstinck	239
Mr. Aldewereld	141, 144
Mr. Maude	149
Mr. Vom Hofe	157
Mr. Malaplate	163, 172
Mr. Stone	176, 236
Mr. Rice	191
Mr. Gutierrez Cano	192
Mr. Ayub	201
Mr. Skjerdal	202
Mr. Friedman	210
Dr. Chen	218
Mr. Escobar	221

A F T E R N O O N S E S S I O N

2:33 p.m.

MR. McNAMARA: Gentlemen, the meeting will come to order, please.

We have completed the first three items on the agenda.

The next item, number 4, proposes to record the following earlier approvals on two matters:

(a) The June 14, 1968 paper extending or proposing extension of the terminal date for completion by Uruguay of an increase in the Bank subscription;

(b) And a paper dated June 17, 1968, outlining the terms and conditions for an increase in the Bank subscription of Cyprus.

We have had no adverse comments on either of those, and will therefore record those.

Now we come to item number 5, the principal item of business for this afternoon -- the consideration of the Administrative Budget. And here I think that I will ask Mr. Williams to join us and sit at the table, and answer your detailed questions on the budget.

Let me preface any comments or questions you may have by these remarks:

The budget is premised on two assumptions, and, I think, should the passage of time indicate that either one

of these assumptions need be changed that we would want to come back to you and propose changes in the budgets.

The first assumption is that we will be able to raise in the private money markets the amounts we required in fiscal year 1969 to support the hard loans that will be justified on the basis of the economic conditions of the countries, the projects prepared and proposed for them.

These hard loan requirements are likely to increase substantially above the levels of 1968, and above the levels of prior years. We have, for example, a number of loans in the pipeline now in varying stages of preparation, which I think support my conclusion that the requirement for new money will be larger in 1969 than in past years; and the requirement for new loan commitments will be larger than in past years.

I have been very, very pleased with the outlook for obtaining new money at acceptable rates in the current money market.

I mentioned to you earlier today, Mr. Aldewereld's and my visit to the Federal Republic last week. Through the efforts of Mr. Donner and Mr. Vom Hofe, the Government of the Federal Republic and the major private banking institutions were very receptive to our requests. And, as I said to you this morning, I think we can raise \$100 million there within the next 30 days; and an addition^{-al}/\$50 million within the next 60 days -- or 90 days, from now. And a still further

\$50-\$100 million during the fiscal year itself.

Furthermore, the U. S. Government has given us encouragement in our proposal or plan to raise substantial amounts in the U. S. market. Their approval would be contingent upon -- would be both contingent upon and influenced by passage of the tax legislation, however.

So the first assumption is that we will have adequate funds available to support the hard loan requirements on the same standards as such loans have been made in prior years.

And the second assumption, of course, is that the second IDA replenishment would be approved by the 17 nations.

Should either of these ~~ass~~umptions prove invalid, and, therefore, should it appear that the total number of loans and commitments, on the basis of which the budget has been planned, will not reached the budgeted level, I would want to discuss the matter with you and consider changes in the budgets.]

But accepting for the minute those two assumptions, the budget is presented to you for approval, today.

Perhaps I should say one further word about budgeting:

I notice that last year the budget substantially exceeded the actual expense for the period. I say "last year," I mean fiscal 1968. The budget as it was approved by the Board substantially exceeded the actual expense for the period.

And that same condition existed in fiscal 1967.

I hope that in subsequent years we will be able to budget more accurately and avoid such substantial underruns, in the sense that we would initially have submitted a tighter budget, and, therefore, found a lesser variance at the end of the year between the budget and the estimated expense.

I can't tell you at the moment whether the budget for fiscal 1969 is tighter than that for fiscal 1968 or not. I have made an effort to make it tighter. But I had very little opportunity really to work on it in detail, and, while I believe it is a tighter budget, events may prove me wrong.

So much for introduction. I would be very happy to have your comments or questions upon it.

Yes. Dr. Lieftinck.

DR. LIEFTINCK: Mr. Chairman, I would like to congratulate the staff, which is the authority that is responsible for the implementation of last year's budget, for the carefulness which they have displayed in the implementation of the budget.

I welcome the fact that the actual expenditures have remained below the targets -- below the estimated expenditures.

And I would like to pay particular tribute to our Vice President, Mr. Shoaib, and his assistants, who have so carefully administered the budget; and, also, to the Programming and Budgeting Department, which has played a

considerable role not only in the implementation of last year's budget, but particularly in the preparation of this year's budget.

The discussion of the administrative budget is always an opportunity of expressing views on the performance of our staff. And I mentioned already our Vice President, Mr. Shoaib, and one of the departments responsible in this field. But I would like to avail myself of this opportunity to express my great appreciation for the work done by our staffs in all echelons.

I think we can be proud of our staff, and I think that their performance has, on the whole, been very satisfactory.

As far as the new budget is concerned, I would like to make a few observations:

Firstly, the assumptions on which the budget is being based; namely, the assumption that the number of credit proposals and loan proposals -- jointly -- over the next year may be about 50 percent higher than in the preceding year. This assumption may be the correct one. But I don't have, as yet, a full justification for it.

Now it may be difficult to fully justify this. It may be a matter of judgment. And I agree that, to a certain extent, it is a matter of judgment. But the judgment should be based on at least some factual developments.

Now I take it that you are rather optimistic with respect to the mobilization of more funds for the Bank, and on the approval of the IDA replenishment. But I would like to have some more basis for going along with this assumption.

Moreover -- and this is, perhaps, more important -- I have not found any justification to expect that this higher volume of loans and credits will be maintained over more than one year. And I think that is an important point of view. Because when building up a staff, one should not be guided by a one-year expected increase of activities, but by a more continuous increase of future activities.

And, although you have been kind enough to express some views with respect to the next fiscal year, and you have expressed a great deal of optimism with respect to the mobilization of funds for the next year, I am not yet fully assured that it will be a continuing trend. And I do feel that in building up a staff of this institution, of our institutions, one should not be guided entirely by the needs for the next year, but by the more long-term projections over a number of years.

That is my first observation.

Secondly: I have some doubt whether it is wise to now create vacancies in the budget, and thereby give authority to fill these vacancies on the basis of the assumptions as laid down in the explanatory notes to the budget. I would

rather have seen a more conservative approach, but realistic as the same time; and an indication that if and when, in the course of the next fiscal year, new personnel will be needed that supplementary credits, appropriations, will be put before the Board. Or -- and that is perhaps more appropriate -- to now submit budgets based on the most optimistic assumptions, but agree with the Board that part of the new vacancies will remain frozen until we have more certainty about the volume of future operations. And if I consider these two possibilities, I think I would favor the second one, and would suggest that we agree on a somewhat different procedure than the one you just indicated: That, if these expectations do not come true, you will come back to the Board for a reduction of the Board. But, rather, the other way around: That, we now go along with this budget on the basis of your assumptions, but with the understanding that part of the vacancies will remain frozen until we have evidence that there is real need to fill them.

I have noted, with satisfaction, that the area departments have been very modest in their requests, at least that as far as they are reflected in this budget. Perhaps, they have made higher requests -- I don't know. But I understand from the wording in the budget that they have not done so. They have not been cut considerably, but that they have felt that with, here and there, some additional vacancies, they

could run the activities for which they are responsible. So I have no special comments on the area departments.

But, well, I have some comments on the Project Department, where I feel that an increase of professional positions in the amount of 53 indicates a rather ambitious expectation. And it is with respect to this section of the budget that I suggest that we should apply that temporary freezing procedure.

I do agree, as a matter of fact, that the increase of the portfolio requires increasing work. I also agree that the load on the Agricultural and Educational Divisions may probably, and will -- I expect it, indeed, will increase, and that more professional staff will be required in these departments.

Whether the tourist sector is of sufficient importance in the Bank and IDA, as compared to IFC, I have some doubts. And I would like to have a further explanation on it.

But since the increase of the staff in the Project Department is governed by two considerations; namely, the graduating field of the portfolio; but also, and perhaps more so, by the expected increase of the total volume, the total number, of projects and loan proposals, since that is the case, I do feel that we should be very careful in going along just with a blank authorization to increase the staff of the Project Department by 53, without any temporary freezing.

I have even more doubt with respect to the proposed increase of positions in the Economics Department. The Economics Department has developed in the last two or three years tremendously. And although I am inclined to give them every possible credit, I wonder whether their operations have all been indispensable to the Bank and IDA.

And before going along with an increase of 23 new positions in the Economics Department, I would like to know whether this is really absolutely essential for the satisfactory functioning of the Bank. There is always a tendency to embrace more and additional studies, which, in itself, may be justified; but it would equally beneficially be undertaken outside of the Bank and IDA, in universities, or in special institutions, like the ^{Brakings} ~~Booker~~ Institution²⁰⁰, whatever institution you have. And, also, I wonder about this more general observation:

Whether an effort has been made in the preparation of this budget to ascertain that the existing staff is absolutely the minimum.

Because don't we have here before us only what is considered to be additional need, without any indication that there has been a screening of the existing staff; and reconsideration of practices which require much staff. If we could simplify a number of our operations, then, perhaps we could perform part of the new functions, for which now new staff

has been requested, by already existing staff.

And that is my main criticism of the budget: That I do not find any indication -- besides considering what new activities require additional staff -- no indications are present that a thorough study has been made, a consideration has been given to whether part of the new functions could not be performed by existing staff, by way of increasing the efficiency of the existing operations.

I think I would be accused of backwardness if I would make any objections to the computer, and the staff required for the computer. I think there is need for that modern device. It is often suggested that this is a labor-saving device. I do not believe in that. It is a labor-increasing device.

[Laughter.]

It is proved everywhere that the installation of a computer -- well, it gives higher-quality results, but it does increase the staff. And, here again, we see that very clearly demonstrated -- that an addition of 12 professionals and 3 and nonprofessionals to the already existing 14 professionals and 32 nonprofessionals seems to be required. Well, this means that only the computer will require some, well, 50 or 60, or perhaps more staff -- with a relatively high proportion of professionals as compared to nonprofessionals.

Again, I indicated already, I would feel not -- well,

out-of-line with progressive thinking if I were to object to the computer. But I would like to insist on a very careful screening, whether this amount of staff is required for this purpose. And I would also be pleased, gratified, if we could hear something more about the great benefits that have been derived from having this computer -- apart from being modern and progressive.

With respect to the salary figures, which do not only reflect the number of staff but also their composition, I welcome that the budget includes certain provisions for salary increases and cost-of-living provisions. But it is not very clear what is the basis of the salary proposals, as far as these improvements are concerned. Now it may be too early to disclose what the management has in mind in this particular field of salary improvements, and cost-of-living increases.

But we are not -- at least I am not in a position now to express any view on it, because we don't know. It is just incorporated. But what it means is unclear. And I hope that, even before we approve the budget, some more information will be given -- in order to give us an opportunity to express, if needed, some views on whether we go along with the broad lines, the guidelines, the principles, that govern the salary policies of our institution. It is clear that all over the place in this country, and particularly in Washington,

considerable improvements are under way, or have already been implemented in the salary scales of civil employees, and I do think that it falls under the responsibility of the Executive Directors to watch, to consider, whether the salary policies of our institution are in conformity with the requirements of equity and justice.

There is a particular item with respect to services to member countries; namely, the amount of \$560,000 budgeted for the Advisory Mission in Indonesia -- on the basis of 10 professional and 3 secretarial staff. I do not recall that we have already approved separately this rather high sum to be made available for intensifying the relations between the Bank, IDA, and one of our members.

We don't have, as far as I am aware, a breakdown of this amount. But since it is a very considerable amount -- over half a million -- I hope I do not go beyond what is the responsibility of the Executive Director, to inquire whether we could have a breakdown of this amount; and whether we could have fuller justification.

I know that this is a matter which goes very much to your heart -- more so probably since your visit to Indonesia -- but I do think we should have some more information on this particular item.

Then, there is mentioned on page 7, paragraph 26. --
"There is no specific provision for expenses, if any, to be

incurring in connection with ^{the Grand Assize} ~~grant or size.~~" Now these words have been used, and I understand that it means that it is a study on the development assistance performance over the last 10 years, an effort to draw certain conclusions, and make certain recommendations with respect to the future.

I don't know in which stage this finds itself. There is no budgetary provision -- that is true -- but, perhaps, this is an opportunity of giving us some more information on this subject.

To conclude, Mr. Chairman, I would like to hear your reaction, before making a specific proposal on my suggestion to temporarily freeze part of the expenditures budgeted for new vacancies until we know more about the possibility of increasing the total volume of our transactions in the amount you indicate, as an assumption, 50 percent; and, particularly, until we know that this is not a one-year expectation -- well-based expectation -- but whether this is a more structural development on which we may base our projections with respect to increase your staff.

Thank you.

MR. McNAMARA: Let me answer your last question first, Dr. Lieftinck, and then go over some of the other points that you have made. But, before doing so, let me preface my comments by heartily concurring in your first remark, in which you expressed pride in the staff. I have been

associated with a large number of organizations, public and private, in this country and abroad. And I have never seen a professional staff that is, on the average, more competent than this one. Certainly, that is true of international institutions that I have been associated with, and I think also it is true of the major private associations I have had. So I strongly support your feeling.

And I think that our first responsibility, as Directors and management, is to build that staff for the future in relation to whatever the requirement is. And it is going to require a long time to recruit, and train, and expand the present staff -- if there is to be an expansion. There is a long lead time here on staff recruitment. And, it is for that reason, among others, that I, as my first task, began to look into the future.

I think it is correct in saying we have had no forward plan for, such as, a five-year period; and I don't want to imply to you that we have one today. But I did make it my first task to look into the future -- far enough ahead to cover the lead time on important activities. Certainly, staff recruitment is one important activity. The lead time on that, I would say, is a minimum of two years -- more likely, three.

The lead time on capital formation is very, very long, if one is to do it properly, and soundly. The lead time

on relations with borrowing countries and establishing a long-run hard loan policy, for example, I think is quite long, also.

So, for that reason, I -- and the other senior members of the staff, with the assistance of many, many others in the organization -- have been examining the future. And I think in answer to your last question I can say this: That, just talking of hard loans now -- forgetting IDA for the minute -- the change in the financial position of a number of developing nations is such as to make the hard loan requirements of the Bank for future years (assuming the maintenance of the same standards in the future as we have had in the past) very large, indeed. For fiscal 1969, there is a requirement -- whether we meet it or not is another question -- but there is a requirement, we believe, for about a 40 percent increase in hard loans, in numbers.

Now this is a function of several different factors. It is a function, as I say, of the advancing capability of nations to accept hard loans. Look at Taiwan as an illustration; or, certainly, the other nations -- which are almost on the verge of graduation, but which still -- (graduation to private financing of their own) -- but which still require assistance from the Bank. Thailand would be one illustration; Spain would be another.

But that is the first factor that influences the hard loan volume: an increasing capability of nations to

service debt in the interests of development.

A second factor affecting the number of hard loans is the geographic shift away from nations, such as India, for example, to nations in Latin America, or Africa -- where we are moving to smaller countries, and smaller average loans, as a result -- which increases the number of loans disproportionate to the volume of loans, the dollar volume.

A similar effect occurs from a sectoral shift, as well as the geographic shift -- the sectoral shift, let's say, from power to agriculture; or transportation to education. And I don't mean that the dollar volume of power loans, or the dollar volume of transportation loans is likely to decrease. I think probably not. But I think the percentage of our total loans, as represented by power and transportation, on the one hand; ^{and,} vis-a-vis agriculture and education, on the other, will decline. And the average agricultural loan and the average educational loan is, undoubtedly, less than the average power and transportation loan.

