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Washington, D.C.

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Contacts
Germany (1975-1978)

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Contacts with member countries - Germany - Correspondence 05

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46.

OFFICE MEMORANDUM

TO: Files

DATE: May 14, 1975

FROM: Diego Hidalgo *DH*SUBJECT: Economic Development for Equatorial and Southern Africa (EDESA)
Visit of Messrs. Schiller and Gerber

1. EDESA was incorporated in Luxembourg in 1973 as an international investment company to encourage private enterprises in independent African countries south of the Sahara. Its sponsors included several institutions with shares in SIFIDA and ADELA, and also some South African companies. EDESA has offices in Zurich (finance and administration) and Mbabane, Swaziland (operations). The company is still at a very early stage of operations. Its objective is to help small and medium-size local entrepreneurs in establishing financially profitable companies through financial and technical assistance. I received late yesterday afternoon the visit of Professor Karl Schiller (Chairman of EDESA) and Mr. René W. Gerber (Vice-President of Finance). Prof. Schiller had planned to see Mr. McNamara after last year's Annual Meeting in order to bring EDESA to the attention of the World Bank Group; he had then to cancel his visit due to an illness.

Objectives of the Visit

2. Professor Schiller said that his visit to the Bank and IFC had three main objectives:

- (i) to "clear the air" regarding the South African participation in EDESA's share capital and reaction to EDESA in African countries where it plans to operate;
- (ii) to explore with the management of the Bank and IFC possibilities of mutual cooperation and joint financing;
- (iii) to obtain some information on World Bank Group's operations in subsaharan Africa which could be of use to EDESA.

3. Regarding South African participation in EDESA's share capital (see Annex 1), four of EDESA's 22 shareholders, accounting for 25% of EDESA's share capital, are either based in South Africa or owned by South Africans. Mr. Gerber stated that any mistrust or unfavorable reaction to EDESA has come much more from expatriate technical assistants and international civil servants working in African countries than from the African Governments themselves. Professor Schiller said that he had received a warm welcome not only in Southern African countries (Botswana, Lesotho, Swaziland, Malawi and Zambia) but also in Kenya, Tanzania and Ivory Coast. Professor Schiller had met with Presidents Kaunda (Zambia) and Banda (Malawi) who had taken a clear interest in EDESA. In view of this reception, Prof. Schiller did not expect any significant problems arising from South African participation in EDESA.

EDESA's Organization and Plans

4. Objectives of Shareholders. Mr. Gerber said that the objectives of the shareholders in coming to EDESA had been varied. Some foundations had hoped that EDESA would have contributed to development of the poor

and had contributed on charity grounds. Financial institutions had participated hoping that EDESA would perhaps find projects in which they would be associated. The same was true for several manufacturing companies. None of the shareholders had expected EDESA to be very profitable; however, they expected that EDESA would earn a modest return and serve a useful purpose.

5. Board and Executive Committee. EDESA's Board of Directors is shown in Annex 2. According to Mr. Gerber, the Executive Committee is EDESA's main strength. It includes an economist of international reputation (Professor Schiller), an experienced Swiss banker (Mr. Saager), a man with expertise in manufacturing and production problems (Mr. Reuter), a strong marketing man (Mr. Rupert) and an experienced trader specialized in tobacco (Mr. Crenshaw).

6. Staff. EDESA has been concerned about incurring high overhead and been very prudent in staffing itself; it has a small professional staff of six including Mr. Gerber, Vice-President of Finance and Mr. Van Graan, Vice-President of Operations. EDESA has no engineers and relies on the expertise of consultants. Its appraisals are closely scrutinized by EDESA's Executive Committee. Mr. Gerber said that EDESA's personnel expenses were in the order of \$1,100,000 with total administrative expenses at about \$300,000 a year.

7. Operations. EDESA's commitments to date total less than \$1 million. While Mr. Gerber said that EDESA is flooded with loan applications, it has only made three equity investments in Ivory Coast (cocoa processing project), Malawi (Lilongwe Hotel) and Swaziland (EDESA's craft company). EDESA has recently received a request for a loan from the East African Development Bank.

8. Resources. While EDESA had hoped to raise a share capital of US\$20 million, it was only able to raise \$10.95 million. Professor Schiller said that EDESA had been cautious in borrowing and was waiting for financial markets to settle before it decides on borrowing plans. At the present time he said that borrowings were unnecessary and unwise, as relending at terms acceptable in Africa would leave EDESA with an insignificant spread.

9. Relationship with SIFIDA. Mr. Gerber said that last year EDESA had considered seeking a merger with SIFIDA. EDESA's Directors had decided against it because they thought that SIFIDA, while adding a very high overhead of US\$1 million, would contribute very little to EDESA. He said that he is in frequent contacts with Mr. Lethbridge, SIFIDA's Acting Managing Director, whom he considers a very able man.

10. Information on Bank Group Operations. I explained to Messrs. Schiller and Gerber the nature of our DFC operations in Africa, describing briefly the Bank Group loans and equity investments made to date in sub-Saharan African DFCs. Mr. Schiller said that EADB could probably not afford to borrow from EDESA.

Schedule of Visits

11. Professor Schiller said that he and Mr. Gerber were going to Richmond on Wednesday, May 14 and would come back in Washington on Thursday, May 15 when they expect to see OPIC (11:00 am), Mr. Witteven (2:30 pm), Messrs. Von Hoffmann and Kreuter (4:00 pm) and Mr. McNamara (6:30 pm).

cc: Messrs. McNamara
Von Hoffmann
Kreuter
Gustafson
Mathew (o.r.)
Dixon (Nairobi)
Blondel

Attachments (2)

DHidalgo/fp

Liste der Aktionäre

Liste des actionnaires

List of the shareholders

Amsterdam-Rotterdam Bank	US\$	500'000
Anglo-American Corp., Johannesburg		1'000'000
Bank of Montreal		500'000
Barclays Bank Intern., London		100'000
Robert Bosch GmbH, Stuttgart		500'000
Daimler-Benz AG, Stuttgart		500'000
Deutsche Bank AG		500'000
Dresdner Bank AG		500'000
General Motors Corp.		250'000
Hauni-Werke, Hamburg		500'000
IBM World Trade Corp.		250'000
Impala-Stiftung		1'000'000
Kredietbank Luxembourg		100'000
Roberts Construction, Johannesburg		500'000
Union-Castle Mail Steamship, London		500'000
Universal Leaf Tobacco Co., Richmond		500'000
Rupert Group Holdings SA, Luxembourg		1'000'000
Schweiz. Bankgesellschaft, Zürich		1'000'000
Ford Motor Company		250'000
Marubeni Corporation		500'000
Leo Raphaely and Sons (Pty) Ltd., Johannesburg		250'000
The Yasuda Trust and Banking Co.Ltd., Japan		250'000

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Helmut Kohl



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C o n f i d e n t i a l N o t e

Dr. Helmut Kohl

Chairman of the German Christian Democratic Party

(Christlich Demokratische Union - CDU)

The man

Helmut Kohl is now 46 years of age (birthday April 3, 1930). His interest in politics started early in life: at 17 he became a member of the CDU and the co-founder of its youth organization. He studied law and political sciences and obtained his Ph.D. in 1959, meanwhile rising steadily in party ranks. The only job he ever held outside politics was that of an adviser with the association of chemical industries, from 1958 to 1969. In 1969, while still only 39 years old, he was elected prime minister of his home state, Rhineland-Palatinate. In the same year, he was appointed deputy chairman of the CDU, and in 1973, he became party chairman. In June 1975, the CDU and its Bavarian sister party, CSU, designated Mr. Kohl as their candidate for the Chancellorship.

Mr. Kohl is married (with Hannelore née Remmer) and has two sons in their pre-teens. He is known as a man who enjoys good company, sitting up with friends over a hearty meal, good wine and lively conversation. He was very much at ease in his role as state prime minister, where he displayed remarkable capacities of leadership, showing both forcefulness and human warmth. He is not a friend of involved abstract reasoning nor a brilliant speaker. He used to be much less sure of himself in Bonn than in Mainz, his state capital, striking many Bonn observers as being provincial and slightly pompous. But lately his confidence, appearance and speechmaking have much

improved partly owing to the advice of high-caliber political pros. Recent polls reveal that voters think of him as "responsible, efficient, pleasant, modest, thrifty, severe with radicals", but in the same polls, Chancellor Helmut Schmidt ranks higher as a "dynamic, forceful leader". This has irked Mr. Kohl, who thinks he can measure up in every respect to Mr. Schmidt, the man he will have to beat in the federal elections on October 3.

