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8.13/9/27

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: September 20, 1979

FROM: P. N. Damry P N Damry 9/20.

SUBJECT: General Capital Increase -- Status and Forecast of Voting

Appended tally will show the position as on the 16th, September. Two votes have come in since then from small members.

Our strategy was to get the Executive Directors to move their governments as far as possible to vote immediately and, as the next best course, to secure the authority of their cabinets to communicate their votes to the Executive Directors at Belgrade; failing that, to make a strong statement in support, when addressing the plenary. All the Executive Directors have taken steps to remind and in many cases to maintain strong pressure on their Governors. This is clearly having good results with the smaller countries but, on the best estimate, it is clear we shall not have our 75 percent at Belgrade. The following is the constituency-wise position and forecast:

UK -- Executive Director has been in touch again yesterday, but as of today, no reactions received. It can safely be predicted that the UK vote will be in by the end of December.

9/20

Germany -- Kurth telephoned again yesterday. The matter is still with Mathoeffer. Kurth was a little suspicious that there might have been some hitch, but has no evidence that there is and is still hopeful of an early vote.

France -- Mrs. Parent told me this morning very unofficially that she had Paris on the phone and there is some hope that the vote might be received before Belgrade.

Japan -- I sounded the Alternate cautiously yesterday. He still believes the matter to be between Treasury and Legal and could offer no hope, although he said everyone was doing his best. It appears that Murayama, lately Executive Director, will have a great deal to do with the recommendations to the Minister. My personal fear is that having been responsible for the statement that the Governor would only vote in certain circumstances, Murayama may be afraid of loss of face if the Governor acted now, and therefore personal and not merely technical or administrative factors may operate. Also, Murayama has just recovered from pneumonia, having been in hospital for some days — another factor making for delay.

Remaining Part I Constituencies

Drake -- Routine reminders have been sent by the Alternate and Drake had promised personal intervention. He has been away for some time and does not expect to hear anything authoritatively until he reaches Belgrade, but he was dubious about a vote before Christmas from Canada. The vote of the rest of the constituencies including Ireland seems to be held up only for administrative reasons.

Looijen -- The votes of Netherlands and Yugoslavia are in. Israel has told us directly that they have the matter under close consideration. It is unlikely that we shall have the rest of Looijen's constituency voting at or before Belgrade.

de Groote -- Luxembourg and Turkey have voted and Austria was reported by Sutter to be about to vote. Mr. de Groote has given Mr. Qureshi some indication of the timing of the Belgian vote which I gathered from Sutter might take a little time because of a comprehensive review of aid programs.

Lundstrom (Nordics) -- Has reminded by cable and is going to Stockholm shortly. Sees no reason why they should not vote at or before Belgrade.

Rota -- Is calling ~~for~~ his Minister again today and hopes to get a favorable response very early. Greece and Portugal may be slower.

Keany -- Has maintained considerable pressure and is again contacting Canberra today but cannot estimate the time.

Part II Constituencies

Narasimham: India and Bangladesh voted and Sri Lanka shortly would

Mayobre: This constituency is generally late in voting and only two out of eleven have voted but pressure is being maintained and we may hope to secure most of the votes by the end of the Annual Meetings. The Latin American Governor making the common speech is being urged to make a strong statement in support of the increase.

El-Naggar: The smaller countries and Egypt and Pakistan have voted but but he is in touch with Saudi Arabia, Kuwait and United Arab Emirates advising that as a case has to be made out for special increase for these countries, they should lose no time in showing their support for the Bank.

Zain: Is hopeful of getting Malaysia's and Indonesia's votes soon but is unable to forecast about the others.

Madinga: Good progress: 12 out of 18 in his constituency have voted.

Razafindrabe: This is another slow constituency but already 8 out of 21 have voted and he expects the rest by the end of the Annual Meetings.

Mapa: Philippines have voted, but is not sure about Colombia. I am speaking to Kafka about Brazil.

Belkhodja: Has sent routine reminders, but is being pressed.

Sola: Hopes to get his votes in the Annual Meetings.

