INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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Joint Meeting

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Tuesday, March 16, 1971

A meeting of the Executive Directors of the International Bank for Reconstruction and Development and the International Development Association was convened at 10:00 o'clock a.m. in the Board Room, 1818 H Street, Northwest, Washington, D.C., Mr. Robert S. McNamara, President, presiding as chairman.
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*The disclosure of the item “Proposed borrowing of Yen 36 billion” of this Transcript was made in accordance with the Bank’s Policy on Access to Information. This included prior consultations and approval of the Government of Japan.*
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ITEM

Appreciation

Kochman - Thanks

RECORD OF PREVIOUS APPROVALS:

(a) Application for membership - Fiji (R71-43);
(b) Increase in Authorized Capital Stock (Sec71-120)
MR. McNAMARA: Ladies and gentlemen, the meeting will come to order, please. It's the first time I've used that form of introduction.

Mrs. Suparb, we are delighted to have you with us today.

I think all of you know Mrs. Suparb. She has been long associated with the Bank of Thailand and has had many, many relationships with this Bank in the past. So we are very, very pleased to have you as a member of this Board.

We will turn to the first item on the agenda, gentlemen, a proposed borrowing from Japan in Yen in the amount equivalent to $100 million. And I will ask Mr. Aldewereld to present the proposal to you.

MR. ALDEWERFLD: Thank you, Mr. Chairman.

This proposed borrowing is the second of its type this calendar year. You may recall that this borrowing was discussed while we were reviewing -- when we had the mid-year review of the Bank's fiscal '71 administrative budget.

I tried to briefly describe the main features of this. The total amount is Yen 36 billion, the equivalent of $100 million. The interest rate is 7.43 percent which is the prevailing rate in Japan for obligations guaranteed by the
Japanese Government. The issue price is at par, and the maturity is one-third or 12 billion on March 25, 1975, another 12 billion on September 22, '75, and the remaining 12 billion on March 22, '76, giving an average life of the borrowing of four and a half years.

MR. McNAMARA: Thank you, Mr. Aldewereld. Gentlemen, are there comments or questions on the proposal?

Dr. Lieftinck.

DR. LIEFTINCK: Mr. Chairman, I would only, in order to break the silence, express my great satisfaction about this transaction. It is again a five-year loan, and we have agreed to go into this field of medium-term borrowing in a responsible manner.

I think the rate of interest is more favorable than we would have to pay probably in the American market, although I am not completely sure, and perhaps Mr. Aldewereld could comment on this point. On the whole it looks to me as a quite acceptable rate, and I think we should be grateful to the Japanese authorities for having permitted the Bank to enter into this transaction.

Thank you.

MR. McNAMARA: Thank you, Dr. Lieftinck.
Mr. Aldewereld, you may comment on the American rates today, although they have been fluctuating so widely the last three or four weeks it's hard to say where they will be tomorrow.

MR. ALDEWERELD: Mr. Chairman, we have considered this not only in relation to the American market, but to all the markets where we have been active. And I could say this that this rate of 7.43 is low compared to what we would have to pay in, say, the German market or the Dutch market. As a matter of fact, this 7.43 is 40 basis points lower than the Asian Development Bank paid a few months ago in Japan in its public issue.

With respect to the American market, it is high. You may recall that a few months ago we borrowed $200 million in four and a half or five years, about the same, in the American market and we paid slightly over 6.5 -- 6.65. As the chairman said, the situation is rather volatile. I don't know what we would have to pay exactly in the American market. It may be a little bit less than the amount we paid, or it may be a little bit more or about the same. So in other words compared to the American market, it is a bit higher, but we have to take into account we have to mobilize resources all over the world. And compared with the rest of the world, it
is definitely not.

MR. McNAMARA: We were very fortunate in the American market that we hit a trough and the market has risen substantially since then. I didn't check this morning, but at the end of last week the market had risen depending on the maturity 30 to 70 basis points above the level at which we financed.

Mr. Wieczorowski.

MR. WIECZOROWSKI: There was an article in one of our financial publications this morning which is somewhat on the point, but more particularly touches on the spread between long- and short-term rates which continues. And it commented on a financing that was cancelled, a $50 million financing which was a long-term or intended to be a long-term financing by the First National Bank of Chicago, and the bank decided to cancel that financing and instead come into the short market.