So we really have these three factors affecting us simultaneously:

An increased capability to absorb hard loans; and an increased requirement for them. A geographic shift and a sectoral shift. And the combination of those three factors, plus an analysis of the pipeline -- the work in process at the present time -- leads us to conclude, on a reasonably

conservative basis, that there is a requirement for a 40 percent increase in loan commitments, number of loan commitments, in fiscal 1969 vis-a-vis fiscal 1968; and a still further increase in fiscal 1970.

Now, we are dealing with a period that is even more difficult to predict than the one 12 months ahead. And I want to qualify all of these predictions, by telling you they are the result of eight or ten weeks of work. But the number that there appears to be a requirement for, in terms of hard loans, for fiscal 1970, is 80 percent above 1968. The specific numbers I have for 1968, 1969, and 1970, I will give you -- with the clear understanding that these are very, very preliminary estimates. But I think they are of some help to you, as they have been to me and to members of the staff, in looking to the future:

The number of loans for 1968 appears to be on the order of 51. We are not yet through 1968, but it looks to be about 51.

The number projected for 1969 is 71. Twenty/51sts; or 40 percent higher than 1968.

The number for 1970 is 90; 39/51sts, or 80 percent higher than 1968.

These are reasonably conservative in the sense of the justified development requirement, and reasonably conservative in the sense of being considered for nations that

have a debt-servicing capability to support them and justify this Board in approving them.

I am not certain they are conservative in terms of our ability to process them.

As I mentioned to the Board, we are spending -- both in the staff and in the Board -- a huge number of man hours per loan; and were we to try to increase the number of loans 80 percent (applying the same number of man hours at the senior levels of the staff and in the Board), I don't think we have the capability for processing an 80 percent increase. And this is something that we discussed in the Board during your absence, I believe, [to Dr. Lieftinck]. And Mr. Escobar, and his committee; and others, have suggested some ways in which the Board may expedite its own work, and we are undertaking similar programs in the staff.

If I may digress just a second, I think your point on increasing the efficiency of the existing staff in terms of developing short cuts, and a more effective utilization of manpower, is very well-taken; and we will certainly direct our attention to that -- are directing our attention to it -- but we will direct our attention even more in the months ahead.

In any event, if we were to meet this kind of a loan requirement: 71 loan commitments in 1969 versus 51 in 1968; and 90 in fiscal 1970 versus 51 in 1968 -- we would have to

increase the efficiency of our existing staff, in addition to expanding it as we have indicated.

Now beyond the new loan commitments, which affects workload, we also have workload associated with supervising disbursements on previously-approved commitments; and, there, it is a very substantial increase, even more than in percentage terms, I think, than I have already indicated. Because the past acceleration must be taken account of. And beyond the supervision of disbursements, we have the responsibility for supervising all outstanding loans, including those on which disbursements have been completed.

Taking account, therefore, of the new loan commitments; the supervision of disbursements on previously-made loans and loans to be committed; and the supervision of all loans previously committed, but remaining outstanding -- we have concluded this staff expansion is desirable.

Now, you say, "Would it not be wise to defer or freeze some part of it, until such time as we can see more clearly the availability of new borrowings in the private markets and the availability of the second IDA replenishment?"

I think not -- for the reason that I mentioned a moment ago: that, truthfully, the lead time for the build-up of a qualified staff capability is, surely, 24 months. And there is absolutely no question in my mind but what 24 months from now we are going to need a vastly-expanded staff -- in

agriculture and education, to take those two, in particular; and tourism, as well.

Now to use tourism as an example is a rather absurd one, because it is so small it doesn't really influence the total budget materially. But since you mentioned it, and since it illustrates the point, let me comment upon it:

We have zero capability at the present time, in connection with development in tourism projects -- at least in terms of experts specializing in tourism. I am a little uncertain, as you are, as to how far the Bank should go vis-a-vis IFC in that area. I do know that in the case of Tunis, in the case of Morocco, for example, there are almost certainly clear requirements for hard loans for tourism. Each of those nations has indicated that. I have met with their ministers, to the point of convincing myself that there is a requirement there. I don't know exactly how much, or in what form, or through what agency. And these are details we have to consider. But I am clear in my mind, there are requirements there. Probably, also, in other African nations. And, yet, we lack the staff to properly prepare and evaluate the projects.

The budget provides for six professionals.

Now, regardless of what happens to IDA, and regardless of what happens to our money-raising in the private markets, I am inclined to think we should plan on those six.

And I would say the same thing applies to the number of personnel in education, and the number of personnel in agricultural planning for projects.

My concern is not that we will hire more than our money availability would justify. I don't believe we will.

My concern is that we may not be able to hire qualified people to the extent that we have proposed.

In the case of education, we propose to hire 14 additional professionals. Now that doesn't sound very many. And I think we need them -- even if IDA, for example, isn't approved. But it represents about a 90 percent of expansion of the existing professional staff in that Department. I am not sure we can hire 90 percent more people than we presently have, and absorb them, and do it all efficiently. And I am quite frank to admit that.

Similarly, in the case of agriculture; quite frankly, we lack a sufficient number of people to handle the projects we presently have in agriculture -- they are very complex projects, and, in some ways, much more so than a power project, for example, and we have much less experience in the field. And it covers a great diversity of activity, and region, and operation. So we definitely need more people; I am quite confident of that. We propose 25 more professionals. Again, even if IDA is not approved, I am inclined to believe that we would be well-advised, during the forthcoming 12

months, to try to recruit, train, absorb 25 additional professionals in agriculture -- both for the loan commitments that we will process next year, and, in particular, for the ones that will lie ahead of us in the following year. But I must tell you that the 25 represents a 40 percent expansion in the current professional staff in the Agricultural Department. And, again, I am not sure that we can find those men, and train them and absorb them. So I myself have questions about our capability to recruit and expand. That's the 24-month lead time I am talking about.

I don't have any doubt that in these three particular areas -- agriculture, education, and tourism -- within the limits of the numbers of people I am talking about, I don't have any doubt we need the people.

Now, let me go back just one second to this question of the private money markets:

We have projected into the future certain of the major factors determining our new borrowings, and the requirements for new borrowings -- the disbursements, new loan commitments, profit retention, for example. And, also, we have projected our cash and liquid security balance.

Now, as you Directors know, the Bank's investment in cash and liquid securities has declined roughly \$500 million in the last five years -- \$550 million, approximately.

I think that was probably a wise policy to follow.

It declined roughly from \$1.7 billion to \$1.1 billion. But I doubt very much that we should sit here, in the midst of a potentially tight-money market of indefinite duration, and plan on a further reduction of \$500-\$600 million.

Perhaps, five years from now, we will look back and say, "Well, we would have been well-advised to draw down another \$550 million, and draw down from \$1.1 billion to \$550 million."

And there is no particular reason why the Bank has to run with \$1.1 billion, nor \$550 million, so long as we have assurance of ready access to new money at reasonable rates, and under reasonable conditions. But I don't know anybody who can give that assurance to us today. I have talked to the money managers, if you will, of many of the major governments of the world -- and no one of them can tell me what is going to happen next month, or next year; and, certainly, not five years from now. And, therefore, I myself am inclined to believe -- and this is a major policy that I would appreciate your counsel on -- I myself am inclined to believe that we not only should not plan on drawing down any further the cash and liquid securities; but, as circumstances permit, and at reasonable cost, we should plan to build it up somewhat -- providing an additional factor of security.

I think the greatest danger we face in the money markets is not high rates (although that's a problem, and we

can talk about that later), I think there are ways we can insure ourselves against them; and, within the probable limits we face, I myself don't consider it a terrible handicap, or a great danger. The greatest danger that we face, I think, will be that we will be precluded from borrowing at all.

Now there are many, many nations of Western Europe today that refuse us the right to borrow on their markets. There was one, for example, that I had planned to go to in the next 30 days to raise money, and up until two weeks ago I had very good assurances that I would be able to go there and raise funds; and now it seems quite clear I will not.

The U. S. market I would say is uncertain. The U. S. Treasury is very co-operative. I have had a number of discussions with the Secretary of the Treasury, and others in his Department, about future borrowings. And, as I told you this morning, I would say that my most recent discussions and those of our staff with them during my absence are quite encouraging. But there have been times when we couldn't borrow on the U. S. market, and there may be times in the future when we can't borrow on the U. S. market.

Now if we were foreclosed from the U. S. market, and foreclosed from the major markets of Western Europe; and if we, at the same time, allowed our cash and liquid securities to decline still further, as we have in the recent past, then I think we might face the period of time when we would have to

cut off new commitments. And that would be a tragedy, because we are a development institution, and the developing nations do need funds from us. We ought to be and keep ourselves in the position whereby we can supply those funds, assuming that they can meet our standards. And that ought to be the only requirement -- that the developing nations meet our standards: that they have the capability of absorbing additional hard loan debt on the terms we can make it available; and that they have bona fide development requirements in terms of well-designed projects which we can properly support.

And if they meet those two standards, then it is incumbent upon us to have funds available to loan to them. And, if it is, then I submit to you that we should be borrowing larger amounts, I think, in the next five years than we have in the past.

In the past five years, we averaged about \$200 million of new borrowings per year. This is rather rough. It is \$200 million, plus or minus \$10-\$15 million, I would think -- per year. That was 1964 through 1968.

In the next five years, 1969 through 1972, I would be inclined to think we should plan on borrowing at least double that amount. Now, if we were to borrow at least double that amount, that would allow for an expanding volume of new hard loan commitments, and a modest build-up of our cash and liquid securities.

Now it is this kind of planning, frankly, that is in my mind.

And, as soon as I can translate it from my mind onto paper -- to the point where it would be of value to you -- I would like to have your counsel on it. But it is influencing my actions today. It is what led me to go to West Germany. And it is what led me, for example, to arrange that borrowing from Saudi Arabia; and additional borrowings from Switzerland; and the contacts with the U. S. Government.

I believe it is a prudent policy. I believe it is a policy that the Bank will benefit from, and the developing nations will benefit from.

But these are the thoughts, and these are the assumptions that underlie this budget.

Now there are a number of other points you raised, Dr. Lieftinck; that I haven't covered, that I will be happy to. Before doing so, I would like to ask Mr. Aldewereld if he would, in particular, comment on the Projects Department, and the workload they face, and the extent to which its personnel increase is a function solely of the second replenishment and/or the capability of raising new funds; i.e., the extent to which, really, other factors, such as the shift in geographical commitment and sectoral commitment, and the capability of developing nations to absorb new loans affects it.

MR. ALDEWERELD: Thank you, Mr. Chairman.

What I would suggest that I do is, first, look at the present situation. And then look to the future.

The Board may be interested to have what I would call an inventory of what we have at the moment:

In the Projects Department, we have -- by way of identification and preparation -- today (the figures are a few weeks old; still, basically, correct). By way of identification and preparation: 109 projects.

In addition, we have under appraisal -- so close to negotiation -- 103 projects.

It gives a total of 212 new projects, in various stages of development, so to speak.

In addition to that, we are responsible for technical assistance -- which is really, therefore, the stage ahead of it. For Bank-financed technical assistance projects, 14. And under the UNDP, 34.

So that makes a total of new projects now of 260 -- to which we have to add what we normally call the supervision of projects (once the Board has approved them, and this loan has been signed) of 274.

So a staff of 190-odd, at the moment, is responsible (and, I admit, their responsibility is not as heavy in one case as in the other) -- is responsible for 534 projects.

That is the present situation.

Now, let's look at the future:

And in addition to what the Chairman has said about the prospective pipeline for hard loans -- and I would like to add, Mr. Chairman, to what you have said, as a specific answer to Dr. Liefstinck: All these questions about personnel have been looked at not by way of a snapshot, so to speak, but they were filmed for the next several years.

I would say this: That the staffing requirements not only for the Projects Department, but for the Bank as a whole, (but for the Projects Department, because it is so big) is most interesting; and have been developed by way of a future target. In other words, it is not that we want to have by July 1, 1969 a certain number of staff to do a certain amount of business. But, rather, to project a gradual build-up of the staff, taking into account the longer-range projection of hard loans, because, indeed, in our calculations also the IDA replenishment has played a part, but in the total figures the hard loan business is much more important by way of dollars and cents than the IDA replenishment we are talking about right now.

Now that is very interesting what we see there.

In addition to what the Chairman has said about the number of projects now, as compared with the projected number of projects in the future, the Board may be interested in what we call -- what you could call -- the likely development

in the sectoral composition of our work; and, indeed, what you could call the more traditional, the stereotyped work: Power. Power, over the next five years, is likely to remain stable in total amount of investment. But there are really two basic fields of economic activity: agriculture and education, where the increase is very spectacular.

We have -- And there is, I admit, a very rough calculation, and, as time goes on, we will have occasion to improve it, to refine, and maybe revise it somewhat.

But as a rough indication of order of magnitude, over the next five years we expect a quadrupling of agricultural activities. And over the next five years we expect three and one-half times the number -- the amount of investment in education, as we have in the fiscal year 1968.

And another interesting thing is, also, when we look at the average size of our operation; that is, -- if I can find it, if I have it. [Looked through papers.]

In the five-year period for 1964-1968, the average size of Bank loan, or IDA credit, was \$19.6 million. We project, that for the next five years, an average size of IDA credit or Bank loan of \$13.8. And the reason for this is quite obvious:

DR. MACHADO: That was \$13. what?

MR. ALDEWERELD: \$13.8.

In the first place, the sectoral change: more

emphasis on agriculture; more emphasis on education. Secondly, when you look at the projection, the bigger countries -- the countries that we have lent to, like Japan, and other countries, don't play a part in our projection; it is other smaller countries. And that is very important, not only from the point of view of the size of the individual loan, but also from the point of view of difficulty with which to process the loan. Because if you -- as we have made in the past -- made loans to Italy, and other countries; there, you encounter a certain amount, a certain level of technical expertise, which is very conducive to making loans. But it is another thing to go into smaller countries, that, unfortunately, don't have the expertise, don't have the experience; so our staff has to work much harder.

So we feel, therefore, Mr. Chairman, that the request for staff for the Projects Department, in particular, because this question was raised specifically; but, for the Bank as a whole, is really, in effect, not determined by the size of the operations we are engaged to, but what you could call (to borrow an expression from Mr. Friedman) "the absorptive capacity of the body of the organization."

Now,
MR. McNAMARA: /I know there will be many more questions on this same subject, and I don't want to cut off discussion of it, but let me go back to some of the other points Dr. Lieftinck raised, and respond very briefly to them; and

then call on other Directors.

He [Dr. Lieftinck] raised the point about the computer: It doesn't save work; it adds labor.

I couldn't agree more.

[Laughter.]

I have never yet seen a computer operation that reduced the number of people in the operation. I have seen many that led to more profit, however; or, in a sense, led to more efficiency in the operation. And I think that is the reason why the Directors approved this computer operation. But I was just shocked^{when I saw} the figures on it. My shock declined somewhat when I dug further into it, but I am still rather shaken by it. Because the total computer operation will cost about \$1 million in fiscal 1969, if I am correct.

And, John [to Mr. Williams], if I misstate -- misspeak myself, please correct me. But I believe it will cost about \$1 million.

Now it is not quite as bad as it sounds, because the IMF bears a part of that cost. Not half of it, because they pay their own unique expenses for computer operation; and only share in those common expenses of ours, which are not all of the \$1 million, by any means. And UNDP, or somebody else, bears a small share of it, as well.

But the fact of the matter is that the portion of our costs that are going into -- I will call it -- data collection,

or data processing, pre-computer versus post-computer, is very substantial, indeed. And it caused me to question it, as it did you. And I went into it in as much detail as time permitted, and I found that -- found two things, basically:

First, that it is costing us more than it should, in the sense that we have more capacity than we need in fiscal 1969; and that this was known at the time the computer installation was designed and approved; that the ^{Arthur D.} ~~Arade~~-Little Company, who was hired to make the study and advise on the computer installation, recommended that we install capacity in excess of need; initially -- believing we would grow into it, and it would be cheaper to put it all in place at once than it would be to put a portion in place initially, and add to it later. I am not sure they are right. But, anyhow, that's the way we are going.