Of the unrepresented countries, China and Cape Verde have voted and I hope to get the South African vote by contacting the Governor in Belgrade. Nicaragua may be at the meeting and I will talk to the Governor, but Kampuchea may be written off.

It will help greatly if the Regional Vice Presidents and other members of the President's Council tackle the Governors who have not voted, provided Japan can be got to vote. We should have 75% safely in hand before January 1.

1979 CAPITAL INCREASE

Votes received to September 7, 1979

Bangladesh	1,492	
Cameroon	450	
Cent. Afr. Empire	350	
China	7,750	
Costa Rica	357	
Egypt	1,900	
Ethiopia	364	
Gabon	370	
Guyana	421	
Honduras	334	
India	11,583	
Jordan	437	
Kenya	650	
Korea	1,556	
Lao PDR	350	
Lebanon	340	
Lesotho	293	
Luxembourg	547	
Netherlands	7,929	
Pakistan	2,769	
Paraguay	310	
Singapore	570	
Solomon Is.	267	
Tanzania	600	
Turkey	1,536	
Yemen Arab Rep.	335	43,860

After September 7, 1979

27	Philippines	1,965	45,825
28	Niger	350	46,175
29	Cape Verde	266	46,441
30	Botswana	293	46,734
31	Bahrain	413	47,147
32	Senegal	612	47,759
33	Swaziland	318	48,077
34	Zambia	898	48,975
35	Chad	350	49,325
36	Guinea	450	49,775
37	Malawi	400	50,175
38	Sierra Leone	400	50,575
39	New Zealand	2,057	52,632
40	Liberia	463	53,095
41	Bolivia	460	53,555
42	Ecuador	618	54,173
43	Togo	400	54,573
44	Yugoslavia	1,428	56,001
45	Western Samoa	267	56,268
46	Upper Volta	350	56,618

+2

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1979 General Capital Increase

Sep. 16, 1979

% of Voting Power	Executive Director	Constituency	Firm Vote Received	
22.33	Fried	U.S.		No
8.44	Ryrie	U.K.		No
5.74	Kurth	Germany		No
4.19	Mentre de Loye	France		No
4.43	Morioka	Japan		No
4.84	Drake	Bahamas		No
		Barbados		No
		Canada		No
		Grenada		No
		Guyana	Yes	
		Ireland		No
		Jamaica		No
4.81	El-Naggar	Bahrain	Yes	
		Egypt	Yes	
		Iraq		No
		Jordan	Yes	
		Kuwait		No
		Lebanon	Yes	
		Maldives		No
		Pakistan	Yes	
		Qatar		No
		Saudi Arabia		No
		Syrian AR		No
		U.A.E.		No
		Yemen AR	Yes	
4.55	Narasimham	Bangladesh	Yes	
		India	Yes	
		Sri Lanka		No
4.22	Looijen	Cyprus		No
		Israel		No
		Netherlands	Yes	
		Romania		No
		Yugoslavia	Yes	
4.03	de Groote	Austria		No
		Belgium		No
		Luxembourg	Yes	
		Turkey	Yes	
3.88	Mayobre	Costa Rica	Yes	
		El Salvador		No
		Guatemala		No
		Haiti		No
		Honduras	Yes	
		Mexico		No
		Panama		No
		Peru		No
		Spain		No
		Suriname		No
		Venezuela		No
3.82	Lundström	Denmark		No
		Finland		No
		Iceland		No
		Norway		No
		Sweden		No
3.71	Rota	Greece		No
		Italy		No
		Portugal		No
3.62	Keany	Australia		No
		Korea	Yes	
		N.Zealand	Yes	
		Papua N.Guin.		No
		Solomon Is.	Yes	
		W. Samoa	Yes	