And in conjunction with the cancellation, the president of the bank was quoted as follows: "We thought that long-term rates would be down by now. They aren't. So we elected to switch into the shorter maturity. If at a later date the longer rates do come down, we may again seek some long-term money."

It goes on to comment, "The executive was alluding
to an unusually wide spread between the rates in the two maturity ranges which has developed recently as a result of record supplies of new corporate debt securities expiring in 20 years or more."

So this disparity does continue and I think it's worth noting that it still exists.

MR. McNAMARA: Thank you.

Gentlemen, are there other comments or questions?

If not, we will consider the proposal approved then. Thank you.

We will move to Agenda Item No. 2, reports on Bank and IDA operations.

Are there questions relating to this subject?

(No response.)

If not, we will move to Agenda Item No. 3 which indicates that the minutes of this meeting will indicate your approval of the minutes for the meeting of February 23 and March 2 unless I hear objection.

Hearing none, that brings us to Agenda Item No. 4, a proposal for credit in the amount of $3.5 million to the People's Republic of the Congo for an education project. I will ask Mr. Leduc to come to the table and present it to us.
MR. LEDUC: Mr. Chairman, members of the Board, the education project before you is of critical importance to the economy of the People's Republic of the Congo. Indeed, more than in most African countries, the needs for reform of the education system is particularly acute and pressing. Until 1960, Brazzaville was the administrative center for the entire region known as French Equatorial Africa, and today composed of four countries -- the Congo, the Central African Republic, Chad and Gabon.

Even after these countries gained their independence, the Congo's administrative organization continued to grow, in spite of efforts to halt this trend. Urban population has also grown considerably and is now about 40 percent of the country's total population.

As a result of these factors, the education system is well developed and relatively advanced. However, its output mainly consists of generalists only with a marked lack of specialists and technicians.

The project before you helps fill this gap. It is also a first step for reorienting the system toward meeting the needs of the economy. Because of the geography of the region, Congo has always supplied the transit services for the external trade of Chad, the Central African Republic and
parts of Gabon and Cameroon. The River, roads and railway system terminates at Pointe Noire in the Congo, the region's only seaport.

As a result of this transit system, the Congo's economy is service oriented and its role as an interregional transport center is its dominant feature. Services including government account for about half of the GDP. Transport is a major bottleneck to economic development. Improvement of the railroad is a precondition to the effective use of Congo's resources, particularly in forestry. Consequently, our proposed operation concentrates on helping meet these transportation requirements.

Large public investments have been made in recent years in manufacturing which now comprises about 15 percent of GDP. The manufacturing sector is currently experiencing some operational and financial difficulties due to the enforced infiltration of competing plants in neighboring countries, investments in some marginal enterprises and the lack of adequate management and skilled personnel.

The Government is very much concerned about the need for improved management and high quality middle level manpower which is required to secure proper operation of existing plants and to assure the implementation of investments
planned for the future. The proposed project addresses itself to these needs as well as to other manpower shortages in the economy.

The Congo's agriculture is mainly of a subsistence nature, except for forestry exploitation, sugar and cocoa production. Only forestry and the sugar industry have contributed significantly to export earnings. Domestic food production has not been able to keep up with local demand.

To improve this situation, better agricultural techniques need to be developed among small farmers who should also be supplied with adequate marketing services. The project will reduce the manpower shortage in important economic sectors, improve the quality of primary and secondary education, and therefore contribute significantly to the economic development of the country.

Thank you.

MR. McNAMARA: Thank you, sir.

Gentlemen, may I have your questions?

Yes, Mr. Rota.

MR. ROTA: Thank you, Mr. Chairman.

I am very much in favor of this project because it touches one of the fundamental needs of a developing country. So I have no particular observations. There is only one point
that has left me a little surprised about local expenses.

First of all, there is not really an explicit justification for it, although it is implicit that local entrepreneurs will probably be winning the business, et cetera, et cetera. But, furthermore, if we compare pages 3 and 5 of your report, I see two percentages which are contrasting really.

On page 3 it says that 71 percent of the credit will finance the foreign exchange components of the credit. The remaining $1 million, or 29 percent of the credit, would finance local expenditures.

On page 5 at the end of paragraph 19 you see that financing by IDA of 62 percent of the local expenditures on this project is justified. I imagine it's a slip because between 29 percent and 62 --

MR. McNAMARA: No.

MR. ROTA: It says of IDA credit.