His politics

In the context of his politically conservative party, Mr. Kohl is considered to be a liberal ("liberal" in the continental European usage comprises the notion of maximum freedom for individuals as well as business from interference by the government). He wants Germany to be well governed on the basis of social justice and freedom, the latter being irreconcilable with socialism. The government should not be a pork barrel out of which the big and powerful interest groups take what they can get, but a protector of the interests of those that are too weak and too helpless to help themselves. In foreign policy, Mr. Kohl would show "greater realism" towards Eastern Europe on the one hand, (meaning a less forthcoming attitude in negotiations with the East than the present government which in his view has been too eager to close bad deals), and on the other hand he would pursue more actively European integration. It must be noted, however, that neither foreign nor economic policy are strong sides of Mr. Kohl, and that his international contacts are limited.

By taking a middle position on most issues, Mr. Kohl has become an important integrating force within his party. But at the same time this brings him in conflict with the more extreme wings -- to the right Franz-Josef Strauss, the leader of the Bavarian sister party CSU, to whom law and order inside and a tough attitude towards Eastern Europe in close cooperation with the United States are basic tenets; to the left Hans Katzer and some Catholic trade unionists who push for a drastic speed-up of social reforms.

On development policy, the CDU has been remarkably active, much more so than the governing Social Democratic party. It held a party congress specifically on development issues last September, which was also attended by Maurice Williams (OECD) and Paul Prebisch (ECLA). The congress drafted "guidelines on development policy for the CDU" which were recently finalised and submitted to the party presidency for approval. At the opening of the congress, Mr. Kohl echoed the main themes of the CDU guidelines. He said the CDU plans to pay more attention to the relationship between industrial and developing countries as part of a new strategy of global foreign policy; development policy will get high priority. Long term development efforts in a spirit of cooperation between free partners will determine whether the third world will be influenced by the ideas of democracy and free markets rather than by communism. Only the United States and Germany were at present in a position to effectively propagate a free world economy, Mr. Kohl said; this is why he found it incomprehensible for the German government to cut its aid funds. Germany ought to show the firm will to reach the promised 0.7 percent ODA target as soon as possible. He opposed trade proposals such as indexation or cartellisation of commodities as counterproductive, offering instead the opening of industrial countries' markets for LDC exports.

In summary: There is little difference between the government's stance on development policy and that of the CDU opposition. The CDU seems to be slightly more forthcoming financially, but is adamant in its rejection of LDC demands which would interfere in the market mechanism.

His chances of being elected

At the beginning of the year, Mr. Kohl was running far behind Chancellor Schmidt. He was not yet sufficiently known to the public, and to those who knew him he seemed to be lacking in authority after

a few debilitating internal struggles with the right-wing champion, Mr. Strauss. Since then, three events have improved Mr. Kohl's chances. First, in an election of the state prime minister of Lower Saxony in January, the CDU candidate won against all expectations. Second, in March the upper house of the federal legislature, the Bundesrat, where the CDU has a majority, forced the government to renegotiate a treaty with Poland and succeeded in obtaining better terms for German emigrants. Third, in early April the CDU won a resounding victory at the parliamentary elections in the state of Baden-Württemberg.

These developments put Mr. Kohl on a more equal footing with Mr. Schmidt, which makes an evaluation of each candidate's chances more difficult. Mr. Schmidt's Social Democrats hope for favorable effects from the economic recovery, which always tends to help the incumbent government. They are further helped by the fact that they can stay in power (with less than an absolute majority) with the help of their coalition partner, the Free Democratic Party, whereas the CDU/CSU will have to get the absolute majority to win, which some consider to be a difficult feat.

The CDU, on the other hand, can count on an important trend of voter sentiment away from the government coalition, which became manifest almost as soon as the last federal elections in 1972 were over. The CDU has scored important gains in virtually every regional election since then, indeed, if all the votes it has obtained in the intervening regional elections were combined, it could easily win the federal elections. (But it must be remembered that the CDU had lost the federal elections in 1972 after scoring great victories in all preceding state elections.) The trend seems to be quite strong, however. There is great discontent about unemployment, leftist tendencies in the government party, ill-managed and expensive social programs which lead to an increasing tax load, and a general weakening

of the social fibre. A party like the CDU promising solidity, stability, security and a fair shake for all has great attraction for voters who are getting tired of social experiments. It is interesting to note that the CDU has managed to shed its image of being exclusively a party representing big business interests and is now making its biggest inroads into those sectors of the electorate which used to be a safe domain for the Social Democrats: youth and workers.

Popular sentiment is perhaps best summed up in the remark, often heard in Germany today, that Helmut Schmidt still would be the best chancellor if only he were not the candidate of the wrong party.

Paris, April 30, 1976

HMK/br

Board of Directors

as of December 31, 1974

Chairman

Prof. Dr. Karl Schiller*

Rupert Group Holdings Soc. An., Luxembourg

Vice-Chairman

Bruno M. Saager*

Union Bank of Switzerland, Switzerland

Directors

Dr. Karel Herman Beyen

Amsterdam-Rotterdam Bank N.V., Netherlands

Gordon Lee Crenshaw*

Universal Leaf Tobacco Co., USA

Nobutaka Egoshi

Marubeni Corporation, Japan

G. C. Fletcher

Anglo-American Corporation of South Africa Ltd.,
South Africa

Helmut Haeusgen

Dresdner Bank AG, Germany

Dr. Karl Hausner

Impala-Foundation, Switzerland

Kurt Losten

Robert Bosch Internationale Beteiligungen AG,
Switzerland

Dr. Richard Oertel

Hauni-Werke Körber & Co. KG, Germany

Edzard Reuter*

Daimler-Benz AG, Germany

Wolfgang Ritter

Impala-Foundation, Switzerland

John Douglas Roberts

The Roberts Construction Company Ltd., South Africa

Dr. Anthony Rupert*

Rupert Group Holdings Soc. An., Luxembourg

Dr. N. Senn

Union Bank of Switzerland, Switzerland

Hans-Otto Thierbach

Deutsche Bank Aktiengesellschaft, Germany

J. A. Thomson

The Union-Castle Mail Steamship Co. Ltd., England

J. D. van Oenen

Bank of Montreal, Canada

W. D. Wilson

Anglo-American Corporation of South Africa Ltd.,
South Africa

* Members of the Executive Committee

47

I. V IDA

Need FRG support for a replenishment level which will offset inflation and provide an appropriate increase in real terms (appropriate both in relation to the increasing requirements of the poorest countries and in relation to the rising incomes of the donor countries) - 11/24 mtg. in Paris.

- a. Such a level of replenishment is essential to the economic advance of poorest.
 1. note their stagnation in '70s.
 2. must be complemented by their action to:
 - a) expand exports
 - b) increase food production
 - c) reduce rate of population growth
- b. Feasible within financial restraints - payments would not start until '78 and '79 and then would not require contributions in excess of % of GNP intended for IV IDA.
- c. Avoid controversy over size of OPEC contribution - note inflated expectations.
- d. Failure to agree on a satisfactory replenishment level, in sufficient time to avoid termination of IDA operations would destroy credibility of FRG and other OECD statements at Special Session and their support for the final Resolution with its specific reference to IDA (and .7% ODA).

Would contribute to further proliferation of funds.

Bank tough and efficient: object to raise productivity.
FRG benefits from orders (past year 800m DM).

II. IBRD Selective Capital Increase

Also need FRG support for the Selective Capital Increase, paralleling IMF action on quotas - paper to Board in November for action in December. Will require but a modest financial payment by FRG (\$16m p.a. for 3 years starting in '77).

Essential for continued flow of IBRD funds to middle-income countries whose markets are important to OECD and whose economic strength, political stability and (international cooperation?) are even more important in relation to an assured flow of raw materials to OECD.

III. FRG Statement to UN Special Session

Have read with care; very much agree with:

Emphasis on free market mechanism in international trade and hence avoidance of indexing.

Action to increase stabilization of commodity prices.

Expansion of LDC export volume by improving access to OECD markets.

Stabilization of LDC export earnings by _____ type schemes.

Need to assure adequate supply of raw materials.

Expansion of LDC food production.

Increase in flow of capital to LDCs.