The second reason for the increase in data processing cost is that, as you pointed out, we are going to obtain data we didn't have before. And whether we need all of what we are going to obtain, I can't answer it. I know we need more than we have, but whether we are going to need all we are going to get, or all that we are going to buy a processing capability for, I don't know. I am very skeptical of large data processing costs. And this is, in my experience, a huge cost. When you think of \$1 million for this size installation, this size institution, it is tremendous. So I think it is

something we are going to have to watch very carefully; and we will do so.

A third point you made was the importance of the cost-of-living increase. And I judged from what you said that, as a matter of policy, without trying to get approval of it today, that you feel we must recognize the increasing costs of living, and we ought to take account of them in our salary administration. I thoroughly agree with you on that. I think that, without criticizing the past, that we are going to have to adopt new salary policies in the future. Because there has been, in my opinion, an unreasonable compression of top salaries. And this is a result of a failure to apply across-the-board cost-of-living increases during a period of rather substantial expansion -- a rather substantial inflation. The inflation in calendar 1968, in my opinion, in this country; and, presumably, in this institution, is going to be greater than it has been in past years.

If we apply past policies, we will just further accentuate this compression problem. And I think if we allow that to continue we are going to reduce our capability for attracting outstanding men, and for holding outstanding men.

Now there is a serious problem -- I don't want to take long, but it does relate to this, so I will just mention it to you: It is a serious problem, frankly, in the Directors'

salaries. And this affects the salary structure throughout the institution. And I have already initiated conversations with Pierre-Paul on this subject. We are going to have to do something at the upper levels of these institutions (IMF, and World Bank), in order to relieve the pressure immediately below them. I am not too concerned -- to be absolutely frank -- about your salaries; and I am surely not concerned about mine. But I am very much concerned about the salaries of people downstairs and upstairs, on whom your welfare and my welfare depends. And we have just got to get these people paid properly, in order to attract and hold competent individuals. And we can't do that if we put a lid on them -- your salary lid, or my salary lid.

So we have got to do something about your salaries, in my opinion; and the salaries of the Department Heads, in order to open up space for some of the people down below to rise.

And, in any event, we have provided in the budget (in specific answer to your question, Dr. Lieftinck) something on the order of \$1 million. And it is a little hard to exactly estimate this. Something on the order of \$1 million for cost-of-living increase. The amount is a little in doubt, because you have to determine what the U. S. tax level will be, in order to calculate all this; and we have made certain guesses on that. Our guesses may prove in error. But

I would say that the amount that we have provided in the budget would provide for cost-of-living increases of three-plus percent in nonprofessional staff, and approximately five percent for professional staff -- all to be effective approximately September 1st. So that is, roughly, the way we calculated the cost-of-living allowance included in the budget.

Now if the U. S. doesn't act in certain ways on its taxes, or if we don't put in these increases in the amounts I have suggested (some three-plus percent, or five percent); or if we change the effective date from the date assumed, then, the budget will be more or less adequate.

Now I think I should call on other Directors before adding more comments of my own.

Mr. Maude.

MR. MAUDE: Thank you, Mr. Chairman.

Time is running on, and we have already covered -- in one way or another -- quite a good deal of ground; so I won't speak at length.

It seems to me that the discussion of this year's budget is a particularly important one for two reasons:

First, that it does (as it happens) follow quite soon after your own taking up office, and does enable us to have this opportunity to keep in touch with the development of your own thinking.

And, secondly, because the magnitudes of the increases in expenditure, which are proposed in this budget, are quite substantial; and I think, in any circumstances, would deserve careful consideration.

Now the starting point of the budget, it seems to me, is that in fiscal 1968 the budgetary provision for the Bank and IDA together were \$41.3 million, and the actual expenditures, it is now estimated, as it turns out, is some \$38 million. I think one is always, in those circumstances, slightly torn as to whether the right course is to criticize the people concerned for bad budgeting, or to congratulate them for careful housekeeping. I think I am inclined with Dr. Lieftinck, at least on this occasion, to lean to the side of congratulation.

As against that, the proposed budgetary provision for fiscal 1969 is \$44 million -- an increase of \$6 million, or about 15 percent. Now this increase, as you made clear in your notes, Mr. Chairman, and have developed this afternoon, rests on these two rather fundamental assumptions: that the volume and number of Bank commitments during this year won't be limited from the financing side; and, secondly, that the second IDA replenishment will go ahead as planned. And that, on these assumptions, something like 50 percent more loan and credit proposals; I take it, this is by number rather than total amount, will come forward in 1969 as compared with 1968.

I had been going to remark, Mr. Chairman -- but you already volunteered it, I am glad to say -- that it seemed to me that it would be very helpful that, if at a convenient time, you could develop for us (preferably on paper; or on paper and orally) your thinking and calculations lying behind this projection. But you have been good enough to say you would do that, when the time was ripe. So I won't say more on that.

I would only say that I do agree that these must be regarded as pretty crucial assumptions, and I was glad to hear your opening comments: That in the event that either, or unhappily both of them, should prove to be seriously invalidated, the Board would have a full opportunity to have a second look at the budget for the year. I am not sure that I would necessarily want to press Dr. Lieftinck's suggestion, though I can see some logic in it, for freezing a part of the budget, and attacking it the other way so to speak -- and freezing a part of the budget until it was clear that the assumptions were valid. I can see some difficulty in knowing which part you would freeze.

But I think the main thing, as I see it, would be that there should be a quite clear and full opportunity for the Board to have a second look, if things turn out differently from what we expect, and hope.

Turning to the budget folder itself, Mr. Chairman,

I was interested by the -- I think on the whole -- clear and helpful charts, with which we are presented. I only have the feeling that, looking at the Charts 1 and 2, to compare administrative expenses -- to look at it as a percentage of gross income, or, in relation to net loans and credits outstanding wasn't the most illuminating presentation, because it seemed to me that if the Bank and IDA were to put up their shop shutters tomorrow and stop making any loans or credits, there would still be income coming in, and loans and credits outstanding. I would have thought that the most revealing comparison would be administrative expenses in relation to the volume of loans and credits signed or agreed in the course of a year.

We are fairly close to that in Chart 3, which is in terms of salaries. But I wonder, in a future year at least, whether it might be helpful to have that comparison of all administrative expenses against loans and credits, credits signed.

I don't think that one has any cause to regard the picture as presented in Chart 3 as particularly unsatisfactory, but I must confess that taking the budget as a whole and just gaining an impression from it, it does seem to me to present something of a warning signal. I do feel worried. I can't put it higher than that. But I can't equally put it lower than that, I think, by the number of instances, where

quite large percentage increases in expenditure are contemplated. I am not overlooking the fact to which Dr. Lieftinck drew attention: that, in many cases; in particular, most of the area departments have, seemingly, been quite modest in their requirements and demands. But to pick out just a few examples, some of which have already been mentioned, the Economics Department, with an increase of 33 posts, or, I think, about 16-1/2 percent; the Middle East and North Africa, with a relatively small increase of six posts, but which, nevertheless, I think represents 20 percent; the Projects Department with 73 posts, or 23 percent. The Information and Public Affairs Department -- if my arithmetic is right -- if you take ^{together} the salaries and the program, on page 50, I think it is, and the Printing Program on page 63, you get an increase of something like 44 percent over this single year in what is proposed.

Now, I haven't much doubt that taken individually each of these increases can be supported by good arguments, and, equally, I do recognize that if the Bank Group is to expand its activities, as I personally hope it will, an increase in staff and expenditure is clearly necessary.

Nevertheless, the process of considering this budget does seem to me to have a rather uncomfortable resemblance to the situation with which ^{many} of our member governments, I expect, find themselves faced; and with which, if I might say

say so, sir, you are probably more closely familiar than most of us -- of trying to keep pressures of constantly growing expenditure under some sort of reasonable limitation.

Now I am well aware that, perhaps, nearly everything I have said up to this point is quite unconstructive. I will try to make one or two remarks on a more constructive note:

First, it does seem to me essential that in this situation, there should be within the institution an organization and procedures for insuring that growth of expenditure is kept under constant scrutiny as an appropriately high-level of management. And I agree with Dr. Lieftinck that that does, I think, mean scrutiny of existing posts and expenditure, and not simply scrutiny of proposed new posts or new expenditure. I am not wanting to suggest that this is not at present the case. But any confirmation or anything you can say on this point would, I think, be welcome.

Secondly, and this relates to something that Mr. Aldewereld mentioned a few minutes ago, it seems to me not very satisfactory to look at growth of expenditure on this scale simply on a year-to-year basis. Mr. Aldewereld talked about -- or described this as not within the staff scrutiny at least as being (or management scrutiny) as being a snapshot, but a moving film. Well, it seems to me that the presentation in this booklet is rather more like a snapshot. And I wonder whether, for future years at least, it might be possible

to develop some means of considering the trend of expenditure in this Board, over some longer period ahead.

And, finally, sir -- to turn to a relatively minor point -- I must confess that, given that the provision for contingencies in fiscal 1968 is not expected to be spent (and I gather wasn't spent last year), I was left unable, really, to see what the justification was for increasing it by 100,000 pounds in this budget.

Thank you.

MR. McNAMARA: 100,000 dollars.

MR. MAUDE: Dollars. I am sorry.

[Laughter.]

MR. McNAMARA: Let me take the last point first.

In a sense, there was a provision for contingencies of \$2 million in the 1968 budget. I hope there isn't that amount of contingency hidden in the 1969. We have tried to sort it out; and, having tried to sort it out, it seemed desirable to have a specifically identifiable contingency of \$350,000. But I am quite frank to admit, I don't know whether we have tightened up on the individual items to the point where that contingency is required or not.

Assuming we have, then, I think a \$350,000 contingency is modest.

I myself much prefer a tight-item budget, with a clear and open contingency; rather than a loose-item budget

and a small contingency. I don't know either whether to congratulate ourselves on sound management, or criticize ourselves for loose budgeting last year. But any time you are off by \$2-plus million on this kind of a budget, I am inclined to believe it is loose budgeting. At least I hope that, in the years to come, we can develop tighter budgets.

Now, on your more basic point: "What is the proper size of our budget?"

I think this is the basic issue.

And what we need are better measures of workload in relation to cost. But it is going to take time to develop those. And I think the staff has been quite right in emphasizing -- turning out the product, the loans and credits, rather than in carrying on a lot of internal analysis.

In any event, we don't have sophisticated measures of workload and cost at the present time.

But what one can do is look at the total position we have been in, and the total position we would be in -- as though one were a profit-making corporation. We aren't, but you could apply that kind of a measure to yourself. And, on that basis, the rate of return on capital and reserves planned or estimated for fiscal 1969 is higher than in any previous year that I have a record of here -- excepting only one. I have individual years from 1962 through 1968; and I have the total period through 1961.

And just to give you an indication:

The total period through 1961, the rate of return on capital and reserves was 4.48 percent.

And the tentatively planned rate for 1969 is 5.67 percent.

Now I am not suggesting that this is the only basis on which one should consider a budget. But I do think that we ought to plan a proper relationship between our income and our outgo, and the capital we have at risk. And I think this is what Mr. Maude was pointing to; and I fully agree -- that that is one standard against which we should examine the budget; it is a standard against which I examined it.

Mr. Vom Hofe, I fear that I may have done you a discourtesy by calling on Mr. Maude earlier. But would you go right ahead.

MR. VOM HOFE: Yes.

Mr. Chairman, I am very pleased to have my first opportunity today to participate in a policy discussion in this Board. But I ask your indulgence if I am not completely familiar with all those points which may have been raised in previous debates.

I have two questions of a more general nature: Concerning my opinion on the question of the volume of the Bank business, it appears self-explanatory to me that IDA credits have to be kept within the limits of IDA replenishment.

Regarding Bank loans, I basically share the assumption of you, Mr. Chairman: The number and volume of loans should be limited, mainly, by the high economic standards which we expect from every Bank-financed project, by the debt-servicing capacity of our borrowers who must not be overburdened, and by the efficiency of our staff -- and not so much by the volume of money available for financing at any given time.

However, if I look, today, at the conditions of the capital markets, and the development of the general financial situation, as you, Mr. Chairman, have described them just before, I cannot but ask myself: "Whether, under these circumstances, it is, indeed, realistic to not only retain our present loan volume, but to even propose an increase at this time?"

There is no question that such an increase from the point of view of development capital requirements would be highly desirable.

If one reads American or French newspapers, it appears rather certain to me that in the coming year money available for development aid will be less, and even considerably less than in the past. There can be no doubt that in such a situation an increase in the World Bank's loans would be highly commendable even if a 50 percent increase in commitments would, of course, not entail a correspondingly large

increase in actual loan disbursements during the same year.

If my estimate is correct, the Bank -- without IDA credits -- would during fiscal 1968 and 1969 have to disburse approximately /\$900 million, plus \$500 million for debt-servicing; totaling \$1.4 million.

On the other side, there are receipts of some \$500 million, which means that approximately \$900 million would have to be raised.

As you already mentioned, Mr. Chairman, I assume that the Bank's lendable cash balance of about \$1.2 billion will be retained with some \$2.5 million worth of obligations from Bank commitments on the opposite side; \$1 billion of investment in U. S. Government obligations and time deposits appear to be rather low than too high during times of tight money supply.

Consequently, if \$900 million have to be raised, about \$500 million thereof will have to come from capital markets.

Even if all our member countries do their best -- and, here, I feel obliged to say that the unusual high amount of capital provided by my country during the next 12 months depends upon circumstances we cannot expect to last in further years. Even if all members do their best, we all know that such an amount per year can be obtained only with substantial help from the United States, which in the past

has also filled most of the capital needs of the Bank. In this connection, I am very pleased to have learned from you, Mr. Chairman, that you see a fair chance that Secretary Fowler will agree to give the Bank the needed authorizations to make a higher use of the U. S. capital markets in the coming year, though the market climate might not develop more favorable than this year. I do hope this chance may realize.

Another problem that has to be considered in this regard is the problem of interest rates. It is the great advantage of a free capital market that one is almost sure to be able to always fill an urgent capital need if one is prepared to pay the actual price, that's to say, interest rate. But are we prepared, in the case of a further tightening of the market, to pay seven percent interest, and even more?

If I am rightly informed, several members of the Board have -- when this question was raised the last time -- expressed considerable doubts as to whether the Bank's borrowers will be able to cope with a further increase in the cost of loans.

It has, therefore, been decided to increase the interest rate for World Bank loans only to 6-1/4 percent, regardless of the fact that the interest rate for part of the newly-borrowed funds are 6-1/2 to 6-3/4 percent -- which means

that, taking into consideration offering prices, commissions, and other issuing costs, the total cost of these loans are not far below 7 percent; partly even higher.

I would like to point out, already today, that I am of the firm opinion that we should not continue this path as the pattern to cope with higher costs of money in the future; not because the difference in interest rates, which would account for a loss of \$4-\$5 million per year, would make the Bank falter. Even considering that this loss would double in the second year; triple in the third year; and so forth -- so long as this policy is maintained, a look at the revenues of the Bank, its reserves, show that such a policy could be continued for quite awhile without greatly changing the balance sheet of the World Bank.

My concern is a different one.

Let me assure you, gentlemen, the reputation of a bank can be more easily blackened than that of a girl. [Laughter.] If it becomes known that a bank -- regardless which bank -- finances a rather considerable part of its business with funds borrowed at a higher rate than they are being lent; financial circles in this, as well as in other countries, will doubt the seriousness of the business policy of that institution.