MR. McNAMARA: No, it's a different base.

Mr. Leduc, perhaps you would explain it.

MR. ROTA: I have not been able to find the different basis.

MR. LEDUC: The amount of, let's call it $1 million
is 29 percent of the credit. This 29 percent of the credit will finance 62 percent of the amount of local expenditures.

MR. McNAMARA: You might look at the bottom of page 3, Mr. Rota, and the foreign exchange components is $2.5 or $4.1, the difference of local expenditure being $1.6. And the one million dollars difference between two and a half and three and a half is 62 percent of 1.6. It's a different base. It's rather confusing the way we have expressed it.

MR. ROTA: I understand now, but it is not very clear.

MR. McNAMARA: It is not. You are quite right.

MR. ROTA: There was some misunderstanding.

MR. McNAMARA: Yes.

Mr. Tornqvist.

MR. TORNQVIST: Mr. Chairman, I have no objections to this project. I think it probably is not absolutely the best educational project for the people of the Congo as 60 percent of the population lives on agriculture and forestry as is stated in the document and the project seems to provide in, say, ten years only mechanics, office workers, and other urban professionals, but no skilled workers for the arms or foresters. In fact, the economic memo clearly indicates that what the Congo needs is more tax revenues from
the forest and an intensive forestry and wood processing program. I do really hope that such a program could be identified in the future.

Thank you.

MR. McNAMARA: Thank you.

I will ask Mr. Chaufournier or Mr. Thalwitz perhaps to comment on the general development program of the Congo. But before doing so, perhaps Mr. Ballantine would address this --

VOICE: Mr. Bahr.

MR. McNAMARA: All right, Mr. Bahr. Perhaps you'd address the issue, Duncan, of agricultural education versus technical education of the kind proposed in the project.

MR. BALLANTINE: Correct, Mr. Chairman.

We understand that FED and FAC are both working and assisting in the field of agricultural education and for that reason it is not included in this project.

MR. McNAMARA: Thank you.

Roger, do you wish to add, or do you wish Mr. Thalwitz to add to the material that is in the paper on the general development program for the Congo and particularly the point Mr. Tornqvist makes on the need for the development of the forestry resources.
MR. CHAUFournier: All I can add is that the Government of the Congo doesn't have at the present time a development program. It is working on a development program. We have our Economic Mission which was in the field at the time when the program was being developed and has already commented on the program and is going to comment in discussing its conclusions with the Congolese Government. We have not finalized our conclusions, but they are clearly going in the direction that you have indicated. We in fact see limited possibility for increasing public savings, increasing revenues which are already high, a proportion of 25 percent of current revenues representing 25 percent of GDP. But if there is an area where there is a possibility of increase, it's perhaps in reviewing the present status of concession in the forestry industry.

Now, this is a difficult matter. We have not been able to give assistance to the Congolese Government at this time essentially because of staff limitation, but this is an area we propose to look into as we are doing in the general area where it is a particular problem for countries like Gabon, Brazzaville and the Cameroon as well.

MR. McNAMARA: Thank you, Roger.

Gentlemen, are there other comments or questions?
We will consider the project approved.

Mr. Kochman, do you wish to comment?

MR. KOCHMAN: Well, Mr. Chairman, I would like first of all to congratulate Mr. Leduc for his very able and thorough and complete presentation and express my deep appreciation for the way in which these negotiations for this credit have been handled by the staff.

Thank you, Mr. Chairman, for having presented to the Board at this particular juncture this credit.

And last but not least, I thank my colleagues for approving this credit.

MR. McNAMARA: Thank you, sir.

Agenda Item No. 5, ladies and gentlemen, indicates that the minutes will record your previous approval of the item listed in the Agenda. And I think that concludes the business that is to come before the IBRD-IDA Board this morning.

Is there other business that any of you wish to raise?

Yes, Mr. Lajous.

MR. LAJOUS-MARTINEZ: Mr. Chairman, I'd like to say a few things in regard to the newsletter I have here before me of March 1971.
MR. McNAMARA: May I ask you to hold that just one minute, Mr. Lajous? I'd like to ask the Executive Directors to hold a brief executive session. I think that might well come up in connection with it, if I might hold that for a second.

May we then clear the room except for those who will stay for the executive session?

(Whereupon, at 10:22 o'clock, the meeting of the Executive Directors of the Bank-IDA was adjourned, to be followed immediately by an executive session.)