IV. The LDC Problem

Substantial reduction in p.c. growth rates due to
Deterioration in terms of trade
Oil price increase (nearly doubled their trade deficit)
Stagnation in their export markets (75% of exports to OECD)
Leading to danger of p.c. income reductions in poorest countries (note
\$105 p.c. '70 vs \$108 in '80) and growing inequality among nations
and within LDC nations)
To overcome: requires LDC action on population; food production; export
expansion. For this they need assistance from OECD, increased capital
flows (a small % of future GNP increment), a dialogue re how to
increase stability of commodity prices, improve access to markets,
and stabilize export earnings.

In all three meetings I put particular emphasis on the damage to the FRG's
credibility (in relation to its support of assistance to the LDCs at the
UN Special Session: Gentcher's speech and such references in the Resolution
to increase in IDA and acceptance of the .7% ODA target) if in the first
major negotiation (V IDA) following the Session the FRG were not to take a
constructive position.

In discussion with Schmidt and Bahr when I stated my formula for the V IDA
Schmidt asked what amount of IV and V IDA. Bahr responded \$4500m for IV
and I did not give an amount for V. When Bahr said probably \$7 billion
I said, no - over that; Bahr then said "over 7 1/2 b?" and I replied,
"Yes". Schmidt then said, "Say \$8b - at our share that would be about
\$1 billion." I said yes, but they could finance it because first payment
of \$40+ wouldn't be due until '78. He accepted the statement.

Meeting with Mr. Moltrecht, January 23, 1976

Present: Messrs. McNamara, Moltrecht, Janssen

The following subjects were discussed:

1. IDAV. Mr. Moltrecht said that the German position towards IDAV had not been finally settled. This would have to await the final decision on the budget in April 1976. Mr. Bahr planned to take up the German contribution to IDAV with Chancellor Schmidt in May or June 1976. It might be useful for Mr. McNamara to get together with Chancellor Schmidt after that time. Mr. Moltrecht hoped that the Deputies' meeting in London would be very informal but it would be useful if an order of magnitude for the replenishment was agreed upon. Personally he felt that \$7 billion, excluding OPEC contributions, was a realistic amount. Japan, the U.K. and Sweden might want to see their shares reduced. The German contribution would, of course to some extent, depend on whether the exchange rate for Deutschemark would strengthen in the months to come. Mr. McNamara said that he was reluctant to agree to a figure of \$7 billion plus OPEC contributions. He understood that the Germans would wish to see full offset for price inflation and an increase in real terms for IDAV. Mr. Moltrecht said that this was correct. Mr. McNamara said that we would not put any pressure on the Germans until May/June. With respect to burden-sharing, he was planning to visit Japan to discuss the matter whenever all donors were willing to negotiate. He was also willing to visit Germany if it could serve a useful purpose.
2. IFC Capital Increase. Mr. Moltrecht said that the scheme for an IFC capital increase was acceptable to the Germans but he hoped that no final conclusions would be reached before the end of February 1976. Mr. McNamara said that the matter would not go to the Board before the end of February. Mr. Moltrecht said that the U.K. might wish to link their support for IFC with a decision on IDAV. Mr. McNamara said that he had asked the U.K. to agree to the authorization for an increase in IFC stock. A decision to take up the stock could then be deferred until after agreement had been reached on IDAV. Mr. Moltrecht asked whether an increase in IFC capital would be linked to the Selective Increase in IBRD capital. Mr. McNamara said that some Board members were concerned about approving IFC before IBRD, but that he hoped that the IBRD Selective Increase would be agreed upon before the IFC matter came to the Board.
3. Chile. Mr. Moltrecht said that he agreed with Mr. McNamara's position to strictly adhere to the Articles of Agreement and only use economic considerations when evaluating the proposed project to Chile. However, there was no doubt that going forward with the project would hurt the Bank. He had spoken to the Swedish delegation after the Jamaica meeting and had been informed that Sweden's attitude towards IDAV would be influenced by the Bank's lending policy towards Chile. Mr. McNamara said that he was fully aware of what was going on in Chile and that he had told the Chilean Minister of Finance recently that he had no sympathy whatever towards the present regime. But the Articles of Agreement said that he could not take account of such considerations and therefore he would present the project to the Board. It would undoubtedly hurt the Bank in the short run to go ahead with the project but he was confident that in the long run it would be unwise not to go ahead with the project. He had earlier told Mr. Palme that he might go ahead with the project to Chile and Mr. Palme had said that the political problem in that connection should not be exaggerated.
4. UNDP. Mr. Moltrecht said that the UNDP was trying to consolidate its financial position. Donors had been urged to advance their contributions. The Germans had already paid 40% of their contribution and would pay the rest by July 1976. A solution to the use of non-convertible currencies was being sought. Sweden and

the U.K. might make some additional contributions. A deficit would still remain so the Germans had decided to finance UNDP projects of particular interest to them bilaterally. Mr. Moltrecht wondered whether the Bank would be willing to follow a similar procedure. Mr. McNamara said that he would be willing to look at the matter.

cc: Mr. Cargill
Mr. Clark

Sven Burmester
January 26, 1976

5. Dr. Moltrecht expressed his concern that the U.S. was trying to limit its commitments to multilateral institutions to what could be appropriated on an annual basis. In this respect, he mentioned difficulties encountered by the AsDB. He said that it would certainly jeopardize agreement on IDA 5 if the U.S. were to attempt to bind itself to an amount less than the full figure of its share in the Replenishment.

cc: Mr. McNamara
Mr. Cargill
Mr. Diamond
Mr. Nurick

FV/lmh

OFFICE MEMORANDUM

TO: The Files

DATE: January 26, 1976

FROM: Frank Vibert

FN

SUBJECT: January 23rd Meeting with Dr. Moltrecht - Germany

1. Dr. Moltrecht, accompanied by Mr. Janssen, met with Messrs. Cargill, Diamond and myself to talk about IDA 5.
2. Dr. Moltrecht said that he would continue to be supportive of IDA as far as he could at the next meeting of Deputies. However, he could not talk specifics until probably around June. He thought that a visit by Mr. McNamara to Mr. Schmidt should be scheduled for June, after the 1976 German budget had been cleared out of the way. On the timing of the IDA 5 Replenishment in relation to Germany's budget problems, he saw agreement on IDA 5 not coming before December 1976, mainly because of the U.S. situation, and said that Germany could make provision for IDA in the 1977 budget. He made clear that his Ministry was looking for additional budget authorizations over and above the present ceiling so that contributions to IDA 5 would not be at the expense of bilateral programs. On the amount of IDA he thought that the Replenishment might total around \$7 billion (\$2.3 billion a year) including contributions from new sources. He had based this figure on what he felt was a realistic reading of the politics of the situation rather than in relation to principles about the purchasing power of IDA. Among his reasons for thinking that the Replenishment might be as low as \$7 billion was his feeling that a number of countries, such as the U.K. and Japan, would seek reductions in their shares beyond that which could be accommodated by the participation of new donors; but since he believed there were no countries that would increase their shares this time, he thought the effect would be to lower the total amount of the Replenishment.
3. Mentioning the attitude of the Nordic countries in particular but also including the U.K. and Germany, Dr. Moltrecht expressed his concern about the Bank continuing to present loans to the Board for Chile. He felt that nothing should go forward to the Board that might jeopardize the political climate for IDA.
4. Dr. Moltrecht mentioned, and repeated at greater length at a meeting after lunch, that in his view it would be a great mistake to bargain with the U.S. by tying progress on the IFC capital increase to the IBRD capital increase and to IDA. He felt that this would be counterproductive with the U.S. He felt that the IBRD capital increase should go forward parallel with the IMF quota increase and that the IFC increase should also move forward quickly so that the decks would be clear for IDA. He said that in view of IBRD's need for the increase in authorized capital and for the paid-in portion, it might be useful if the resolutions to the Board of Governors were accompanied by a side letter indicating that in the view of the Executive Directors it was important that countries take up their increase by a particular time. He felt that the IFC and IBRD resolutions as they were being drafted would not create budgetary problems for Germany.