This, however, will result eventually in the loss of its standing as a bank in the markets.

I have observed, with interest, the increase in the staff of the Information and Public Affairs Department -- designed to develop a better understanding for the World Bank Group, particularly, in debtor countries. This task is closely related to what I have just said.

I believe that we have to depart from the fact that there are different types of images an institute like the World Bank, and its affiliates, can project.

It is sure that the majority of politicians, the population in general, and the debtor countries in particular, are most receptive to the image of a development institute with emphasis on the operations of the IDA. However, in my opinion, there are no doubts that such an image must eventually hurt the Bank, even a World Bank. It is not only the international bankers who play a decisive role in the placement of our bonds; the man in the street -- who readily approves the IDA-colored image -- also takes a completely different attitude when it comes to the concrete question of the placement of his savings.

We must be realistic enough to recognize that in this point the little, as well as the big men, are both equally conservative, and attach great importance to the highest possible safety of their placements.

I would think that the difficulty in finding the right image for our Bank can be corrected if we discontinue

our efforts toward a joint image for the World Bank Group.

We should more than hitherto emphasize the difference between Bank and IDA, and endeavor to render the World Bank its conservative image; and abandon everything that cannot easily be combined with this image, such as the mentioned negative difference between borrowing and lending interest rates.

When we, for our part, have done everything to keep our access to the capital markets open -- open even if conditions might become worse -- this, together with some clear assurance of Secretary Fowler, to honor increasing Bank activities with the necessary access to the American capital markets, would render the decision much easier for me to give my approval to the courageous proposition of our management to attempt an increase of 50 percent in the loan commitments of the World Bank, despite -- or because of the tightening of the monetary situation in the rest of the world.

Thank you very much.

MR. McNAMARA: Thank you, Mr. Vom Hofe.

Mr. Malaplate.

MR. MALAPLATE [Speaking in French; English interpretation follows]: Thank you, Mr. Chairman.

The consideration of the budget is a tradition in all public and private bodies. It is an opportunity we have to give thought not only to the general financial balance,

but also to the development of the organization itself. And an opportunity to compare the cost of that enterprise to its yield.

The budget of the Bank is, of course, no exception to this private and public tradition, and it is a pity somewhat that we have to examine this document, which reflects a wide part of our life, and which might be the occasion for a large number of interesting remarks, that we have to examine it in so short a time.

But, sir, I do not want to prolong the remarks, the short remarks I wish to submit to your consideration; and I turn immediately to the four or five points which I should like briefly to mention now.

The first, Dr. Lieftinck has already alluded to it, and I wish to refer now to the danger to which we now seem to expose ourselves; namely, that of an excessive growth on the part of the Bank, and particularly of the total number of the Bank's staff.

If we look at the tables that are submitted for our consideration, we see, sir, that the number of the staff has increased from about 800 in 1962; to 1,638 in 1968; that is to say, there has been a twofold increase in a few years; and it is now envisaged to increase to 1,800 in 1969. In so doing, sir, are we not proceeding a little too hastily?

When I came to Washington, in about 1963, I had the

feeling that the Bank was facing its task in a normal fashion; and I do not have the feeling that, ever since, the general volume of this work has increased to such an extent. I do not want, sir, to go into the detail of all this; nor do I want to attach too much importance to the various tables that have been submitted to us; and which, as Mr. Maude has said, are not always quite convincing. But it does seem to me that in these tables we do find a certain reflection of this development. In the first, for instance, we see that the ratio which was 20 percent in 1968, between the staff expenditure and administrative expenses and gross income; and which was reduced in 1960 to about five percent; that the ratio is now increasing again -- rapidly increasing towards a figure of 10 percent. Of course, we should have to engage in a much more technical, detailed analysis of this expenditure; not to confine ourselves to mere impressions.

However, I think that we are running some risk in so doing. I would like to cite a few:

One of them -- one of these dangers -- is that the Bank may feel tempted to engage in work which is not useless, of course, but which, nevertheless, is of a marginal nature. For instance, I think of the time that this Board has devoted, for quite a few months already, to the study and development of the multilateral investment insurance scheme. I do not think that this is part of the normal activities of the Bank.

A second danger of the excessive growth of staff is that the latter inevitably shows decreasing yield. The very administration of the staff requires more and more people. The contacts between the various agents absorb an ever-increasing time on the part of this agency. I do not want to belabor this point. I think that Parkinson has given us a very clear demonstration of the fact in which such developments take place.

Another danger yet, sir, is that the increase in the number of the staff very often tends to prevent an increase in the salaries that are paid to them. Because there is a natural tendency within any administration to catch up with expenses, to make savings; and, therefore, to compress the salaries that are paid to staff in a way as to catch up a little bit, as to compensate for the increase in its numbers. And this, of course, leads to a feeling of dissatisfaction among the staff.

But, sir, the Bank is not limited, as is a State or some other organization. It is not limited, as I said, by funds -- which it must receive from the outside; or by the matter of possibility of procuring funds. To a very large extent, we are still well within our income; and, consequently, we have a natural tendency not to resist the equally natural requirements and requests of our services.

I must say here that, together with Dr. Lieftinck,

I was somewhat concerned to see that the increases in the numbers of staff -- increases that are now envisaged -- deal mainly with the professional category; that the tempo of the increasing professional staff members is twice that of the nonprofessional category.

This does not correspond as to the present structure of this personnel, because at present out of the 1,638 members of our staff, 820 -- that is to say, 83 percent -- are nonprofessionals. I wonder whether, like in some armies, we are not multiplying the number of Generals in officers, and whether the Bank will not become, little by little, an institution composed of General officers only.

Mr. Woods had been concerned by this development. And he had decided, at a certain moment, to establish a ceiling for the increases in the numbers of the Bank's staff. Your arrival here, sir, in view of the reputation that preceded you, had led some of us to think that not only the staff will have a ceiling established for it; but, perhaps, we were exposed to drastic reductions and cuts. Yet, this is not what has happened, for the time being at any rate. But I do wonder whether, in the absence of such restrictions, we could not at any rate slow down the acceleration, and whether we could not follow the proposal that has been made by Dr. Lieftinck -- not to take, right away, measures which in the future might prove to be either useless or, else, unachievable

and unfeasible.

The second point which I would like to raise, and which has already been raised by the French administrator, the Director in this Bank, Mr. Larre -- the former French representative, at the time of the former budget -- the point is as follows:

In this Bank, there is no salary scale. There is no general table, no general scale, that would make it possible for everyone to know where exactly he is situated on a certain remuneration scale. And this leads to a feeling of uncertainty, and I have had echoes and repercussions of that -- an uncertainty which is not pleasant for the staff. Staff members like to know where they are, whither they are going. And I think that this is necessary; this is something that exists in all institutions, in all administrations. The United Nations has such a salary scale and system. I have not been convinced, sir, by the arguments advanced during the previous years, when similar requests were put forward and, according to which arguments, such a scale was not necessary in the case of the Bank.

I believe that with this present increase in the number of the staff members, that makes such a scale more and more necessary. And I think that at the level of 1800 people, it would be useful to have something which is regarded as necessary everywhere else.

May I now turn to my third point. It relates to the international character of this Bank Group. It is said in the Articles of Agreement, in our statutes -- and I am referring to Article 5, Section 6 -- I am sorry Section 5, paragraph d.

[Speaking in English,]

~~"As~~ the Officer ~~of~~ the staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as ~~is~~ possible."

[Interpretation continued.]

When I look at the table of nationality distribution ~~that~~ has been submitted to us, I think that we may compliment the Bank on the fact that it has tried to achieve this to a very large extent. There are 75 nationalities that are represented within the Bank, of which, in view of the recruitment difficulties that obtain in some countries, and in view of the fact that some are newly-independent members -- this, of course, is a very fine achievement, indeed. But ~~at~~ looking closer at these figures, we see that there is some progress to be made, still.

First of all, a large number of countries are represented by one member, or two or three members at most. Then, I shall tell you a short anecdote about this Bank:

Among the nonprofessional category, a select choice of posts seems to be reserved to the Philippines, which come in third rank after the United States, and the United Kingdom, with 74 nonprofessionals.

But I do see that as regards the United States and the United Kingdom, that, 20 years after Bretton Woods, these two countries still represent about 50 percent of the professional staff, 107 persons out of 180 -- I am sorry: 50 percent for the professionals, and 60 percent for the professional categories, who earn more than \$18,000. This, I do not think is completely abnormal. I know, full well, the explanations. I understand them. Nevertheless, it remains that in the eyes of many people, the International Bank is still regarded as a Bank with American predominance, and, secondarily, British predominance; and that these are too important.

I think, therefore, that there is still a good deal to be done in the diversification of the nationalities in order to conform ourselves to the letter and the spirit of our Articles of Agreement.

I should note that as regards Africa, on the other hand, we find only nine African representatives -- if we do not count Egypt; and that the 16 States represented by my neighbor, Mr. Kochman, are represented by only one person--- professional category, and of the most minor category at that.

A last point, Mr. Chairman. The budget provides for a cost-of-living increase. As Dr. Lieftinck has mentioned, I think, that such an increase would be of about 4 percent. That's the increase in the cost-of-living. I do not think that we could express our views before seeing what was the -- not inflation rate, but the rate of the increase in the cost-of-living where we live and operate. But I do feel that the same problem did arise in the previous years, and that we were somewhat too moderate in our evaluations and assessments, and that we have not *a*lways completely compensated our personnel for the increases that did take place, in fact. And I think that here we should follow, by a certain number of principles -- of which I shall give you two:

The first is that we should copy and follow the general evolution of the prices and salaries here in the country in which we live, that is to say, the United States; and this without lagging behind.

And the second principle is that we should harmonize, as closely as possible, our policy in this particular fund, and you, sir, have already mentioned that point -- harmonize it with that of the International Monetary Fund.

I have often heard it said that the salaries or fringe benefits, especially for the nonprofessionals, were often more advantageous on the other side of the bridge that

separates the two organizations. And I don't think there is any reason for such a state of affairs.

Lastly, sir, I should not like us to overlook in this race against the spiraling cost-of-living -- we should not overlook the problem of pensions. I think a study has been carried out. But I do not think that our pension staff should suffer from any increase in the cost-of-living.

I shall confine my remarks to these few observations, sir. And I should like now to thank you for your attention, and for the patience you have had in listening to this statement in French.

Thank you, sir.

MR. McNAMARA: Let me comment on a few of the points.

I don't want to take the time of other Directors to go over all of them, because it would duplicate some of the comments already made.

First, let me say, if I have any reputation, gentlemen, it isn't built on putting a lid on expenses. Its built on proper balance between output and input. And I don't believe you would want me to put a lid on expenses. I don't believe our function here is to control expenses, per se; or without regard to product. Our product is development, and I presume, therefore, the proper balance is between expenses and prudent loans; and income in relation to capital at risk. These are the factors I have tried to follow here, without in

any way suggesting that a gross analysis of those factors can justify every item in the budget.

It does seem to me that attention to the ratio of cost to benefits, and growth in relation to capital at risk, is the proper measure; rather than a ceiling on expenses. And I didn't plan to, and haven't put a ceiling on expenses.

Now, secondly, I very much agree with what Mr. Malaplate said on cost-of living, and the standards he suggests are exactly the standards that I would recommend that we follow. They were two:

One: that we follow U. S. increases. In other words, follow the increases in the environment in which our people are living.

And I think we have to take account of both the U. S. increases, and the increases in private institutions that our people might move to, apart from their occupation in the Bank.

And, secondly, he suggested we should harmonize our compensation with the International Monetary Fund. And I very much agree with that, as well. And I initiated a series of discussions sometime ago with the representatives of the Fund on that point. Not just on the points I mentioned to you earlier, but on all compensation.

I do want to attach a small footnote to that: I

think we should harmonize our compensation with the Fund when we can do so, with prudence, in relation to our operating environment.

He, Mr. Malaplate, suggested that certain of the nonprofessional fringe benefits in the Fund were higher than the Bank. That is true. One of them, in particular, I think, has been a matter of concern among our staff members -- the Country Club benefits provided by the ^{Fund}~~(Bank)~~ which we do not provide.

My predecessor, Mr. Woods, was offered an opportunity to provide our staff with the same benefits which the Fund provides its staff. And without in any way criticizing the Fund, I would simply say I think Mr. Woods was very wise in not accepting the offer of the Fund to make available to our staff members the same Country Club benefits.

You can imagine the problem we would face among certain legislatures of the world today, if we were subsidizing country clubs for our personnel. It is bad enough now, but that would be the absolute death blow to IDA, for example.

So with that minor footnote, I very much accept the points Mr. Malaplate made.

Now on the question of the international character of the staff, again, I very much agree with his basic position. And it is one reason why I myself would strongly urge

against at the present time any freeze of a portion of the increase, pending further developments on the IDA replenishment. When I discussed this budget with the Department Heads and the Senior Executives of the Bank -- by the way it is less than many of them thought it should be -- but in relation to the number that we have in the Budget, it was pointed out that it would be much easier to expand the staff to these numbers, holding quality constant, were we to recruit from the United Kingdom or the United States; or, I should say -- not recruit all from there, but give a disproportionate number of the positions to recruiting in those two countries.

It takes far less time to find the individual, far less time to train him, and far less time to absorb him in the organization. However, I instructed Mr. Ripman, in the Administration Department, to follow exactly the reverse policy: to go out and try to hire as large a percentage as possible of non-British or non-U. S. citizens. And, in particular, would solicit the help of the Executive Directors on that point. I think you can be of great assistance to us in suggesting how we can more effectively contact competent people in your country. There must be some channels of communication with competency that you are more familiar with than we are. And I asked Mr. Ripman to circulate to you a list of positions, by type of position -- a certain type of engineer, with certain backgrounds -- in power, or

transportation, or agriculture, or whatever it might be. And the same thing for the nonprofessional staff.

And by this device, over a period of time, with your help, I think we should be able to shift still further away from U. S. or U. K. personnel. So I very much agree with Mr. Malaplate on that; and I hope to have your personal assistance, Mr. Malaplate, in obtaining French Nationals, or, for that matter, African Nationals. Because I know that, particularly in the case of the African Nationals, we have a less than proportionate share of our personnel there. I think that, in that instance, we must also recognize there is a counter factor, however. We need to -- we don't want to ourselves add to the brain drain. And there is a great need in many of the African countries, as well as the Latin American countries, for many of their people to stay home.

But the basic point of an international character to our staff, I strongly support it; and will expect your help, and value your help in meeting it.

Now, Mr. Stone.

MR. STONE: Thank you, Mr. Chairman.

I shall begin by saying that when I first read this budget I was -- I will be frank in saying I was somewhat alarmed by one or two things I read in it; particularly, paragraph 6, where it is stated the basic assumptions, which underlie the whole of this afternoon's discussion.

I should, also, therefore, say that I have been very considerably reassured by much that has been said this afternoon, particularly from your chair, sir, which I think goes a long way toward allaying the kind of fears that were raised in my mind when I first read this document.

I cannot go the whole way by saying that my fears have been completely allayed. But much of the additional information with which we have been provided orally this afternoon, which if I may say so -- without, at least at this stage, being unduly critical -- they would perhaps have been well included in the budget documents themselves. It has gone a long way to explaining some of the conundrums which are present here, particularly the information which was provided by Mr. Aldewereld.

Now, however, to deal first then with the residual worry which I still have about the basic assumptions, which are mentioned in paragraph 6; and distinguishing clearly between IDA on the one hand, and the Bank on the other. I think that so far as IDA is concerned, it is perfectly appropriate to make the assumption that is made here: that IDA will be replenished -- although the words, as proposed, I think, still leave an element of ambiguity, because they don't answer the question "When?"

I presume it would be possible at least to make a reasonable assumption as to a -- shall we say -- ^{the} minimum delay.