% of Voting Power	Executive Director	Constituency	Firm Vote Received	
3.54	Zain	Burma		No
		Fiji		No
		Indonesia		No
		Lao PDR	Yes	
		Malaysia		No
		Nepal		No
		Singapore	Yes	
		Thailand		No
		Viet Nam		No
3.14	Madinga	Botswana	Yes	
		Burundi		No
		Equ.Guinea		No
		Ethiopia	Yes	
		Gambia		No
		Guinea	Yes	
		Kenya	Yes	
		Lesotho	Yes	
		Liberia	Yes	
		Malawi	Yes	
		Nigeria		No
		S. Leone	Yes	
		Sudan		No
		Swaziland	Yes	
		Tanzania	Yes	
		Trin. + Tob.		No
		Uganda		No
		Zambia	Yes	
2.92	Razafindrabe	Benin		No
		Cameroon	Yes	
		Cen.Afr.Emp.	Yes	
		Chad	Yes	
		Comoros		No
		Congo		No
		Gabon	Yes	
		Guinea-Bissau		No
		Ivory Coast		No
		Madagascar		No
		Mali		No
		Mauritania		No
		Mauritius		No
		Niger	Yes	
		Rwanda		No
		S.Tome + Prin.		No
		Senegal	Yes	
		Somalia		No
		Togo	Yes	
		Upper Volta	Yes	
		Zaire		No
2.71	Mapa	Brazil		No
		Colombia		No
		Dom. Rep.		No
		Ecuador	Yes	
		Philippines	Yes	
2.55	Belkhodja	Afghanistan		No
		Algeria		No
		Ghana		No
		Iran		No
		Libya		No
		Morocco		No
		Oman		No
		Tunisia		No
		Yemen, PDR		No
2.53	Sola	Argentina		No
		Bolivia	Yes	
		Chile		No
		Paraguay	Yes	
		Uruguay		No

China	Yes	Cape Verde	Yes	Kampuchea	No
S.Africa	No	Nicaragua	No		

6/8 To Messrs Nurick, Gabriel
Here is the US "language". Ernst

8/13/9/26

NOTE: Official confirmation received 6/12/79 (per RSM)

Memorandum for Robert S. McNamara

From: Edward R. Fried

Subject: IBRD General Capital Increase

I should like to add my suggestions for changes in the draft Executive Directors Report and Board of Governors Resolutions to those of Messrs. Looijen and Ryrie.

I agree with Mr. Looijen that the outcome of the unit of value and maintenance of value issues should not be prejudged. I am suggesting changes in paragraphs 6 and 7 of the Report and paragraph 1 of the 1979 General Capital Increase Resolution as well as deletion of paragraph 4(g) of the Resolution with the objective of making absolutely clear in these documents that there has been no resolution of the unit of value and maintenance of value issues and that the status quo will be preserved until such resolution occurs. This is consistent with your memorandum of March 28, 1978, on the valuation of the Bank's capital and the Notes to the 1978 Financial Statements of the Bank.

I should like to add that I believe that it is also important not to prejudge the procedure by which these issues will be resolved. The changes which I have suggested in paragraph 7 of the Report and paragraph 1 of the Resolution reflect this view. I continue strongly to hold the view which I have previously expressed that the substitution of a new standard of value which would change members' obligations relating to their subscriptions to Bank capital stock in a manner which cannot be said to have been initially intended by the members, would constitute a revision of the Articles of Agreement, and therefore, needs to be undertaken by amendment of the Articles and not by their interpretation.

I have also suggested changes in paragraphs 16 of the Report and 4(b) of the Resolution to provide that the Bank shall not accept subscriptions prior to December 31, 1981. No change is being suggested in the provisions relating to the Governors' vote on the Resolution by July 1, 1980. I am also suggesting that paragraph 2(b) of the 1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto Resolution be changed to provide that subscriptions under that Resolution not be accepted prior to December 31, 1981.

Attached are versions of paragraphs 6, 7 and 16 of the Report and paragraphs 1 and 4 of the Resolution which incorporate my suggested changes.

Attachments

Board of Directors Report.

6. In order to translate the overall increase of $40 billion into a specific number of shares to be subscribed by each member, it is necessary to determine a subscription price per share. The IBRD Articles of Agreement express the Bank's capital in terms of 1944 dollars. The 1944 dollar ceased to have a par value in terms of gold on April 1, 1978, the effective date of the Second Amendment of the IMF Articles of Agreement which abolished par values. The implications of this change on the valuation of Bank capital stock are still being examined. Since April 1, 1978, the Bank has expressed the value of its capital stock on the basis of the SDR for purposes of its financial statements. The Bank has continued and will continue to accept capital subscriptions at $1.20635 current U.S. dollars to one 1944 dollar, the value of the 1944 dollar at the last par value of the U.S. dollar, subject to the possibility that adjustment may be required when the standard of value issue is resolved.