11/11/72 notes for discussions with Pöhl; Dürcher (FRG) & (FRG);
and Chancellor Schmidt - Bonn

II IDA

- Need FRG support for a mechanism which will offset inflation
and provide an appropriate increase in real terms (appropriate both
in relation to the increasing ~~the~~ requirements of the poorest countries &
in relation to the rising needs of the donor countries) - "priority in Paris"
- a. Such a level of inflation is essential to the econ. adv. of poorest
 1. note their stagnation in 70's
 2. must be complemented by their actions to:
 - 2) expand exports
 - 3) increase food production
 - 4) reduce rate of pop. growth
 - b. Feasible within financial restraints - pay'g would not start
until '78 & '79 & then would not require contributions in excess
of 2% of GDP intended for II IDA
 - c. Avoid controversy over size of OECD contrib - note inflated expectations
 - d. Failure to agree on a satisfactory inflation level, in sufficient
time to avoid termination of IDA operations would destroy
credibility of FRG & other OECD statements at G7 & G8
& their support for the final resolution with its specific
reference to IDA (x.72.022).
Would contribute to further prodigality of funds

III IBRD Selective Capital Increase

- Also need FRG support for the Selective Cap. increase, paralleling
10% F action on guitar - paper to Fed in Nov for action in Dec.
Will require but a modest fin. contrib by FRG (16m per yr starting '77)
Essential for cont'd flow of IBRD funds to middle-inc. countries whose
markets are important to OECD & whose econ. strength, political stability &
social order are even more important in relation to the overall flow of resources to

Bob Truagh & office: try to raise productivity
FRG benefits from others (part of ECU in DM)

III FRG Statement to 4th Special Session

Have read with care; very much agree with:

Emphasis on free market mechanism in inter-trade & hence avoidance

of interference.

Action to maintain stabilization of commodity prices

Opposition of export reduction by improving access to OECD markets

Stabilization of LDC export earnings by bond type schemes

Need to ensure adequate supply of raw materials

Opposition of LDC food prod.

Increase in flow of capital to LDC's

IV The LDC Problem

Substantial reduction in ^{p.c.} growth rates due to

Deterioration in terms of trade

Oil price increase (nearly doubled their trade deficit)

Stagnation in their export markets (75% of exports to OECD)

Leading to danger of p.c. income reductions in poorest countries

(note '105 p.c. '70 vs '108 in '80) + growing inequality among
nations + within ^{LDC} nations)

To overcome: requires LDC action on population, food prod, export

reform. For this they need assistance from OECD, increased

capital flows (a small 2% future GNP investment), & developed a

how to increase stability of commodity prices, improve access

to markets, & stabilize export earnings.

In all three meetings I put particular emphasis on the danger to

the LDC's credibility (in relation to its support of assistance

to the LDC's at the end of the session: Genter's Greek + such
references in the Regulation 2 release in IDA + acceptance
the (72.00 target) if in the first major negotiation (II IDA)
following the session the FRG were not to take a constructive
position.

In discussion with Schmidt + Baker when I stated my formula
for the II IDA, Schmidt asked the entry of II + II IDA. Baker
responded "4500 on for II + I did not give an exit for II."
Baker said probably "75". I said as over that. Schmidt then
said "over 740?" + I replied: "yes". Schmidt then said "say
80 - at our share that would be about 7 billion". I said
yes but they could finance it because 1st part of '45
wouldn't be due until '78. He accepted the statement.

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DAHRENDORF, Ralf, educator; b. Hamburg, Germany, May 1, 1929;
s. Gustav and Lina (Witt) D., Dr. phil., U. Hamburg, 1952; postgrad.
London Sch. Econs., 1952-54, Ph.D., 1956; Litt.D., U. Reading, 1973;
LL.D., U. Manchester; D.Sc., New U. Ulster, No. Ireland; m. Vera
Banister, June 9, 1954; children--Nicola Beatrice, Alexandra Maria,
Daphen Julia. Lectr., U. Saarbrucken, 1957; prof. sociology U. Hamburg,
1958-60, U. Tubingen, 1960-64; vice-chmn. founding com. U. Constance,
1964-66, prof. sociology U. Constance, 1966-69; parliamentary sec. state
German Fgn. Office, 1969-70; mem. Commn. European Communities, 1970---.
Sidney Bal. Lectr. Oxford U., 1965; Henry Failing Distinguished lectr. U. Ore.,
1966; Noel Buxton lectr. U. Essex (Eng.), 1967; vis. prof. Columbia, 1960.
Mem. Social Democratic party, 1947-52, Liberal Dem. party, 1967---;
M. P., Parliament, 1969-70. Bd. dirs. Vienna Center Coordination and
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Center Advanced Study in Behavioral Scis., Palo Alto, Cal., 1957-58. Mem.
German Assn. for Sociology (pres. 1968-69), Internat. Sociol. Assn.,
Author: Marx in Perspektive; Industrie und Betriebsoziologie, 1956;
Soziale Klassen und Klassnekonflikt, 1957; Gesellschaft und Freiheit, 1961;
Uber den Ursprung der Ungleichheit, 1966; Die angewandte Aufklarung, 1967;
Homo sociologicus, 1959; Sozialstruktur des Betriebs, 1959; Das
Mitbestimmungsproblem in der deutschen Sozialforschung, 1963;
Arbeiterkinder an deutschen Universitaten, 1965; Bildung ist Burgerrecht,
1965; Gesellschaft und Demokratie in Deutschland, 1965; Markt und Plan, 1966;
Conflict after Class, 1967; Essays in the Theory of Society, 1967; Pfade aus
Utopia, 1967; Die Soziologie und der Soziologe, 1967; Fur eine Erneuerung

der Democratie in der Bundesrepublik, 1968; Konflikt und Freiheit, 1972.

Home: Seestrasse 9, Constance, Federal Republic of Germany. Office:

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date Jan 26, 1977

TO -	Name	Room No.
1	Mr. Burmester	
2		
3		
4		

FOR -

<input type="checkbox"/>	Action	<input type="checkbox"/>	Initialing
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Preparing Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Previous Papers
<input type="checkbox"/>	Filing	<input type="checkbox"/>	Noting and Returning
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature

REMARKS Please find attached my translation of the one and only statement Mrs. Ehlei has ever made on development issues. I also enclose a copy of a story on the German aid budget which will appear in the forth coming issue of the European Office Bulletin.

FROM - Martin Kölle.

Paris, January 26, 1977 HMK/br

The following is the first public statement of Mrs. Marie Schlei, the new German Minister for Economic Cooperation, on development policy. It appeared as an article in several publications of the Social Democratic party, of which she is a member.

There can be no doubt that the world economy as it exists today puts developing countries at a disadvantage. The immeasurable physical misery of millions is a problem which each of us has to try to reduce. The rich are ill-informed about the situation which is worsening daily before their very eyes, and their attitude is shameful if measured against their own ethical principles.

But quite apart from that, the Federal Republic of Germany is now too closely linked with the economically weakest partners in the world to be able to turn a deaf ear to their needs. Our exports to all developing countries amount to a little under 25 percent of all our exports, and to three times more than our exports to state-trading countries. Too few people know that our relations with LDCs help to secure jobs in Germany - at least half a million according to well founded estimates. We are therefore motivated by mutual interests and no less by the knowledge that world peace is threatened if oppression, want and hunger dominate. He who takes the wellbeing of the weak as being in his own interest, is following rational good sense.

The Federal Government considers it a priority to make the public much more aware of the importance of cooperation with the South in our foreign policy. Our citizens have to be much better informed of Third World efforts to become fully-fledged and equal partners in the world economy. Our citizens have to realize that this will have an effect on our own economy and society. We must now work together with the Western countries and with the developing countries to find a way which will make this possible. Of course, it will be a middle way, a way of compromise and balancing of interests.

If we concede that the present world economic order puts the developing countries at a disadvantage, but if we also reject the most important proposals of LDCs concerning a reform of the world economy, we will have to develop our own concept and present it in international conferences. The North will have to think of serious alternatives which the South is willing to consider.

We will have to think about ways of relieving the disquieting debt situation of LDCs. Furthermore, we will have to find solutions to the commodity issues discussed at the UNCTAD negotiations. We will have to make an effort to widely open our markets for LDCs. Such a trade policy, which will have to be a joint effort of the European community, cannot be conducted if it seriously aggravates our own labor market. We will have to calculate what concessions we can make because it is also in the interest of the developing countries that we conserve our own strength.

What developing countries need is financial cooperation which is satisfying both quantitatively and qualitatively. This cooperation will have to be adequate in relation to the economic strength of the Federal Republic. Developing countries also call on us to respect their decisions as sovereign states, and their liberty to choose their own road to development.

Government efforts alone are not sufficient. The Third World urgently needs capital and know-how of our own industries, and it needs help from our church organizations who can often do more for human beings than a government. Above all, the Third World needs unified assistance from the industrial countries and their acceptance of reforms and different power relationships. This is certainly the most difficult aspect of an agreement between North and South.