I think my understanding of the present situation in the field of IDA rectification is that even with a successful outcome in the Congress, there is still some almost inevitable delay before a sufficient number of other participants have ratified the agreement, so as to make it effective.

That being so, I think that it would be possible to trim one's assumptions at least a little even in the IDA field, and I assume -- rather than to take the course that I think you suggested as an alternative -- that if it appears that the assumption of a replenishment is not to be fulfilled, then you come back and change the figuring. That may be necessary in any case. But I think it would have been desirable to make a minimum assumption of delay on the best hypothesis regarding the United States ratification.

However, the question of the IDA element in this package of assumptions is very much the lesser of the two. The one which is much more basic, basically interesting, raises one of the basic policy questions, is that of the Bank itself. Now, as I said, the information that has been provided by Mr. Aldewereld, particularly, and the very interesting breakdown of countries, of regions, with the largest expansion of project loans, which it is envisaged we should be financing; mention of the questions such as change in geographical composition and the change in sectoral composition of loans; I think, these are self-explanatory. One would

like, perhaps, to have some more concrete data, before one -- when being asked to consider those arguments further.

But accepting those arguments in their entirety, one is left then with the question of the extent to which over and above those changes, there is an increase in the actual volume of financing involved by the Bank, and the effects which this will have, or can be expected to have upon the Bank's liquidity.

Now the difficulty I have in considering this is that, of course, if we move to a situation where the Bank is proposing to finance such big requirements, and when given quality of project assumptions; this will not show up in terms of the financing requirement -- at least not appreciably -- in this financial year. Because of disbursement lags, it will presumably not show up until the year afterwards, or even the year after that -- perhaps, most pressingly.

And what I would have found extremely helpful, and what I would still find helpful -- and I would like to suggest, as I did on this occasion, last year, if I recall correctly -- that in future budgets we might have some data of this kind. What I would find helpful is that side by side with an ^{expenditure} expansion budget, we also had, so to speak, an income budget. It isn't an income in the strictest sense of that term, but a cash-flow budget which would set down our commitments

and at the same time thereby provide the Directors with an indication of the financing load which is in front of us.

I think, if I understood what you were saying earlier, Mr. Chairman, you in fact were reading from a tabulation of that kind -- at one point in time. I think it would be useful if in future budget presentations something of that kind could be included in the documentation. Because clearly, it must be central to your own appraisal of this assumption; and I would personally find it very useful for mine, also.

MR. McNAMARA: Let me interrupt you there just one moment, Mr. Stone, and say I fully agree with you. I think that by a year from now we should be in a position to present to you a total financial budget -- which would be income, expense, and the asset and capital accounts, as well, inclusive of a cash-flow projection. I quite agree with you. It is very, very difficult to sit here -- and, as a matter of fact, I couldn't sit here and examine an expense budget in isolation from these other factors; and I haven't. I have at least got my own set of forecasts for the other factors; even though others may not agree with them. It is just impossible to look at an expense budget and approve it by itself. It is just very, very clear.

MR. STONE: I am glad to hear you say so, sir. That is precisely the point I am making.

MR. McNAMARA: I just couldn't agree with you more. And I believe that, a year from now, we will be able to present to you a total of what I would call a "Financial Plan," covering income and expense, assets, liabilities, and cash-flows.

MR. STONE: Thank you.

Now it has -- However, we have a budget in front of us at the present time, and, I take it, we are being asked to approve it today. I have no -- particularly, in the light of the explanations that we have had, in the light of what you have said to us, I am ready to do that.

I think that the sooner we could, in fact, have some consideration anyway about this question of cash-flow picture for the year ahead, the better it would be for all -- for the information of us all.

If I can just turn then, briefly, to the point that worries me, about this residual point that does worry me. In the absence of the figure, it is not easy to make it in concrete terms, but, if I can make it in qualitative terms rather than in quantitative ones: I am concerned lest we should, by the assumption on which we are basing ourselves here, get ourselves into a situation -- where not this year, and not next year perhaps; but the year afterwards, we are in a situation where we have a large volume of disbursement commitments arising, and, hence, a large financing load coming

up, and we find ourselves in a situation where market conditions are not favorable, and, indeed, in which the Bank is so far from being about to continue lending at its then existing level -- so far, indeed, from being able to drop back to the present level; it might have to go further still, and drop back even further than the present level.

Well, I think this would have a disastrous effect not only upon the morale of the staff, but of the Bank as an institution, but also upon its image as an institution, which is, after all, in the planning business in a sense and which, therefore, has to be particularly careful, I think that it provides -- its own record of financial planning is not open to criticism, not at least to bad criticism.

MR. McNAMARA: Let me interrupt you again, if I might, just on that.

I quite agree with you there. I think it would be very dangerous for us to carry out a program, at any level as a matter of fact, without it looking through to the "stable state," if you will. And when this Bank approves commitments -- next year, let's say, for \$1 billion, as it well might in hard loans. This year, it is commitments; and hard loans will be -- what? -- maybe \$900 million, or \$850 million. Well, let's say, next year it was \$1 billion plus.

I myself believe it should either follow the policy

of the Inter-American Bank, which I would not recommend to do -- which policy is that the Bank have on hand, at that time, sufficient cash to cover the full commitment of the loan; or, alternatively, there should be in our hands at the time we approve those commitments next year a cash-flow plan, with acceptable assumptions, that shows how we will finance those commitments.

I think it is incumbent upon us. I am not going to sit here in this chair, as President of this Bank, and recommend commitments to you that I don't know how to finance. And that's exactly why the first thing I did was to look into the future and lay it out on a piece of paper. And I have got it here. I am very hesitant -- I don't want to give it to you; and I am not trying to be evasive or withhold something from you -- I just know how dangerous it is to turn out data that are developed for five years, based on six or eight weeks of work. Some people have been working at it 15-18 hours a day. And it is not accurate. But it is sufficiently accurate to absolutely convince me that we can finance these commitments that we are approving at this meeting, and last meeting, and the next meeting; and the meetings as far ahead as I can see.

I just couldn't agree with you more.

We are a financial institution, and we ought to guide ourselves on the most prudent financial standards

available. And, certainly, it requires that we know where we are going to get the money to fulfill a commitment that we make. And there is only one way to do that: and that is to forecast the disbursements, and all your other cash requirements during that period, and your cash-flows. And I have done that.

Now it has to be done based on a whole series of assumptions. I have made the assumptions. And then I have recognized that nobody can be certain. The capital markets may close, and, if they close, I still have to do it. The closing of capital markets doesn't relieve this Bank of fulfilling its commitment -- at least I haven't read the clause that indicates that.

So it seems to me we are responsible for fulfilling commitments if every government in the world withholds permission to borrow in their markets. And I think we have got to have that kind of a plan. And that's the kind of a plan that I think we have developed; and, ultimately, I will be prepared to put on paper and circulate to you for your comment.

But I just couldn't agree with you more that it is wrong to try to consider a cash budget in isolation. And it is wrong to consider a cash budget even with the appropriate income, and capital accounts, and cash-flows, for only a portion of the commitment period -- unless one is following a policy, such as the Inter-American Bank is following; and I

consider that wrong. It is excessively liquid on my terms. But it does meet the standard of being assured of being able to meet a commitment when the commitment is made.

Pardon the interruption. This is the second time. I promise not a third.

MR. STONE: Certainly not, Mr. Chairman.

As my colleagues will tell you, I am not normally prone to suffer interruptions lightly, but I am only too glad to have been interrupted on these two occasions.

[Laughter.] Because it has led to your having so many interesting things, which I thoroughly agree with, and thoroughly welcome.

I, before leaving this general point -- I just perhaps want to say, because you asked for any comment on this, that I also agree with the assumption you made earlier, or the statement you made earlier; that, if anything, rather than running our cash and liquid balances down further, we should, if anything, ^{be} taking a prudent view of building up a little. I will say no more about that, other than to give that reaction that you invited. I state it.

The only other comments I want to make then relate to the question of staffing. I think that, obviously, to a very large degree, the staffing proposals follow from the acceptance of the assumptions in paragraph 6. I say "to a very large degree," because it is not even -- even at the best

one isn't in possession here I think of enough information to be quite sure that that is wholly so. And there are one or two aspects of the staffing proposal which, I must say, caught my eye, and which I would like to be a little more satisfied about than I, at least at the moment, now am.

But before I turn to those points of detail, there is one general comment about staffing I would like to make, and it relates to the point which was originally raised by Mr. Malaplate and to which you responded.

I do think there is a -- I wouldn't, necessarily, perhaps associate myself formally with all of the comments that Mr. Malaplate made about this matter, but I do think he put his finger on a real point of difficulty about the staff of the Bank and IDA, and this is one which has, of course, implications for the recruitment load in the year ahead, which you touched on in your reply.

If we are, in fact, to embark on a very significant increase in our staffing in the year ahead, then, clearly, the easiest place to get staff, to get qualified staff of the standards we require, in the numbers which are involved, will be either the United States, or perhaps the United Kingdom -- perhaps to a less degree, the United Kingdom. Now I think that while that would be a convenient approach to the matter, it would be -- and I take it that you agreed with this, from what you have already said -- I

think it would be an unfortunate outcome, from one point of view (not being in any way critical of the nationals of those two countries, in whose abilities I have the highest respect) -- but I think there is an important presentational point here, if only of that kind, to have it seen that the Bank is not simply a one-nation, or even a two-nation, or even a few-nation institution.

Now the difficulty which the alternative course presents, of course, is the one on which you put your finger:

a) the question of speed with which one can recruit from other markets; and,

b) and this is not a question to be lightly passed over; the consequences, for many of the markets concerned, if, in fact, you do have a successful recruiting program -- even in a country like Australia, which is perhaps, in some ways, somewhat more fortunate in some of these manpower questions than some of our members. You could well find that you would attempt to recruit a couple -- even a couple -- of good economists in Australia, and you will very substantially bleed the resources of the country. And this varies very much from discipline to discipline. You would probably find this in all countries.

So I think this is a matter which represents a real constraint anyway upon the recruitment program which is embodied in this budget, but that is something which the

people who will be responsible for this will have to work out as best they may. I think it is not going to be, if I may say so in passing, an easy problem for them to solve, and at the same time keep all these requirements straight.

The final point I had to make then on this question of staffing, Mr. Chairman, was this point of detail, or the points of detail, to which I referred earlier. And it arises, or the principal one arises in paragraph 10, where reference is made to the staffing of the Economics Department. Perhaps it is a little unfair of me to refer specifically to the Economics Department, rather than to say the Projects Department; and it may stem/^{more}from the fact that I feel more competent to comment upon the staffing of Economics Departments than I do to comment upon the staffing of Projects Departments.

But I am a little concerned to see a suggestion, that, implementing a decision taken in 1967; it seems, that the Bank should devote greater attention to fundamental research and that, as a consequence, we shall be recruiting a seven-man group of specialists to work on the economics development.

Now with the greatest respect to the ambitions -- or, not ambitions, but to the objectives of the people concerned, I do feel that there are a great many people around the world today working on the economics development. I am not absolutely sure that the addition to the sum total of human knowledge on this, or at least of the relevant human knowledge so far as

the Bank's/^{own}activities are concerned, which would result from this project, would necessarily be commensurate with the expense involved; and, indeed, not merely with the expense involved, but with the possible alternative uses of the resources of manpower that might be made if these people were not put to work on this particular project, but were otherwise employed in the Bank.

That was the principal point I wished to make on the staffing question.

The other was the one, which has also been referred to by others; namely, the question of the somewhat hair-raising staffing situation in the computer area.

I, like Dr. Lieftinck, I think it was -- who said he never liked to be out-of-line with progressive thinking -- well, I think, I agree with that. But I think of other ways -- and I am sure he has also -- to try to distinguish very clearly between what I call genuinely progressive thinking and fashionable thinking. And I think there is an element of fashion in computerization, just as in some of the other developments of recent years. I don't want to say any more about that matter than that. I think, if I judge your own comments on this point correctly, again, I seem to find myself very much of mind with you, sir.

Thank you.

MR. McNAMARA: Thank you, indeed.

This problem of recruitment is a difficult one. And I think that we will just have to put a limit on the percentage of U.S.-U.K. personnel to be recruited. I haven't worked that out yet with Mr. Ripman; I am quite prepared to do something of that kind. It will delay the recruitment of men, I am sure. But I think we are going to have to do that or, otherwise, we will take the route of least resistance and go into those markets where we can recruit well-qualified people quickly, and without any penalty to the local economy. As you point out, in many, many areas, the recruitment of particular specialists -- even in such an advanced country as Australia -- could have an adverse effect upon the local economy, and probably we shouldn't recruit that man in that market. We should recruit some other man in that market. We will have to work this out.

And, as I suggested earlier, I will be very pleased to have your counsel, advice, and help.

I am sorry I didn't mention while Mr. Vom Hofe was here the great assistance that he gave, and his predecessor, Mr. Donner, gave me in connection with our capital marketings in the German market. I will need essentially the same kind of help from all of you in this recruitment process.

We can come back to this question of economic staffing later, perhaps. But let me ask some of the other

Directors to comment, first.

Mr. Rice.

MR. RICE: I can be very brief, Mr. Chairman.

We are glad to be able to support this budget. We respect your survey of the needs of the organization -- projected requirements of the organization; and your judgment as to what steps need to be taken to meet these requirements.

We have looked over the budget carefully, and, like others, we have been struck with the very significant increase in the budget, both in dollar terms and in percentage terms, over the estimated expenses of this current fiscal year. However, we are satisfied that the increase in expenditures projected is based on careful study and evaluation of the needs of the organization.

Now we were also, of course, grateful for your further clarification of the considerations, and assumptions underlying the budget.

As others have pointed out, the increase in projected expenditures is obviously based on a very substantial increase in expected operations of the Bank, and, particularly, in areas of loans and credits. And this, in turn, is based on the expectation of the IDA replenishment, and, of course, the assumption that funds will be available in the capital markets of the world.

We think that you are quite right in operating on

assumptions bordering on the optimistic rather than on the pessimistic side.

However, we would like to point out that if there is any delay in IDA replenishment, or, if there are unanticipated difficulties in getting access to capital markets outside the United States, that we welcome your proposal -- that the magnitudes of the budget, as they stand now, will be subject to re-examination later on.

In sum, and in short, we are glad to support your budget.

Thank you.

MR. McNAMARA: Thank you very much, Mr. Rice.

I might add one bit of information that was brought to my mind by one of Mr. Rice's comments.

Included in the budget, and the budgeted increase over the 1968 budget and the 1968 actual, is a provision of something on the order of \$900,000 to \$1 million for the new building. Now this is associated with moving expenses, increased staffing requirements for the additional space, and so on. And this is net above rental cost, as best I can tell. It is a very substantial increase; I should have mentioned that to you earlier.

Now Mr. Gutierrez Cano.

MR. GUTIERREZ CANO: Thank you, Mr. Chairman.

I, too, have been -- not surprised, but at least a

little bit concerned by the budget increase, which the present budget shows in comparison with last year's. And looking back in the last time, the last six or seven years, I realize that our institution has -- as a respected one -- has not been free of the very well-known Parkinson's disease, by increasing three times its costs, and two times its personnel.

But, nevertheless, when I heard this morning your programs, and your expectations (which I fully share, and I hope they will be reality soon) -- I consider that, despite the increase of the present budget, we should give to the budget; that is, to you, this amount of confidence, this room for action. But, at the same time, I think, that I could see also reasons for maintaining a prudent approach to the expansion of personnel; and only when it is absolutely necessary that we should expand it.

In general, consequently, I think that we have to face this increase of our activities, this greater number of loans, through a larger impact of our actions in the values, the sectors of economic activity of member countries; the taking up of expanded or even new activities, like tourism for instance. And so, consequently, this would be a justification for expansion also of our costs.

I would welcome, and I will welcome very much, every effort done in the sense of relating our expenditure with our

success in this efficiency.

In that respect, I would like to make some comments in detail, and ask some questions.

As I see it, we are expanding our personnel, but, in my view, on a basis which does not totally reflect the expansion of our activities in the future, particularly what refers to the expansion of Department Areas.

I do not know whether Department Areas have maintained ~~any~~ austerity criterions, so as not to ask for a further expansion, or at least for substantial increases. My figures show only something in the line of 8 professionals added to the five Area Departments.

But I again would like to take this opportunity to insist on my conception, my view about what should be the basic action of the Bank. And, in this connection, also, to mention the important job the Area Departments are doing.

The Area Departments, Mr. Chairman, are sort of political branches of the Bank. They are in contact with our governments, with our members. They have to exercise very diplomatic abilities. They have to follow very closely not only our specific operations, but the general development of the countries, in matters which are not exclusively of economic performance. They refer, also, to behavior, to individuals.

So I think that everything we do in reinforcing our

Area Departments, considering that in the future we plan to expand by something like 40 or even 80 percent after two years -- our Area Departments should be widely reinforced, and, by doing so, should also be established in a very permanent basis; that is, that movements with the Department should only happen when promotions or better use of personnel should be considered as is convenient.

Now in connection with that, I see that the expansions are going to one or two departments, and I would like to refer to them, specifically.

I see, for instance, that the Economics Department is getting a very large share of new professionals to be added. I see also that this Department is having a -- several groups.

And, also, I do not want -- and, Mr. Chairman, I would like to make this clear -- to insist on any specific organization, which is your responsibility. Nevertheless, I am wondering if we would not do better if we were to assign on a permanent basis, on an administrative basis, those that are working with the departments -- in the sense that I am seeing, from time to time, that there are movements. And I think that we should concentrate more in the permanency of the operations of our staff.

So I do not know whether in the future, as it is foreseen here, on page 3, paragraph 10 -- page 3, paragraph 9,

excuse me -- whether it will prove necessary to transfer even more staff from some departments to Area Departments. I would warmly recommend paying very great attention to this -- to the reinforcement of the Area Departments. Since I personally know that one of the Area Departments, particularly the European, is very limited in human resources, although they are very qualified. And I think that everything which can be done to reinforce the Area Departments will improve the action of the Bank, and will go deeper into the knowledge of the specific human and economic profiles of the countries.

Regarding the staffing of the Bank, I also see that we are not increasing, not expanding our young professionals. I would like to know if this is due to a policy or to a preconceived determination, or it is due to other reasons.

I could imagine that it would be, in my view, a very convenient policy to increase the number of young professionals, and to promote them gradually through the various ranks of the Bank, so as to assure to them a better knowledge and a closer tie to this professional family, which is the World Bank.

It is also, in my view, very convenient that we pay as much attention as we can to the nationalities in order not only to reflect the international character of the institution,

but also to facilitate the action of our institution whenever it comes to missions, or negotiations, or appraisals, evaluation of projects.

If you allow me, I would like just to mention that among the Spanish-speaking members of the staff, there are only 27 out of 718, which means 3.7 percent of the total; and most of them are concentrated in the number 2 and number 3 columns; not to speak about nonprofessionals, who are, of course, much higher than that. And I would even say that that the number of messengers exceeds ^{by far} every other figure. But I think that more could be done, and this would also help to facilitate the job of the Bank.

Finally, with regard -- in connection with this, with regard to the expansion of our staff recruitment budget, I can see that it would be convenient for us to pay more attention, even if it is difficult -- and I realize the great difficulties, and, to some extent the greater cost, because we have to displace persons to look for recruits and to interview them. Nonetheless, I think that the figure, which the budget for 1969 shows of slightly over \$2 million, for tax ^{reimbursements} investments, is already quite substantial. And so I would recommend pay attention to this point.

Regarding the Projects Department that I think that in general, the increases, after the explanations of Mr. Aldewereld, are justified. And I think that agriculture and

education deserve the attention which is reflected in the reinforcement of the staff. But again I would like to finish, as I started, by saying that every progress which is done in this expansion should be done with the greatest attention, in order not to find ourselves -- that after the next five, or six, or seven years, we would again have doubled our staff. And then it would be difficult to try not to expand it -- following this constant trend, which is apparently an inevitable disease in the international as well as national organizations.

Thank you.

MR. McNAMARA: Let me comment on two or three of your points. First, concern over the Area Departments. I myself am concerned over it. I cut back the proposed budgets of the Project Department and the Economics Department from the levels recommended to me. I may have been in error in cutting them back. I don't know. But anyhow, I did.

But in the case of the Area Departments -- I think I am right, John [to Mr. Williams] -- in saying that I did not cut the Area Departments; these are exactly as recommended by the Area Department Heads. I am a little concerned as to whether they can carry out the volumes that they themselves have recommended, and believe necessary to plan on.

When I queried them on the subject, they said,

"Well, primarily, they must depend upon the Projects and Economics Departments for the work and for feeding to them the analyses and the raw material that will be the basis for their project decision and project negotiation." And, therefore, one must really look at the Area Departments plus the Projects and Economics Departments, together.

Now you are quite right in saying that the European Department is short, or has had less call on certain Economics Department personnel than have some of the others.

I, for example, was interested in getting more information on Spain in order to look further into material there, and I was told I couldn't have it until December -- it would take six months to get it, because they were so overloaded. It happened to be economics information. It wasn't really the Area Department that was short. It was they were short of economists. So this Economics Staff increase is a little misleading in the sense that it looks as though it is for basic economics research, whereas, an important part of it is actually associated with loan analyses.

Secondly, the question of the lack of expansion of young professionals. I think it was felt that the number of young professionals we are planning on, whatever it is -- 42, or something like that -- is about as many as we can absorb

at the present time. I think we should feel free, within the limits of the total number of people, to expand the young professionals more than we are talking about, if it looks like we can absorb more. I agree on that.

And, finally, on the question of Parkinson's law, or disease, I doubt very much that we have it. [Laughter.] I hope we don't. I am sure other international institutions do.

What it means is a disproportionate number of people in relation to product, and I don't see that in these statistics. Now maybe I haven't analyzed them correctly, but I don't see it here. I see, rather, the constant ratio of staff to product output, measured in terms of either numbers of loans, or dollars of loans.

Now, possibly, there should be a declining ratio of staff to output, on the theory that the overhead would be cost, and ~~there is a certain variable in the cost that~~ would be costed also. And the combination of those two would lead to a declining ratio of staff per unit of output. And maybe we should have that decrease. We haven't had it in the past. I looked back in past years -- and, for a decade, really, there has been an almost constant ratio of professional staff to numbers of loans and credits. And essentially that is what is planned here. I hope we don't develop the pattern of staffing that is common to other international institutions.

I don't want to be associated with that kind of an institution -- and I know you don't -- and, together, I think we can avoid it.

Next, Mr. Ayub.

MR. AYUB: Thank you, Mr. Chairman.

Most of the observations I wanted to make have already been made by my colleagues, and I don't wish to go over the ground again.

I had only one point of presentation, and, that is, that where a substantial increase in the strength of the staff of any department is envisaged, as has been done for the Economics Department and the Projects Department, whether it would not be desirable to have a separate statement of case from the budget documents themselves. This is the procedure which we follow in our own government. But I am not sure whether this has been the practice of the Bank or not. Because on first perusal of the papers, one had some difficulty in understanding the reasons and full justification for the 16 percent increase, and this is for fiscal 1969. But after the oral presentation which you and Mr. Aldewereld made, one could see the justification much more clearly.

I sympathize with the observations that Mr. Malaplate made -- both with regard to recruitment of staff, as well as the need of recognized scales of pay. Here again this would involve the departure from past Bank practice. And

you might wish to examine that, and give us your own considered views. But I think it is something which does need looking into. Because the Bank's practice differs from other international institutions on this score.

Finally, Mr. Chairman, I welcome your continuance of provisions for services to Member States; in fact, increasing them. And, particularly, your decision to proceed with an Advisory Commission for Indonesia, which, in the light of what you told us in the morning, seems both urgent and necessary.

Thank you.

MR. McNAMARA: Thank you, sir.

Mr. Skjerdal.

MR. SKJERDAL: Thank you, Mr. Chairman.

When we discussed the current budget last year -- a discussion in which I didn't actively participate in -- several Directors complained about that they didn't think the budget gave the information necessary for the Board to form a real judgment on the budget as such, and the different subjects in the budget.

I am sorry to say, Mr. Chairman, that I can^{not} see that the present budget ~~doesn't~~ represents much of an improvement. x

MR. McNAMARA: I am sorry. I couldn't hear you, sir.

MR. SKJERDAL: It does not represent much of an improvement compared to the last budget.

You have stated, repeatedly, Mr. Chairman, that you do not consider the Board should be a rubber stamp. And I appreciate that. But, in this case, I think it is difficult to be much more.

After this somewhat sorry remark -- [Laughter.] I should hasten to add that I agree with the goal underlying this budget -- that the Bank and IDA should aim at to increase its lending capacity in the coming years. And I also agree that shortage in ^{staff} ~~money~~ should, by no means, be the limiting factor for the Bank Group's activity.

I also think some member has said that they think ~~this, but yet they~~ ^{you} are on the optimistic side. That might be true. But, personally, I prefer -- in this field of financing development -- rather to be on the optimistic side as to the future than on the conservative side.

I think the budget should have shown, when you are talking about the staffing, the changes in staff due to what you call, I believe, "structural changes" in the activity, and increased duty, increased activity. We don't find anything about this in the budget, but you mention, today, three reasons for an increased workload. And I thought it sounded rather convincing.

You said that; and Mr. Aldewereld said that we have to take up ^{more} ~~a~~ projects in a number of smaller countries, and that means smaller projects and more work, compared to the

amount.

You mentioned sectoral changes. Of course, agriculture and education.

And, as the third point -- the ability to absorb more credit from the receiving countries.

I hope that when we are considering an increased workload, in particular in relation to agriculture and education, that it is taken into consideration that we have special international institutions for this work. We have FAO and we have UNESCO.

As far as the ability to absorb more credit -- and I think this is relevant in relation to the Bank loans -- I think it would have been interesting to know how many justified Bank loan projects have been rejected during the last year due to lack of finance.

MR. McNAMARA: May I interrupt you there, just one second sir?

MR. SKJERDAL: Yes.

MR. McNAMARA: I don't know the answer to that.

That was one of the first questions I looked into.

But I can tell you that I have had several pieces of paper come to my desk that say that the program for hard loans for country "X" has been held down for lack of Bank capital. Now I am not going to pass on whether that is true or not. I will just tell you that that is what has

happened. And I have instructed the staff that in the future there are to be no loans rejected for lack of Bank capital, other than by me. Every loan is to be passed up to me, and when we reach the point where we have drawn down the cash and the liquid investments to the point there I think it is dangerous, or you think it is dangerous, then we will turn the loans down. But I just don't believe as a development institution, we should be turning loans down for lack of capital, without appraising why the capital isn't there, or whether we can get it, or how much is necessary, or what the effect is of turning it down.

But I am certain that it has been a restraining force. To what degree, how many loans have been turned down, what the effect is -- I don't know.

MR. SKJERDAL: Well, I think you have given a very good instruction, Mr. Chairman.

But I asked the question because we in the Board are in no position to judge on this, because we only get the project, which is so far advanced, that they will be approved. And I asked this particular question to Mr. Woods, and he said that, as far as he knew, no Bank project had been turned down because of lack of money.

MR. McNAMARA: Well, let me say this. I will report to the Board whenever I believe we are turning loans down for lack of capital. It is very hard to say that a specific

loan was turned down for lack of capital in the present circumstances because these are constraints that apply over a period of time, and in rather diffused ways.

I think the best way to get hold of this is just to have a blanket policy: that every loan that meets the standards of the debt servicing, and project appraisal that the management of the Board consider appropriate will be processed up to the top of the institution. And only at that point will we decide that restrictions on capital make it impossible to pass the loan. And that will be the policy that we will follow.

MR. SKJERDAL: If I just might turn to the assumption underlined in the budget. It is not said in paragraph 6 that we will need 50 percent more capital. It is said that we will get 50 percent more loans and credit proposals. That could be understood as going on the number of proposals.

I had asked myself the question: "What increased amount of funds for the Bank are involved in this assumption? And in what form? And at what interest rate the President assumed this can be provided for?"

I have noticed that you said that we, in the future, will get a financial budget beside an administrative budget. And I think that is very much called for. But I think even this year, we should have an indication of the increase

in the amount the Bank will have to borrow, or get otherwise.

MR. McNAMARA: May I answer that right now for you?

MR. SKJERDAL: Yes.

MR. McNAMARA: The best figures we have available now -- and again I present them to you with hesitancy, because they have been developed very quickly -- are these:

And I will give you fiscal 1968, and fiscal 1969. And these I got today at noon. They were due to be on my desk when I returned, and they were. But they have been prepared very recently, and neither I nor others have had a chance to fully review them. But for fiscal 1968, we had new issues of \$734 million; repayments of \$519 million. And net new borrowings, therefore, of \$215 million. No net change in delayed deliveries on past borrowings. And, therefore, a net change in funded debt of \$215 million.

Now in fiscal 1969, we are anticipating new issues of \$1~~0~~78 million, compared to the \$734 million. Repayments of \$532 million, compared to the \$519 million. Net new borrowings of \$546 million, ^{com-}pared to the \$215 million. And a change in delayed deliveries, which adds to our funded \$157 million. For a net change in funded debt of \$703 million versus \$215 million.

Those, I think, are the figures you were asking for.

MR. SKJERDAL: Thank you, very much.

As I said, I agree that the shortage in staffing should not be a limiting factor for our activities. But I will not even try to judge on the proposal here. Because I find myself not in that position.

I just want to ask two questions. One is related to this suggested increase in the Economics Department.

Well, it is said, in paragraph 10, that "to provide specialized assistance to the Project and Area Departments on problems of project appraisal and country analyses, the proposed budget adds 13 economic positions."

I would be grateful to know what exactly are these project appraisal and country analyzers?

I have got the impression here that we have very good prepared technical reports on the project, and we have very good general analyzers of a country's economy. But ^{what} we have been missing is to try to place ^{an} individual project into a development plan for the country, as such. I realize that that is the most difficult task for all development planning.

If that is the intention, I will support this. If it is not, I have no position.

MR. McNAMARA: Well, let me answer that. And then since this question has come up before, and several people have questioned the Economics Department expansion, let me ask Mr. Friedman to comment further on it.

The starting point it seemed to me for our future plans -- I have alluded to today, several times, to the need to examine staff in the lead time of staff recruitment; and to examine new borrowings in the lead time of new money requirements -- which really means disbursements on future commitments, which extends far into the future.

Now the moment one asks those questions, one has to ask: "What are you getting the staff for? What are you getting the new money for? Are you getting them for projects? And then how do you decide what volume of projects you should have?"

Well, the moment you begin to ask that, you begin to ask the question you have raised: "What is the economic plan for a particular country? And how much capital can it absorb from external sources in relation to that plan, and on what priority, and from what source?"

So that means that you really need to write down a plan for an extended period of time for each major country. This is a Herculean task; and we haven't had it. And it is going to be very difficult to get it, and I don't think we ought to set ourselves up overnight to develop a plan for every nation in the world.

But we don't actually have statistics on a projected basis, or many of the key factors for many of the key nations, necessary to judge debt-servicing capability. We just

absolutely have to have that if we are going to deal properly with many of these situations.

And it is to get that kind of information that a portion of this Economic Staff expansion is proposed.

But let me ask Mr. Friedman to comment much further and in more detail on it.