A world in which the weak grow stronger under the protection of the strong will not be created in one parliamentary term, but perhaps in several parliamentary terms. We shall have to shape this process actively and constructively. This will be difficult, and slow and patient negotiations will be needed. Results will hardly be spectacular and they often will seem too dull for extensive media coverage. The decisions, however, which will be made in this area will help the next generations to live in stable and global conditions. Agreement between North and South is not an issue for experts, but a political issue which requires political decisions which will have to be understood and supported by the electorate.

Germany's 1977 Budget and Aid

The bill for the 1977 federal budget which now has the cabinet's approval and will be sent to the Bundestag, dashes all hopes for a significant increase in aid. Under the bill, the Ministry for Economic Cooperation (BMZ) will be able to spend DM 3.17 billion (\$1.34 bn) in 1977, only 5.6 percent more than the DM 3 bn of 1976. Expectations only a few months ago had been that it might be possible to make good some ground lost through earlier cuts in aid and to raise German aid to DM 4 or 5 bn in 1977. But this proved to be too optimistic in view of the determination of Finance Minister Hans Apel to further reduce the deficit in 1977. It did not help matters either that Aid Minister Egon Bahr was replaced by Mrs. Marie Schlei, a newcomer both to the cabinet and to the field of aid. Thus, the German ODA share in 1977 will not rise much above a level of 0.3 percent to which it had fallen in recent years, nor is there much hope that it will significantly improve in the remaining years of the decade if present medium-term budget projections prevail.

Extract from European Office Bulletin

January 26, 1977

GERMANY

New budget provides little increase for aid

The bill for the 1977 federal budget which now has the cabinet's approval and will be sent to the Bundestag, dashes all hopes for a significant increase in aid. Under the bill, the Ministry for Economic Cooperation (BMZ) will be able to spend DM 3.17 billion (\$1.34 bn) in 1977, only 5.6 percent more than the DM 3 bn of 1976. Expectations only a few months ago had been that it might be possible to make good some ground lost through earlier cuts in aid and to raise German aid to DM 4 or 5 bn in 1977. But this proved to be too optimistic in view of the determination of Finance Minister Hans Apel to further reduce the deficit in 1977. It did not help matters either that Aid Minister Egon Bahr was replaced by Mrs. Marie Schlei, a newcomer both to the cabinet and to the field of aid. Thus, the German ODA share in 1977 will not rise much above a level of 0.3 percent to which it had fallen in recent years, nor is there much hope that it will significantly improve in the remaining years of the decade if present medium-term budget projections prevail.

The picture is brighter so far as IDA is concerned. The 1977 aid budget contains a commitment authority for the German share of 11.65 percent under the fifth replenishment, in addition to the cash disbursements expected during 1977 under the fourth replenishment.

Overall the German budget for 1977 provides for DM 171,8 bn (\$ 72 bn) total expenditure, about 6 percent more than in 1976. A deficit of about DM 23 bn is expected which needs to be financed through new indebtedness. The biggest single items are: Social programs where spending is budgeted to decline from DM 38.3 bn in 1976 to 37.5 bn in 1977, defense with a rise in spending from DM 31.9 bn to 32.3 bn and transportation with a rise from DM 19.7 bn to 20.4 bn.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hans Janssen *HJ*

SUBJECT: Visit of Mrs. Marie Schlei, Federal Minister for Economic Cooperation, in the World Bank on February 2, 1977

DATE: January 27, 1977

*Hope for modest use of Schlei -
major effort such as
Janssen, Schlei
Vanz*

1. Mrs. Schlei has had no previous experience in development policies. She made it clear that she is coming with an open mind; she wants to listen and to learn. To this end her visit has been arranged with the purpose in mind to provide her with a firsthand impression of the nature and the functions of some important multilateral institutions, including the UN, where she will meet with Mr. Waldheim, and the UNDP (meeting with Mr. Morse). Her visit to the World Bank is considered the most important part of her stay in the United States. Whilst in Washington, Mrs. Schlei will also be visiting the IDB and the AID.

2. In her talks with you Mrs. Schlei will refer to the Replenishment of IDA. Mrs. Schlei will have authority to announce the German contribution. Under the prevailing political and budgetary circumstances this represents a remarkable achievement.

Mrs. Schlei might also mention the Selective Capital Increase. Other subjects, such as the Future Role of the Bank, the "Brandt-Commission", are subjects to which you might wish to refer. Mrs. Schlei has had very good relationships with the members of Parliament of the Social Democratic and Free Democratic Parties. In the past she maintained the liaison between Chancellor Schmidt and the German Parliament. This background might point to an interest on how the policy of the Bank is determined, carried out and controlled, and what the impact of its members is on formulating the Bank's policy.

3. Mrs. Schlei's biographical data are attached.

4. She will be accompanied by:

Mr. Horst Moltrecht
Deputy Assistant Secretary,

Mr. Eberhard Kurth
Division Chief (multilateral institutions),

Mr. Hans Lerchbacher
Press Secretary,

Mr. Thomas Harms
Personal Secretary to the Minister,

Mrs. Scheel
Interpreter,

Mr. Luetzelberger
Mrs. Schlei's personal security guard.

Attachment

January 25, 1977

BIOGRAPHICAL DATA

Marie SCHLEI
Federal Minister for Economic Cooperation

Born: November 26, 1919, Reets, Pomerania,
daughter of a factory worker

Divorced, three children

Background

High School,

worked as sales girl, postal clerk, county clerk;

settled in Berlin in 1947;

became teacher, school director, school inspector;

1969 - Member of Parliament (Bundestag);

May

1974 - Under Chancellor Helmut Schmidt
Parliamentarian Undersecretary in the
Federal Chancellery;

Mrs. Schlei has been a member of the Social Democratic Party
since 1949.

ENTWICKLUNG UND ZUSAMMENARBEIT 1/77

(published by the German Foundation for International Development, Bonn)

The story says that Mrs. Schlei, the new German Minister for Economic Cooperation, was born in Outer Pomerania. Her father was a plumber and her mother worked in a factory. She wanted to become a school teacher but did not have the money to get the necessary education, so she became first a sales girl and then a post office employee. When she was 24, her husband was killed in the war. In January 1945 she fled ahead of the Soviet army into Western Germany. She said that she had been under-privileged and poor for half of her life. Later she went into evening schools and became a school teacher, rising quickly in the ranks of the school administration in West-Berlin. Her second marriage was divorced. She has three children. She began to do social work for the Social Democratic Party and was elected to the Bundestag in 1969, where she made significant contributions to social legislation. In 1974 she became Secretary of State in the immediate office of Chancellor Helmut Schmidt. It was her difficult task to keep channels open between the chancellor and parliament, and she went about her job with quick wit and deftness. The article says that she left Mr. Schmidt's office "involuntarily" and that she would have preferred to stay. But she refused to become minister for youth, family and health since this was considered to be the job for the token female in the cabinet. She admits that her knowledge of development matters is limited but that her own background provides her with a feeling of solidarity for the problems of the Third World.

January 26, 1977

HMK/br



Marie Schlei, Bundesminister für wirtschaftliche Zusammenarbeit

„Ich übergebe mein Amt ungern, Dir aber, liebe Marie, übergebe ich es gern“, sagte Egon Bahr bei der Übergabe der Amtsgeschäfte im BMZ am 17. Dezember. Immerhin sei es – so Bahr – eines der wichtigsten Ämter im Staat, „wenn das bisher auch noch nicht viele wissen“. Seine Nachfolgerin übernehme keine leichte, aber eine hochinteressante Aufgabe. Die Bundesrepublik Deutschland steht in den kommenden Monaten vor wichtigen Entscheidungen in ihrem Verhältnis zur Dritten Welt. Marie Schlei – unfreiwillig aus dem engsten Mitarbeiter-Kreis um Helmut Schmidt in den Ministerrat befördert – sei für die Übernahme des Ressorts internationale wirtschaftliche Zusammenarbeit nicht gerade besonders vorbereitet, heißt es in Bonn. Andererseits hat sie wiederholt betont, daß sie sich schnell in ein neues Amt einarbeiten kann. Sie hat ihr wechselvolles Schicksal mit Energie und unverwundlichem Humor gemeistert. Geboren in Hinterpommern als Tochter eines Klempners und einer Fabrikarbeiterin, machte sie die mittlere Reife. Für die erträumte Ausbildung zur Lehrerin reichte das Geld nicht. So waren Verkäuferin und Postangestellte ihre beruflichen Stationen. Mit 24 Jahren Kriegerwitwe. Im Januar 1945 Flucht vor den sowjetischen Truppen nach Westdeutschland. „Die Hälfte meines Lebens war bestimmt von Unterprivilegierung, von Armsein im wahrsten Sinne des Wortes“, sagt sie rückblickend. Und so bringt sie aus eigener Erfahrung besonderes Verständnis für die Situation der unterprivilegierten Menschen in der Dritten Welt mit. Sie erarbeitete sich mit Zähigkeit den sozialen Aufstieg: wurde in Abendkursen Lehrerin, unterrichtete im Berliner Arbeiterviertel Wedding, wurde Rektorin und Schulrätin. Ihre zweite Ehe wurde geschieden. Ihr Beruf und drei Kinder hinderten sie nicht, sich in der SPD mit Basisarbeit an sozialen Brennpunkten, in der Arbeiterwohlfahrt und in der Frauenarbeit zu engagieren.