MR. FRIEDMAN: Thank you, Mr. Chairman.

Well, I think you have given really the core of the answers.

The Economics Department here -- the reference is made here in terms of "project appraisal and country analysts."

Whenever the Projects Department enters into a new area of activity -- a new area of activity in the field of projects may, we will say, be in the field of agriculture. But in the field of agriculture every time we start a ^{new} product, or a new kind of activity -- whether a different kind of irrigation, a different kind of water system and so forth -- you have a new problem of economic analysis. The division of labor has been that the Economics Department has been concerned with the methodology, has been concerned with trying to make sure that the methodology that was being used in the Projects Department represented the most scientific methodology that we could devise based upon the experience around the world, and based upon the knowledge of the people here. And so we have found that the -- We have

in the Economics Department just a tremendous backload of requests from the Projects Department, whether they would like for help on how to go about making a project appraisal when you went into a certain field of economic activity.

Similarly, in the field of country analysis. Country analysis, in the Bank, Mr. Chairman, is an extremely complicated thing, because, in the end, you are passing a judgment on the entire development process of the country; you are making a judgment on economic performance. And what you mean by "economic performance," really ranges over the whole range of economic activities.

Now for a certain spectrum of that activity; namely, that which is dealt with by the Monetary Fund, we have close relations with the Monetary Fund, and we don't try to do it. So when it comes to Monetary matters, when it comes to exchange rates, exchange restrictions, we just borrow their work. But that leaves a very broad range of activities that are still not done.

Now what happens, in practice, is that the Projects Department will bring to a country analysis the experience that they have gained in a particular sector, or a particular project work; and the economists in the Economics Department will bring to it just things as experience in trying to analyze development programs, experience in fiscal policy, experience in other aspects -- specialized aspects of the

economy that depend upon the country we are investing in.

We don't dare do a comprehensive study of the kind that would really satisfy a professional economist every time we do a job, because we just would have to have literally thousands of people here to do that. What we do is pick and choose, dependent upon the problems in the country. And then we rely a good deal upon the people in the Area Department to kind of scout the problem, and kind of tell us if they think we ought to be able to do more in agriculture at this time, or more on export trade, this time on import trade, and the next time on some forms of, well, say, probably on corporations.

And so the country economic analysis that is brought together is really a foreign product of the work that is done in the Economics Department, the Projects Department, and the Area Departments.

Now, therefore, when you expand the activities of the Bank, you automatically expand the activities in the Economics Department, as well.

Now at the present time, for example, well, we do about 40 countries a year in terms of economic missions. And these economic reports, as the Board is well aware, form the basis for a judgment on the economic performance, on the credit worthiness, on the external financial requirements. They are used not only by our own Executive Directors, but they

are also used by consultative groups. And, indeed, our problem is we are getting always a demand for more and more of these things. And as countries want us to go in for more detailed analysis -- because they find that this detailed analysis is where they get their real technical assistance -- that is, they find the general survey is kind of interesting, but not very helpful. This may be interesting for presentation to someone else, but, as far as they are concerned, it is when you go into a depth analysis on the sector or the inter-relation of sectors that you are really beginning to give technical assistance to the country in the economic field. And it is for this kind of thing that we have asked for an expansion of the budget.

And the one thing, Mr. Chairman, that I have found here -- if I may say -- that our problem on the recruitment of staff is not a problem of how to keep it down, but how to get good men.

As Mr. Stone says, of course, we are talking about actual cases: If you try to take two good economists from Australia, you may be bleeding them to death, because we put our fingers on the two ones we really want.

Now, so, therefore, I think our problem is always going to be as to how we can get an adequate staff. Because of that, if for no other reason, we have a very simple rule: We don't do anything in the economic work of the Bank,

in the Economics Department, or, for that matter anywhere else, where, if we find that someone else is willing to do it; if we find that it is being done in an academic institution, or by the Fund, or another International Agency, we are very happy to establish -- as we have with a great many of them -- co-operative relations to borrow and to depend upon them. But we have to do that economic work which is necessary for our judgments, and which just isn't being done elsewhere.

MR. McNAMARA: May I add one further word there of explanation. And this is from an outsider just looking at the figures and guessing: The Economics Department was considered quite inadequate back in 1965, in size and output, and therefore it was doubled in the next 24 months. And, in the process of doubling in 24 months, I will say mistakes were made, but at least a period of shakedown was required. So it shook down for the next 12 months or so, and held at a constant level -- and, as a matter of fact, didn't even get up to the budget authorization. And now, after that period of shakedown, an increase of one-third in the professional staff is being proposed.

This is a very substantial expansion. There is no question about that. But I think that in relation to the kinds of requirements that Mr. Skjerdal pointed to, it is necessary. In terms of capability for accomplishing it, it is questionable. And I would guess that we will be back here a year from today

reporting to you that we needed the people; we made every effort to get them on an international basis, and were unable to do so, and, therefore, we didn't meet our budget.

Now, I think that, at this moment, would be my guess. I think, however, assuming I am right in believing we need the people, it is wise to set this down as the budget; it is wise to get organized in the Administrative Department, to recruit these people internationally, it is wise to ask your help to do so, and make an attempt to meet the goal.

And that's why I agreed to present it to you.

It is less than the Economics Department wanted. I think it is at least as much as we require.

Now, Dr. Chen.

MR. SKJERDAL: I have a last point.

MR. McNAMARA: Oh, I beg your pardon.

Mr. Skjerdal.

MR. SKJERDAL: I have one point, the last point, in the same paragraph, where it is said, "To help the Bank Group in following development in the field of population, it is proposed to add/^{three}specialists in the economics of population, and population control."

Again, I have the question: "What is the intention behind this?" If the intention only is to get us statistics on population, I think we can get the figures from other sources. If the intention is, as I hope it is, to go more

active into these problems, and not/^{be}only beating around the bush, as the Bank Group have been so far, I would welcome it.

I have a favorite idea: that this is a field where we could use IDA money. But I will return to that at another opportunity.

Thank you.

MR. McNAMARA: Let me answer that, since I am the originator for the request -- if not the three people, at least the work that led to the request for the three people.

I myself have been shocked at the dramatic increase in population that is taking place in many, many nations of the world -- 3.3 percent, 3.5 percent, are quite common in many, many nations; and, at the built-in failure of our development program for those nations facing that kind of a population growth. It is absolutely impossible to increase per capita income over any extended period with a 3.3 percent population growth, or at least it is impossible to increase it in any significant degree.

I am not certain whether anything can be done about the 3.3 percent population growth. I am quite aware Japan has controlled its population. I am also aware that one or two other nations have had decreases in their rate of growth. But I am not aware of anybody in the world that I have talked to, or know of, that can lay out before you a program that will reduce the increase in population in any particular

-- other than by the means that Japan used, which are means that no other nation that I am aware of is willing to adopt today.

Now the three men are designed to learn something about the population growth control. Many governments are beginning to ask us for assistance there. I have had two ask me -- two ministers of separate governments have asked me for assistance in controlling population within the last 30 days.

And, frankly, I am unable to answer their question. I don't know. I don't even know what is being done elsewhere. That is the first thing to find out. The Ford Foundation has done a lot of work in this field; other institutions have, as well. We need to become familiar with that. And then we need to begin to make that information available to those who want it -- at least these two governments I am speaking of.

The three men are designed to do that. They won't accomplish much by themselves, I am sure. But they will begin to acquaint us all with the nature of the problem, with what can be done about it; and, if anything can be done about it, will begin to provide us with a foundation for doing that.

I very much share your concern over the problem. It's a very, very serious one. But I say two nations have

asked me -- three different nations have asked for it: One in Africa, one in Latin America, and one in Asia -- in the last 30 days. I just was not able to give them any assistance. And they weren't asking for loans or credits, they were just asking for advice and counsel -- what was possible, and by what means. I am sure that if I told them something was possible, they would also have wanted us to finance it. But I never got to that question.

Now, Dr. Chen.

DR. CHEN: Thank you, Mr. Chairman.

At this late hour, my remark will necessarily be very brief.

Having heard your encouraging report, this morning, and again that you are quite sure about the availability of the cash flow, in the sense that we will be able to raise substantial amount in the Federal Republic of Germany, U. S. A., and perhaps some other capital markets; and, also, with the assurances that in spite of the sharp increase in the personnel, and, consequently, administrative expenses, any step-up in the lending activity, which is projected to 50 percent from the current fiscal year -- any stepping-up would be carried by our usual high-standard of criteria. In other words, the image of the Bank will be maintained.

With all these assurances, Mr. Chairman, I am quite ready to support the budget as you have presented it to us now.

I am particularly happy to note, in paragraph 22, that a study is being made of the desirability of a cost-of-living increase -- a matter which I first brought to your attention when you first came to office early in April. And it is very important to maintain the morale of our excellent team here in the Bank, and it is a matter of gratification to myself.

Being a representative of three Asian countries, naturally, I am more concerned about the Asian Department. The Department Head has been very modest in not requesting an increase in the personnel. I notice from page 14, the number of professionals remain constant, as of 40, in the current year. And this year it will be again 40.

Now this area, to my mind, is probably the largest area. It includes three very important member countries of our group; namely, India, Pakistan, and Indonesia. Indonesia is certainly going to be ^avery important member; and I share that view, which was expressed by Mr. Ayub.

I am just wondering whether a staff of 40 will be really sufficient to handle the, you might say, the anticipated increase in the lending activities of this Department.

Now my question is related to the footnote here on page 18. It says, the second line, that: "The increase of \$119,000 for fiscal year 1969 is primarily for the full-year

cost of positions which were vacant during part of fiscal year 1968 (\$72,000)."

I would like to know, from Mr. Williams, if possible, how many of these positions are vacant.

MR. WILLIAMS: Two, sir.

MR. McNAMARA: Two in the Asian Department.

DR. CHEN: Two of these positions are vacant.

And they would cost "\$72,000?"

MR. McNAMARA: Well, there were two professional and one nonprofessional.

DR. CHEN: Oh, I see.

Is there any possibility of stepping-up the number of personnel in the Asia Department; or the need of it, I raise.

MR. McNAMARA: Let me say that I give you the same answer to that I gave earlier to Mr. Gutierrez Cano. I myself am a little uneasy about the size of the budget for the Asian Department -- not quite as uneasy about it as I am for the Western Hemisphere, for example.

In the case of the Asian Department, in a sense the personnel provided for Indonesia, for a resident mission, is an addition to that Department. We don't have a similar provision in the case of the Western Hemisphere. But I am uneasy about both Departments; I am uneasy about all the Area Departments. Because they were very cautious, and very

conservative in their budgeting, and I give them credit for that. I just hope that we can do the job with the people we have there, and the points you made are well-taken.

DR. CHEN: Thank you, Mr. Chairman.

MR. McNAMARA: On the question of the cost-of-living, I should tell the Board that my interest in the cost-of-living increase for the staff, particularly the investigation of an across-the-board increase for the professional staff, was initiated by my conversation with some of the Directors individually, and particularly with Dr. Chen, who brought his views to my attention very early in my career here.

Next, Mr. Escobar.

MR. ESCOBAR: I am going to be very brief, Mr. Chairman. Because I think my main point has been covered especially by Mr. Skjerdal.

But let me just say this: I think that the problem that we are facing with this budget, and that we are going to continue to face in all of the Bank budgets in the near future emanates from the basic differentiation that we have to make between running a bank or running a development institution.

Now you have stressed many times the fact that you consider this a development institution, a development corporation. And I must confess that I like that approach

very much.

But, of course, if we accept that, there are a number of policy statements that emanate from that statement. There are many things that the Bank wouldn't do that a developing institution has to do; and just to name some of them, for instance:

The whole question of research -- mainly economic research. The Bank could be run with very little economic research, if we just take a purely narrow Bank approach. We perhaps wouldn't have to be involved in the studies of getting suppliers of supplementary financing, or the research in economics of development; because that wouldn't be, strictly speaking, Bank business.

So that is one aspect by way of an example.

Another thing is, for instance, the whole problem of training people. If we are merely Bank, we wouldn't have to have an Economic Development Institute bringing people from all over the world, to train them in the basics of economic development, and things like that.

So that is another area that differentiates, in my view, a Bank from a Development Corporation.

The whole question of technical assistance and services to member countries, too. If we take the approach of a Development Corporation, we have to agree that we have to expand that very much as compared to what we would do if

we were a Bank.

Closely related to that is the problem of resident missions. If we are thinking that instead of development, we want to have resident missions to give technical advice, for development, for planning organization, for improving public administration. We shall think that it comes clearly under this field, the Development Corporation; whereas, perhaps we could do without them in a purely Banking institution.

Now, these co-operative programs. The whole program of statistics and information, with which we have undertaken the duty of comparing public statistics and analysis information could be taken care of by this processing data mechanism, that we have mentioned before .

The problem of the settlement of investment disputes, where we are putting \$100,000 a year. It is a service that we are giving like an international organization interested in improving the climate for investment all over the world. Only this is not a purely Banking business, but this is Development Corporation Business.

Well, having said that, I still, of course, have a number of questions that could be discussed. And I think, Mr. Chairman, ^{others} have mentioned them. Last year, when we discussed the budget, ^{I raised a number of points,} which I am not going to repeat today. But one of the things, on which several of us in the Board

put a lot of emphasis, was the difficulty we have to read this document, and to evaluate it. In fact, I had the same difficulty, as I had this year. And, as I mentioned to Mr. Williams -- I apologize for this -- I was not planning to say a word this year; I was not planning to talk at all.

But I have felt encouraged from this very long discussion, and still the day is young -- we have many hours ahead -- so I felt encouraged to say a few words. [Laughter.]

I thought we were going to have some sort of improvement in the presentation.

Last year, we agreed that it would be interesting to have more of a program budget, or more of a functional budget, instead of this list of expenditures -- I mean in addition to this list. That, in such a way, many of the questions that we are asking could be already answered, or an attempt of an answer could be found in these pages.

By the way, that is not the case. I would like to hear what kind of improvement we have done on that; or whether we gave up the idea.

But the question of how much each project costs; how much the -- If we look, for instance, at the Economics Department (it has been many times mentioned here today). The Economics Department have a research to be undertaken, as it is said in paragraph 10: "A seven-man/^{group}of specialists would be established in the Department to work in the economical

development." There are 13 economic positions there for the area services, country analyses, and so on.

I think that wouldn't be too difficult, to say: "Well, these people, who are working in research, they are working in a project that is perfectly identifiable, and we can attempt some sort of a cost analysis in order for us to know what we are planning to do, what kind of research projects we want to carry out. And then we would have a good idea of what the cost of it is.

And then we might come to a conclusion, and say, "Look, this project is very important. But it is very expensive, so we in the meantime are not going to undertake it."

And then we could have the basis as to compare the cost of one project as compared with another project. Then, we could find out to compare the United Nations, and the Inter-American Development Bank, and other Banks -- how much do they pay for a project? Or universities -- they have to have this kind of a -- the same kind of program budget approach when analyzing their administrative budgets. So that is, I think, the main problem that we face. And many of the questions that we are asking emanate from this lack of really complete information.

And I can imagine that you might have a very hard time trying to evaluate the requests you receive from

different departments and divisions, and to try to actually, finally, figure out: "Is it too expensive?" Or, "Is it not?"

And, finally, we have to act on faith -- as we do -- we have a very high regard for the quality of our staff. And, finally, we come to think that we have such a good staff that we are sure that they are doing their best, and that they are running this institute in the best possible way. But that, of course, is far from ideal.