1969 wurde die „Berliner Pflanze aus Pommern“ in den Bundestag entsandt. Fortschritt machte sie sich mit gutem Blick für das politisch Realisierbare in Bonn an die Arbeit. Bei vielen sozialpolitischen Gesetzen hat sie maßgeblich mitgewirkt. Die konsequente Art, in der sie ihren Standpunkt vertrat, fiel auf, besonders dem Fraktionschef Herbert Wehner. 1972 wurde sie mit der höchsten Stimmenzahl in

den Fraktionsvorstand gewählt. Seit 1973 war sie Vertreterin ihrer Fraktion bei der UNESCO. 1974 wurde sie Parlamentarischer Staatssekretär beim Bundeskanzler. Die schwierige Aufgabe, dem Kanzler in der Fraktion und im Parlament den Rücken freizuhalten, im Bundestag in der Fragestunde die von der Opposition auf Helmut Schmidt abgeschossenen Pfeile abzuwehren, brachte sie anfangs in Bedrängnis, doch sie verschaffte sich schnell mit Charme und Chuzpe, mit Mutterwitz und Schlagfertigkeit Respekt.

Ministerin für Jugend, Familie und Gesundheit wollte sie nicht werden. Seit Adenauers Zeiten ist die Familienministerin die „Alibi-Frau“ in der Männerrunde am Kabinetts-tisch. Am liebsten wäre sie Parlamentarische Staatssekretärin im Bundeskanzleramt geblieben. Immerhin sagte sie bereits Anfang November: „Jede Frau mit einer gewissen Vorbildung und Parlamentserfahrung kann jedes Ministerium übernehmen, vielleicht abgesehen vom Verteidigungsministerium.“ Nach ihrer Ernennung zum Bundesminister für wirtschaftliche Zusammenarbeit schrieb das SPD-Organ „Vorwärts“ kühl: „Gemessen an den Voraussetzungen scheint die Aufgabe nicht gerade wie gemacht für die neue Ministerin.“ Die Voraussetzungen skizzierte der „Vorwärts“: „Gefragt für das ebenso wichtige wie schwierige Amt ist ein verhandlungsstarker Vertreter der Interessen der Bundesrepublik, der zugleich nicht vergißt, daß diese Interessen auf Dauer nur in der Kooperation gewahrt werden können. Das setzt Kenntnisse der Lage in den Drittweltländern voraus und Einfühlsamkeit in die Mentalität dieser Nationen.“

Marie Schlei will Entwicklungspolitik nicht nur als „praktizierte Solidarität“ verstanden wissen, sondern als „unverzichtbaren integralen Bestandteil unserer Friedenspolitik“. Frieden ist den Menschen wichtiger als internationale Solidarität. In Sachen Entwicklungspolitik ist die Bewußtseinsweiterung des Bürgers noch nicht gelungen. „Aber sowohl die rationale wie auch die emotionale Betrachtung unseres Verhältnisses zu den Entwicklungsländern muß immer wieder zu der Überzeugung führen, daß diese Politik gelingen muß, soll es nicht zum Chaos für uns alle kommen, sagt die Ministerin im Gespräch mit E + Z. Sie bezeichnet sich als „in Bahrs Denkspuren“ und will das „sehr pragmatisch und sehr nüchtern Angedachte“ weiterentwickeln. Wenn auch aus Bahrs Idee von Dreiecks-Kooperationen in der Dritten Welt nicht viel wurde: Marie Schlei will Dreiecks-Kooperation in Bonn praktizieren, mit ihren Vorgängern Bahr und Wischnewski, um von deren Erfahrungen zu profitieren.

Noch in keiner Regierungserklärung ist so ausführlich über Entwicklungspolitik gesprochen worden wie am 16. Dezember. Auch scheinen Regierung und Opposition beide hier zu mehr gemeinsamer Verantwortung bereit zu sein. In Helmut Kohls Antwort auf die Regierungserklärung sieht die Ministerin die Möglichkeit, die Entwicklungspolitik in Kooperation mit der Opposition zu optimalen Ergebnissen zu bringen. Doch finanziell und in internationalen Ver-

handlungen ist ihr Handlungsspielraum sehr eng.

Die neue Ministerin sieht eine Fülle von Detailaufgaben auf sich zukommen, von der intensiveren Mitarbeit an Lösungsversuchen im festgefahrenen Nord-Süd-Dialog über die Motivation der Jugend und der Arbeiter, notwendige Änderungen in

der Bundesrepublik zu bejahen und mitzutragen, von der Verbesserung der Verkehrsstruktur in afrikanischen Binnenländern bis zur Neuorganisation des BMZ. „Wen der liebe Gott mal bei der Arbeit gesehen hat, dem gibt er ständig neue.“ Marie Schlei, 57, akzeptiert den Spruch.

Inga Krugmann-Randolf



MEMORANDUM FOR THE RECC

Meeting with Mrs. Schlei, Federal Minister for Economic Cooperation, Germany,
February 2, 1977

Present: Mrs. Schlei, Messrs. Moltrecht, Kurth, Lerchbacher, Harms, Mrs. Scheel,
Messrs. Janssen and Knetschke, and Messrs. McNamara, Cargill, Burmester

The purpose of Mrs. Schlei's visit was to introduce herself to Mr. McNamara, deliver a personal letter from Chancellor Schmidt, and announce the German contribution to IDAV.

Mr. McNamara thanked Mrs. Schlei for Chancellor Schmidt's letter and said that the German support for IDA and the Bank had been absolutely fundamental.

Mrs. Schlei said that she would not come emptyhanded on her first visit to the Bank and she was pleased to announce that the German Cabinet had accepted a contribution of DM2 billion to IDAV. Through its contribution, Germany had accepted the DM7.2 billion target for OECD countries and would also be willing to accept the suggested bridging arrangements. As far as gap-filling for other donors, she could not give any promises but said that this would be considered favorably by her Government. Mr. McNamara thanked Mrs. Schlei for the contribution and urged her to relate his gratitude to the press conference that she would give later in the day. Mr. McNamara said that the IDAV negotiations had been very difficult and that the German action could have an important effect on other donors with whom we faced difficulties. He would appreciate German help to fill the minor gaps created by Ireland, Iceland and New Zealand, but said that it was not appropriate for the major donors, such as Germany, the U.S. and Japan, to fill the French gap. The French attitude was in a sense understandable, since France dedicated a larger percentage of its GNP to development assistance than the other major donors. But it still seemed inconceivable that they could not contribute a further \$63 million to IDAV to be paid over 10 years. Failure to obtain this French contribution would have very adverse political and economic effects, particularly on the North/South dialogue in Paris. Mrs. Schlei said that the French were touchy about outside interference, particularly in the present situation of severe internal political problems, but she would mention the problem to Chancellor Schmidt who might then consider approaching President Giscard d'Estaing on the matter.

Mr. McNamara said that the "Future Role of the World Bank" had been published and offered to have it translated into German if this would be helpful. Mrs. Schlei said that she was grateful for this suggestion and asked Mr. Janssen to consider whether a German translation would be required. She would study the report carefully and said that its timing was very good, since it would help in the discussion of public support for development assistance. Many industrialized countries found themselves in what she called "spiritual isolation," almost exclusively occupied with their own internal problems and forgetting the larger issue of peace through elimination of poverty. She could not give complete assurance of German support for the general capital increase at this stage but stressed that both the Chancellor and the new Development Committee in the Bundestag would be solidly behind the Bank. Mr. McNamara said that the tensions and uncertainties that Mrs. Schlei had mentioned could also be observed in our Board. However, we had a tradition for consensus and he was hopeful that we would reach agreement on the recommendations in the paper and on a general capital increase at a later stage. He said that we would be very happy to receive members of the Bundestag in the Bank or to send staff members to Germany to explain the Bank and its policies to German politicians. He also thanked Mr. Janssen for his thoughtful memorandum on the "Future Role of the World Bank."

cc: Messrs. Clark, Koelle

SBurmester

February 3, 1977

52

MEMORANDUM FOR THE RECORD

Meeting with Mr. Otto Graf Lambsdorff, German Minister of Economic Affairs,
February 1, 1978

Present: Messrs. McNamara, Lambsdorff, Janssen and Mrs. Steg

Mr. Lambsdorff said that he was in the U.S. to discuss--among others--the "locomotive theory." Mr. McNamara enquired about Mr. Lambsdorff's views on the North/South dialogue. Mr. Lambsdorff replied that Germany (i) favors increased LDC access to the markets of the developed countries; Germany met more or less satisfying standards but there were problems with the EC partners, and particularly the EC's agricultural protectionism; (ii) is ready to discuss commodity agreements but is doubtful about the prospects for satisfactory results; (iii) does not support the Common Fund as proposed by the G77; instead of creating new organizations and funds, the existing institutions, e.g., the World Bank, should be strengthened; and (iv) argues that the indebtedness problem of LDCs has to be dealt with on a case-by-case basis; further, it was necessary to get to the roots of the problem because otherwise the same problems would emerge in about six years' time. Mrs. Steg said that during the Common Fund negotiations the proponents of the Second Window had argued that the Bank did not have sufficient commodity expertise and that the Bank's voting structure was not acceptable.

Mr. McNamara said that (i) commodity expertise had no bearing on the Second Window which would just be another bank; the proliferation of financial organizations led to politicization and was not efficient; (ii) Bank management had supported the financing of buffer stocks and lent expertise to UNCTAD on commodity issues; (iii) the voting proposals were unrealistic in view of the political circumstances, and were put forward for ideological reasons; voting was not an important issue in the Bank although the allocation of votes resulting from a capital increase would create problems; the UN's one country, one vote system weakened the institution and was not in the interest of major developing countries; (iv) increased LDC access to OECD markets was of fundamental importance; both the opening of markets and stimuli to exports in LDCs were required; there was a definite danger of increasing protectionism; (v) the debt problem could only be dealt with on a case-by-case basis; in view of the future borrowing requirements, even a number of developing countries; e.g., Brazil, were against debt forgiveness; further, it was important that commercial banks expand their lending to LDCs by 10%-15% per year.

Mr. McNamara enquired about Germany's ODA performance. Mr. Lambsdorff replied that it was still a long way to meet the 0.7% target; however, the 1978 budget contained a 17% increase in aid. Mr. McNamara said that the U.S., Japan and Germany had to be the major sources of concessional aid to the poorest countries. All three were below reasonable levels of ODA. On the other hand, Germany was supportive of the IBRD capital increase which would increase the funds available at market terms to the MICs.

Mr. McNamara enquired about Mr. Lambsdorff's views as to the appropriate fora for trade negotiations. Mr. Lambsdorff replied that the first forum would be GATT and that the issue should be high on the agenda for the summer summit meeting in Germany. He was concerned about the protectionist tendencies in the industrialized countries. The lessons of the 1930s should be learned and also the 1973-75 recession could serve as an example of economic crisis management without resorting to protectionism.

cc: Mr. Gabriel

CKW
February 9, 1978

MEMORANDUM FOR THE RECORD

Meeting with Mr. Matthoefer, German Minister of Finance, May 1, 1978

Present: Messrs. McNamara, Matthoefer, Janssen

Mr. Matthoefer said that since Mr. Eppler and he had left the Ministry of Economic Cooperation the consciousness with respect to development issues had decreased. Mr. McNamara said that the Bank was most appreciative of the German support to IDAV and to IBRD borrowing on German capital markets. Although the Bank had never received stronger support from the U.S. Executive Branch, there were serious problems with the U.S. Congress where IDA appropriations were tied up. The opposition to foreign aid and the difficulties faced by the Bank in the U.S. Congress were a function of the evolution of the U.S. institutional setup in recent years. The strong support from the Federal Republic of Germany was therefore doubly valuable and would be important for the forthcoming Summit Meeting in Germany and the agreement on a general capital increase for IBRD.

Mr. Matthoefer said that the proposed general capital increase for IBRD --with a paid-in contribution from the FRG of between \$160-\$215 million over three years--would pose no problems as far as his Government was concerned. The Ministry of Economic Cooperation had "money coming out of its ears."

With regard to the human rights issue, Mr. Matthoefer said that, although he was emotionally in favor of promoting human rights, he had advised the U.S. not to aim at imposing such an approach on the international financial institutions. Mr. McNamara said that the Bank could not deal with the civil rights element of a human rights approach.

Mr. Matthoefer enquired about the support he could provide to the Bank in the near future. Mr. McNamara replied that support was needed for (i) the approval of the FY79 IBRD lending program of \$6.8 billion and (ii) the endorsement by the Summit Meeting of a continuing increase of foreign aid commitments in real terms; this was important for the IFIs in principle and for the North-South relationship in general. He reported that in recent years the Bank had made substantial progress along the lines of its new poverty-oriented policies. These policies had been more successful in rural areas than in the urban environment. The Bank had found ways to expand substantially the incomes of the rural poor, e.g., in its rural development projects in Northern Nigeria. On the other hand, employment creation in urban areas turned out to be an extremely difficult task. Mr. Matthoefer said that in his former capacity as Minister of Technology he had negotiated with Mr. Bahr to have the German technology research potential at the service of LDCs in order to develop appropriate technologies for these countries. However, the approach had not been vigorously pursued by Mr. Kollatz and the results so far were poor.

Mr. McNamara said that the commodity restrictions introduced by the U.S. Congress and the U.S. Government's position on staff compensation created serious problems inside the Bank. Staff felt that the U.S. was trying to politicize the institutions. Although Germany had voted for management's proposal, no majority of votes could be found to support a full cost-of-living adjustment effective March 1, 1978. It was increasingly difficult for the Bank to hire nationals of certain countries, particularly Germans. Mr. Blumenthal did not understand that yet and it would be useful if at some point the German Government could talk to Mr. Blumenthal about this issue as it related both to the Bank and the Fund. Mr. Matthoefer said that he

had compared IMF salaries to compensation levels at the EEC and that he had found ridiculous discrepancies, at some levels at a factor of 2. He was surprised that this was a problem not only with the U.S. Congress but also with the Executive Branch. Mr. McNamara said that Mr. Blumenthal himself believed that Bank and Fund staff were overpaid. He did not understand that (a) U.S. Civil Service salaries had suffered from a serious erosion since 1969, and (b) a premium was required in order to attract and retain expatriates. In addition, however, the Administration was under considerable pressure from Congress on this issue. Mr. Matthoefer was surprised that foreign aid had come under such fierce attack in the U.S. In Germany, public support for development aid was increasing and the World Bank and Mr. McNamara enjoyed a very good reputation; strong Government support for the Bank was therefore not a controversial issue. This was important for him as a new Finance Minister, since he could not open too many new fronts. He would focus on the issues affecting the Bank in preparation of and during the Annual Meeting in September. Messrs. Offergeld and Sanne appeared to be an excellent new team in the Ministry of Economic Cooperation. With his strong personality and his long experience in foreign affairs, Mr. Sanne was an important asset for German foreign aid policy. As Finance Minister in a parliamentary government, he himself could play an influential role in shaping German foreign assistance policies. He was ensured of Chancellor Schmidt's support and he was convinced that the Chancellor would increasingly turn internal and external economic policies away from a defensive position. Unfortunately it was difficult to get President Carter and Chancellor Schmidt to work together. While Chancellor Schmidt liked debate and controversy and was ready to change his mind during such debate, President Carter preferred to listen to others debating and then made his lonely decisions afterwards.

CKW
May 5, 1978

MEMORANDUM FOR THE RECORD

Meeting with Mr. Horst Schulmann, Economic Policy Advisor to Chancellor Schmidt,
May 31, 1978

Present: Messrs. McNamara, Schulmann

Mr. Schulmann said that, over the last few days, he had helped prepare the forthcoming Summit Meeting in Bonn. North/South relations were on the agenda. During the preparatory work, they had tried to group the issues under two headings, namely, those to be reflected in the official communique and those to be discussed by the Heads of State. The communique would state that the IFIs were expected to expand their lending in real terms and would probably mention the need for an IDAVI replenishment and a general capital increase for the Bank. As part of the substantive discussions, Chancellor Schmidt would like to emphasize the longer-term structural problems. The Chancellor was concerned about the lack of positive adjustment policies in OECD countries. The preparatory work would try to come up with a policy package to be acted upon at the Summit; e.g., the U.S. would be asked to act on inflation and energy and possibly Germany would be asked to act on its growth rate. There was greater awareness now that action was needed on several fronts.