Now I think that there is an idea -- I would like to insist today -- very briefly, and, that is, the following:

In the problem of the coordination with other International Agencies -- in the country analysis, which Mr. Friedman just mentioned, he says that we are not doing anything that is being done elsewhere. But, as far as I know, in the Latin American side -- and I assume it is pretty much the case with the Asian or the African countries -- we have, for instance, the Economic Development Bank; and we have the Inter-American Committee of the Alliance for Progress. As far as I know, those institutions are doing some kind of country economic analysis. And there is a tendency for each institution to have an analysis of their own, when they are collecting information in order to take certain policy decisions. And I would think that it would be of the greatest

importance to coordinate our work with them, in such a way that we could accomplish several goals:

One would be, in my view -- say, perhaps, people who are scarce in the world -- manpower; if we could coordinate and have some sort of a division of labor between the Inter-American Development Bank, the Inter-American Committee of the Alliance for Progress, and the World Bank, and the International Monetary Fund, when we are dealing with Latin America. And then we will say, "We are going to take the financial information from the IMF, and that is the information which is good for all of the rest of the International Organizations." And they are going to take our information in areas which are more properly dealt with in a development institution, like ours.

And we can take some other information from the Inter-American Committee on the Alliance for Progress.

And all of the institutions might benefit from the work done by the others.

And I know that this is not the case, because I was a member of the Inter-American Committee on the Alliance for Progress, and many times I saw in the country analysis that they make that the balance of payments projections that they carry out is not the same that they have at the IMF.

Then, I always say, "Why do we do all this work here, when we don't have enough people? The IMF has longer

experience, and, as an average, has better people than we do." I used to say that at the CIAP Meeting.

And the answer was sometimes -- was something like this: "Well, our balance of payment projection is not, necessarily, the same as the one of the IMF."

Then, my reaction is "Well, someone has to be wrong. Because if we are projecting balance of payments, and if we are really setting a set of assumptions -- I mean there is only one way to make a projection."

So here, you see, there is some policy question, too: that CIAP is trying to figure out the balance of payment cut in order to put pressure on countries who provide foreign aid. And, perhaps, in that sense, that is an element of subjectivity put into the forecast or the projection, which might serve the political purpose; but, technically speaking, is very questionable.

And we could, as I say, save this manpower.

We could, also, by doing that, in my view, not only have closer working co-operation, relationship with this institution, but also perhaps moving forward to coordinate our policies; and I think that is highly desirable if we are really going to operate in the future on the basis of a program -- of a development program for a country, and we want to support the country to carry out the particular development program.

This is something that the World Bank will not be able to do by itself. We cannot do it alone. Because if a country realizes that the World Bank has a given policy, and we are trying to evaluate an overall economic performance, while the Inter-American Development Bank is not doing the same, then we are going to be in a very difficult position. And we can have some liberties in some countries who rely for their external financing upon the World Bank very much. But we can have no influence at all in another country, with which we are not doing much business.

So this is an area in which I think the policy coordination is highly desirable. But we have to build a foundation for that; create a closer relationship of the kind I am suggesting.

Well, now, as I say, I think this is applicable to our areas of the world -- Africa, Asia, mainly -- and, also, to some functions. And here, by the way, as the last example, the problem of population has been mentioned.

You know, I am very much for this kind of work. I think the World Bank has to get involved in this. But it is true that there are quite a few other institutions working in this area, especially, in this country, the United States. There are excellent demographic centers in some American universities, like Cornell University, like Chicago. The work of the Population Council is very impressive, and very

important. There are institutions who have collected statistics and information right here in Washington, the Population Reference Bureau, for instance.

But anyway, I realize that the Bank needs a small group to be able to communicate with these institutions and to be able also to have some influence in the area divisions of the Bank, and to introduce this valuable economic analyses of the countries, and in the evaluation of the development program. But by coordinating with others, I think we might increase our productivity, and to minimize our cost in the future. Because, if not, we may run the risk of trying to duplicate work being done by others that might help, perhaps, in ours.

Well, this is about the -- That's it, sir. Thank you.

MR. McNAMARA: Let me make some brief comments on a point you have raised.

First, on the Bank versus a Development Company, and the potential conflict of the budgets of the two types of organizations. I tried to avoid that by introducing into this budget such development activities as bring a profit to a bank. I don't think that we need discuss it in principle, but only in relation to a particular department.

The Bank of America, for example, carried on a lot of economic research in the State of California in the 1930's, to the point where it revolutionized commercial banking in this

country. And it did; it made a profit on its research. And, in a sense, that's what I think we should try to do here. And I believe that the amount of economic analysis and economic research budgeted here will translate into measurable profits -- both, in the literal sense, in terms of income; and measurable profits in the terms of sounder loans and sounder financing of development, on the other hand.

Secondly, as far as co-operative policies with other Banks -- Inter-American Development Bank, and the Asian Bank -- I just very much agree with your point on that. I have talked myself to Mr. ~~Rohr~~^{Herrman} of the Inter-American Development Bank. He's anxious to have that kind of co-operation. He wants us to do more in Latin America, to co-operate more with them.

In the case of the Asian Development Bank, I asked Mr. Shoaib and Mr. Bell to stop in Manila on their way back to this country. Mr. Bell is there today, as a matter of fact, to discuss with them their activities in Indonesia and how our potential activities can relate to their's, to be sure that we don't duplicate each other. They already -- as an illustration -- have two or three men working on agriculture in Indonesia. There is no reason for us to duplicate that. If we finance any agricultural projects there, we will try to use their groundwork rather than building our own institution. I, myself, would have stopped in Manila, but,

on my first schedule, Mr. Watanabe wasn't there. And, on the second schedule, I didn't have the time to do it. But we will do everything we can to co-operate.

I think the Bank has an enviable record of co-operation with the International Institutions.

Before assuming the office of President, I met the Secretary General, U Thant, at the United Nations, and he was high in his praise of the way this institution co-operated with others, in contrast to some of the others' co-operation with other agencies. And I think we want to continue that record.

I see Mr. Vom Hofe has returned. And let me repeat in his presence what I said while you were out of the room. That I am very grateful for the co-operation that I have received from you, and your predecessor, in assisting me and the Bank in raising additional capital in your capital markets. I mentioned this in conjunction ^{with} the need we have for your assistance in recruiting international staff, because several of the Directors mentioned today the emphasis that has been placed in the past on recruiting staff in the United Kingdom and the U. S. And I think there was a reason for it; it was probably justified. But I would be delighted to recruit more staff abroad, and we will make every effort to do so; and we will need your assistance for that purpose.

I think we have run through the list --

Yes. Dr. Lieftinck.

DR. LIEFTINCK: Mr. Chairman, to my great regret, I am not yet in a position to give my vote in favor of the present budget.

I explain that, very shortly:

We have the 84 vacancies. The proposal is to create an additional 177 vacancies. It means that we are requested to authorize ^{an addition} of our staff in the current year by 261 numbers.

Although I agree that strong arguments have been given for an increase of staff in the various departments, I am not convinced that the proposed increase -- the magnitude of the proposed increase is fully justified.

With these conditions, as an Executive Director of the Fund whose responsibility is also, in this particular field of budgeting and management -- I mean the sound administration of the institution is one of the first responsibilities of Executive Directors. I have always felt that.

I am sorry to say, as I mentioned already, I am not fully satisfied that this increase is required. We have no information whatsoever what this will mean in terms of additional office space, and additional expenditures for that purpose -- 261 new people. I agree that the management may not

succeed in filling all these vacancies. But we are requested to authorize filling of these vacancies. I have no reason to believe that all the additional expenditures which would follow from filling all these vacancies are carefully budgeted for. And I am sorry to say this goes beyond what I am prepared to support.

I, therefore, make a formal proposal to freeze 80 of the vacancies at this time. With a request to the President that before the end of this calendar year to come back to the Board and ask, if he feels that it is required, for the unfreezing of the 80 vacancies.

Thank you, sir.

MR. McNAMARA: Gentlemen, I think we have had a long and extensive discussion here today on this budget. And I would strongly urge you to approve it. I think that management needs a plan of action here for this coming year.

What Dr. Lieftinck says about the existing vacancies is true. But I would like to ask you: "What kind of an organization and an operation do you think you had for 12 months, when you had a budget that proposed an increase of essentially 200 people and you increased it 100?"

You either had the wrong budget, or a wrong operation.

Now when I propose an increase of 273 people, I don't plan to sit here and just let events take their course. I plan to organize a recruiting staff, and plan to make

contacts with various countries around the world, and plan to get the people. Mr. Malaplate says that we don't have enough Frenchmen. He's probably right. He says that we don't have enough representatives of the African nations, and he's probably right on that. But I can't get this overnight, and I can't justify hiring a staff of recruiters to try to take six months to get them if I don't have approval for the budget. Neither can I go out in the German Market and raise -- plan to raise \$200 million in the next 12 months, based on certain projections of hard loan commitments if a portion of the staff necessary to process those is held in doubt.

So I would strongly urge you to approve the budget as submitted.

I have tried to avoid taking votes in this Board, since I have been here, for the very good reason that I think that when I came many of you expressed to me your views that votes had split the Board apart, had engendered controversy, and acrimony, had weakened the organization.

I think that's quite true. I think, generally speaking, we ought to operate on a preponderance of opinion, rather than scheduling a vote that leads to a 51, or 55, or 60 percent pro; versus a 49 or a 40 percent con.

It has seemed to me that the balance of opinion this afternoon has been to raise questions about the budget,

but to generally favor the approach. And, if that be the case, I would like to consider it approved; with recognition that the two assumptions that underlie it may prove invalid, and, if they do, we should come back to you, and reanalyze it and express a proposal to you at that time to modify the budget in whatever way the circumstances at the time indicate.

But, if you prefer otherwise, I am quite prepared to put Dr. Lieftinck's proposal to a vote in contrast to mine. And I think the preference is yours..

Mr. Stone.

MR. STONE: Mr. Chairman, I agree very strongly with what you have just said regarding the undesirability about putting this back to a vote. And I have already indicated that I am prepared to support the proposals that are before us this afternoon.

But I do fully understand the worry, the concern, that is in Dr. Lieftinck's mind. I think it has been expressed more widely than by him alone. And the fact that he has raised this other matter does give me opportunity of adding just something to what I had said before, and which I had omitted to say at that time, and had intended to say at that time.

I think the circumstances of this year are sufficiently unusual that, if only for that reason -- perhaps,

not only for that reason -- we might consider what would be, I suppose, an innovation in the Bank. I would assume, without knowing my facts -- being sure of my facts -- that for your own purposes, as President of the Bank, you would be requiring the staff to provide you regularly, throughout the year, with performance reports on a regular basis, as to where we are with our ^{retirement} ~~equipment~~ program, and what the position is, and so on.

I think it would be quite helpful if a report of that kind could come to the Board, say every ^{three} ~~three~~ months, in the year in front of us. So that we could have an opportunity to look at it and see, satisfy ourselves, as to how things were going. That's quite separate from the point -- the undertaking you have already given; that if you felt that there were a real doubt about our ability to fulfill the proposals that in any case you would come back on a more formal basis. I was very glad to hear you say that, but that's a different question.

I wonder whether this would ease Dr. Lieftinck's mind in any way, and, if so, we could proceed on that basis?

MR. McNAMARA: Well, let me say simply in response to your suggestion, I would quite agree to that. And that, any time that the Board wanted to, I would also agree to reconsider the whole budget. But I cannot agree myself to starting out a 12-month program with a major portion of it

frozen, because I can't run this Bank on that basis. But I would certainly agree to providing quarterly reports of the plan and the progress against the plan; and be quite willing, at those quarterly periods, to discuss it if the Board chooses to do so.

Well, gentlemen, the preference is yours.

I am quite happy to put this to a vote, if you wish to do so. I just don't believe that that's the way to run this kind of an institution. But, if you would prefer it that way, I would be happy to do it.

Mr. Escobar.

MR. ESCOBAR: I don't think we have much choice. There is a formal proposal -- I think that was what Dr. Lieftinck meant. We have to vote it, isn't that right? Except if he withdrew it.

MR. STONE: I said if you accept it, we will review it.

DR. LIEFTINCK: Mr. Chairman, the problem is a problem not only of substance, but also of form.

Where could anybody find in the minutes that there is a divergence of opinion, unless it be recorded. I think that is the purpose of having minutes of our meetings.

If the minutes just record that "The budget was approved." All right. Well, then nobody will know, and also, in the history, it will be unknown that there was a

proposal to amend the budget proposal. And that it did not carry a majority, but that the proposal was made.

I don't see that this would cause any difficulties in the operation of this Bank, and would affect the relation between the President and the Board.

There may be a completely legitimately difference of opinion on matters like this. I have been dealing with budgets for many years. You have had the same experience, sir. And you know that on these matters, there are genuine and contentious differences of opinion.

Why should we cover these up, and just have in the minutes that the budget was approved. That is not the way in which I consider that we should run our business. Therefore, I have made this proposal. If it is not going to be supported, I will not withdraw it, but I would have it recorded in the minutes.

But if it is going to be supported, then we may take a vote.

MR. McNAMARA: Very good.

I think that it is quite appropriate that Dr. Lieftinck should ask for a vote on the proposal, and I will be glad to take it.

The proposal is that:

RESOLVED that the budget be approved with 80 of the position vacancies frozen; to be reviewed, as I understood

it, at the end of this calendar year.

I want to record that I strongly oppose it. I don't believe that I can operate the business on that basis. But I will put it to a vote.

All in favor, please raise your right hands?

[Showing of one hand - Dr. Lieftinck's.]

MR. McNAMARA: The minutes will record that the proposal was made and was not approved.

Now rather than proceed further --

I would simply emphasize to you what I think you know: That I think we can do better in preparing budgets. There is no doubt in my mind about that. And I think that the suggestions that have been made, by Mr. Stone and many others -- that state that it is difficult, if not impossible for the Directors to intelligently decide upon an expense budget without considering the income, and capital, and cash-flow budgets -- are absolutely correct; I couldn't agree with you more.

And, beyond all that, the points made: that, even under those circumstances, you need to have a more comprehensive analysis of workload in relation to costs, to justify a particular increase in cost in relation to a particular increase in workload, are quite valid.

The fact is, gentlemen, we don't have all these things, and we do have to operate. And I have to try to run

this to your satisfaction. We just must continue here while we face some of these very important deep policy issues, which all of you have put forward. The IDA issues we discussed this morning are really fundamental. I know that; and you know it. And I know that they are not resolved, and I know that each time we act on a credit we act without full agreement on the underlying assumptions and without full resolution of the underlying differences. But we just cannot stop everything to re-examine these fundamentals. We have got to continue in business while repairs are being made. And that is what I have proposed to do.

So, therefore, I will consider the budget approved.

We will present quarterly reports to you of the staff expansion proposed in the budget. First, as to the staff accomplished to that point. And I will recognize that there were questions raised this morning, which you may wish to raise again at the end of each of these quarterly periods, so that we may further consider them.

In the meantime, we will proceed on this particular budget.

And now, since it is five minutes after six, let me thank you for your willingness to spend all day here, and for what I think to have been an extraordinarily interesting, and informative, and, to me, educational discussion on both IDA and the budget.

In addition to the point Dr. Lieftinck made about the minutes recording the dissent, I think that the minutes should also record some of the major suggestions that have been made here. So that they are formally in writing, and so that the staff will take account of them during the year; and so that I will be reminded, as the year goes by, of the views of the Directors.

And I will ask the Secretary to make certain of this.

These minutes are particularly comprehensive, therefore, in that respect.

With that, we will adjourn the meeting, gentlemen.

Thank you very much.

I should say, before we adjourn, one other point: That, we have not fully completed the agenda today. There is the IFC budget to consider, and we will consider that at the next meeting, next Tuesday.

Thank you very much. And good-night.

[Whereupon, at 6:05 o'clock p.m., the meeting was adjourned.]

- - -

Bank/IDA
Joint Mtg.
Tuesday,
6/18/68
end ELK.