Mr. McNamara said that he hoped Chancellor Schmidt would push the need for positive adjustment policies because of the growing pressure for protectionism. He would find President Carter responsive on the energy issue. Europe should keep insisting because the U.S. energy consumption pattern had to be modified. In the last 90 days, there had been a major shift in the U.S. position on inflation control and the strength of the U.S. dollar. As a result of past developments, a large food price increase would have to be faced this year. However, psychologically much more could be done about inflation. Mr. Schulmann said that Chancellor Schmidt was worried about the balance of payments implication of the energy problem. There was no substitute for a strong U.S. dollar. Mr. McNamara welcomed the formulation of a policy package for the Summit Meeting because the pressure from other countries would be more effective if presented as part of a package.

CKW
June 2, 1978

MEMORANDUM FOR THE RECORD

Meeting with Mr. Klaus von Dohnanyi, German Ministry of External Relations, March 2, 1978

Present: Messrs. McNamara, Dohnanyi, Janssen and Honsowitz

Human Rights

Mr. von Dohnanyi reported on the EC's efforts to include a broad preamble on human rights in the Lome Convention. Such a clause was better than legal ties. Mr. McNamara explained the present U.S. procedures of reviewing projects on a case-by-case basis through the Christopher Committee and the distinction management tried to make between economic and civil rights. He elaborated on the problems arising for the Bank from the U.S. insistence on introducing human rights considerations into its activities. Mr. von Dohnanyi concluded that the human rights issue should be taken up by the German Government with the U.S. Administration and probably informally with the U.S. Congress.

German Government-Bank Relations

Mr. von Dohnanyi enquired about present relations between the Bank and the German Government. Mr. McNamara replied that relations were excellent. Also, the Bank had excellent working relationships with the Deutsche Bundesbank and the Deutsche Bank.

World Economic Development

Mr. von Dohnanyi enquired about Mr. McNamara's views on the prospects for the world economy. Mr. McNamara said that he considered these prospects to be cloudy but he believed in the convoy approach to solving present world economic problems. In response to a question by Mr. von Dohnanyi, he said that he believed the world's present economic problems to reflect post-oil crisis difficulties rather than an increasingly unmanageable, interwoven world economy. Even the outlook for the poorest countries was better now than a year ago. The Third World was moving forward. He mentioned the examples of India, Brazil and South Korea. He was not as gloomy as others as to the prospects of another oil crisis in the mid-80s. Offsetting forces were already at work; however, the U.S. clearly needed a comprehensive energy policy. The long-term problems could be solved if the world moved intelligently. Because of the uncertainties surrounding future oil prices, the Bank had decided not to run its world economic model through 1990 but to cut off at 1985.

Commodities

Mr. McNamara said that it was desirable to stabilize but not to index commodity prices. In response to a question by Mr. von Dohnanyi, he said that it would not be appropriate for him to speak out on such stabilization schemes; this was the IMF's business. Mr. von Dohnanyi said that the German Government was proposing an extended Stabex system and that he agreed with Mr. Cooper that there should be commodity agreements for a limited number of commodities. A Second Window to the Common Fund was advocated by those of the G77 countries which would not benefit from ICAs. Mr. McNamara agreed that a Second Window would not make sense. He was concerned about the proliferation of funds. He urged West Germany to take a strong position on the desirable ICAs and to help avoid introduction of the bad elements (e.g., Second Window) of the Common Fund proposals.

CKW
March 7, 1978

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OFFICE OF THE PRESIDENT

Meeting with the Delegation of the Federal Republic of Germany, September 24, 1978

Present: Messrs. McNamara, Minister of Economic Cooperation Offergeld, Moltrecht and Kurth

Mr. McNamara complimented the Minister for his speech in the Development Committee, particularly his emphasis on the requirement for action on an IBRD capital increase and IDA VI, and the support for basic needs programs.

Mr. Offergeld enquired about the timing of reaching a formal agreement on the IBRD capital increase; the timing was important for his Government's preparation of next year's budget. Mr. McNamara replied that, as soon as the aid bill would be passed by Congress in about 3-4 weeks, the U.S. Administration would begin to consult with Congress on the general capital increase. A formal Board decision was required by early 1979; otherwise the lending program would have to be cut. He urged the German Delegation to press for a substantial increase of \$30-\$40 billion and to make the German concern known to Secretary Blumenthal.

Mr. Offergeld asked whether the Bank encountered major problems in implementing basic needs programs. German bilateral aid had encountered many such problems which had slowed disbursements. Mr. McNamara said that there had been much opposition to the concept of basic needs among LDC governments. However, by using different words, namely, programs to address poverty, many of these problems could be overcome. He was not too worried about the disbursement implications of poverty programs. The Bank experience indicated that the slowing of disbursements was more a result of changes in financial policies of LDCs, namely, their slowing of investment programs over recent years. Mexico was an example. The problem of discrepancies between planned and actual disbursements was also a projection problem. Planned disbursements were probably lower for new-style projects but not in a significant way. Also, the Bank lent only 25% of its total program for new-style projects. He urged that Germany--through its aid program--continue to put emphasis on addressing basic needs problems.

Mr. Offergeld enquired about the social problems encountered in development projects. These sensitive issues posed serious problems for governments and advice on how to tackle them had to come from multilateral rather than bilateral agencies. Also, sociology and anthropology constituted soft sciences which were frequently unable to give operational answers to these social issues. Mr. McNamara replied that, although the Bank was increasingly addressing these issues, it was not doing enough. There were probably less than 10 sociologists and anthropologists in the Bank.

Mr. McNamara urged the German Delegation to lend their strong support to the IDA VI negotiations. Mr. Offergeld replied that his Ministry would do so and that he did not expect any problems as far as the German Government was concerned.

cc: Mr. Knapp

CKW

September 28, 1978

Meeting with Mr. Heinz-Oskar Vetter, President of German Trade Union Federation (DGB), November 14, 1978

Present: Messrs. McNamara, Vetter, Zimmermann, Vollmer and Kurth

Mr. Vetter said that the German Trade Union Federation had many interests in common with the Bank, particularly with regard to the North-South dialogue and the work of the Brandt Commission. As to the Brandt Commission, the important task would be to translate the results of its deliberations into practical political measures. Mr. McNamara replied that Mr. Brandt was the best man possible to organize such action.

Mr. Vetter said that, particularly in his capacity as Chairman of the European Trade Union Confederation, he tried to introduce political considerations into Lome II. However, both the EC Governments and the ACP countries were not supportive. Only Mr. Cheysson had lent his support for measures similar to the U.S. idea of international fair labor standards. In response to a question by Mr. McNamara, Mr. Vetter said that such political considerations would entail freedom of organization and coalition for workers, training for workers and the establishment of consultative bodies for workers' training and participation. Mr. McNamara enquired whether ILO could serve as a forum for voicing these concerns. Mr. Vetter replied that governments had been reluctant so far to have ILO play such a role.

Mr. McNamara enquired about the attitude of the European labor movement with regard to the problems of adjustment resulting from increased LDC manufactured exports displacing European labor. Mr. Vetter replied that, in principle, the attitude was positive and that there were problems only if such adjustment processes had to take place too rapidly. Of course, faster technological change and lower economic growth rates made such adjustment processes more difficult. Adjustment was not only a problem of finance but also an intellectual and political problem requiring education of the public. Governments had to enable the trade unions to indicate clearly to their members in what directions such adjustment processes would have to develop. Mr. McNamara agreed. There was clearly a lack of action on these political aspects in the industrialized countries and governments were not acting to prevent disruptive change. For example, resistance in Japan to giving up shipbuilding resulted in Korea not giving up textiles which in turn made it impossible for India to move into the textile sector. He hoped that the Brandt Commission would deal with these issues.

Mr. Vetter enquired whether the labor movements in Western Europe, Japan and North America should participate in the Trilateral Commission. Mr. McNamara replied that this would be most desirable. The voice of labor needed to be heard. In the U.S., this was not the case; labor had not participated in a broader national and international economic policy dialogue since Walter Reuther's death. During the Kennedy Administration, there had been much more intellectual participation of labor. Labor seemed to take a more active role in Germany. He urged Mr. Vetter to pursue this matter of participation in the Trilateral Commission.

CKW
November 16, 1978

cc: Mr. Gabriel