7. No decision has been made on the unit for valuation of capital and issues related to maintenance of value and the procedure for reaching a decision on these issues. It is expected that before subscriptions to the General Capital Increase take place, the Board of Executive Directors will be able to arrive at a definitive position on this matter and that the procedure for resolution of these issues will have been agreed upon. On the basis of one share being valued at $120,635, the proposed $40 billion increase translates into an increase of 331,500 shares. If, on the other hand, the price per share were set at SDR 100,000, the total number of shares corresponding to $40 billion would depend upon the relationship between the $ and SDR. At the present rate of 1 SDR = approximately $1.28 the number of shares would be 312,500.

16. Approval of the Resolutions would immediately increase the Bank's authorized capital. In order to avoid marked shifts in relative subscriptions and voting power, it is recommended that no subscriptions under these Resolutions be accepted until December 31, 1981. Subscriptions would be accepted until July 1, 1985 but it is expected that countries would begin subscriptions no later than FY 83.

Board of Governors Resolution

Paragraph 1

The authorized capital stock of the Bank shall be increased by 331,500 shares of capital stock having a par value of $100,000 each in terms of 1944 dollars; provided, however, that if as a result of determinations on the standard of value for Bank capital stock the increase in authorized capital is in excess of $40,000,000,000 calculated as of the time of such determinations and on the basis of that value, the number of shares authorized by this Resolution shall be reduced so that such value shall be equivalent (to the nearest number of shares) to $40,000,000,000.

Paragraph 4

Each subscription authorized pursuant to paragraph 2 above shall be on the following terms and conditions:

(a) . . .

(b) a member may subscribe from time to time prior to July 1, 1985, or such later date as the Executive Directors may determine; provided, however, that the Bank shall not accept any such subscription prior to December 31, 1981.

(c) . . .

(d) . . .

(e) . . .

(f) . . .

(g) delete

813/9/24

OFFICE OF THE PRESIDENT

Meeting on General Capital Increase--Letter to President Carter, April 10, 1979

Present: Messrs. McNamara, Cargill, Stern, Nurick, Damry, Gabriel, Wood

Mr. McNamara reported that Treasury's lawyers had problems with the Resolution regarding language used on the issue of valuation of capital and dates of subscription. Mr. Fried was also concerned about the U.S. losing its veto power during the 15 months from 1980-1982. He asked Mr. Nurick to get from Mr. Fried and the Treasury lawyers the language they wanted to have used in the Resolution.

The meeting then did a line-in line-out review of the draft letter to President Carter.

CKW
April 16, 1979

OFFICE OF THE PRESIDENT

813/9/25

Meeting on General Capital Increase--Mr. McNamara's Meeting With Secretary Blumenthal, April 11, 1979

Present: Messrs. McNamara, Stern, Damry, Nurick, Gabriel, Wood

Mr. McNamara reported that he had given the draft letter addressed to President Carter to Messrs. Blumenthal, Solomon, Owen and Fried. It was clear now that the U.S. would not vote on April 24 and would consider a vote by the other governments on April 24 as detrimental to the present Foreign Aid Bill. Congressman Obey had refused to go forward with this year's Bill, unless he received a statement on repudiation of the General Capital Increase and on the amount of IDA VI. Obey had painted himself into a corner by saying that he would support annual appropriation amounts of only \$800 million plus price increase. Mr. McNamara said that, at his luncheon with Mr. Blumenthal, he had, however, convinced Treasury to vote on the General Capital Increase before the end of June; otherwise, the FY80 program had to be cut substantially. Mr. Fried would inform the other Directors at tomorrow's Board meeting, stating that (a) the U.S. had not yet completed its consultations with Congress, (b) the U.S. would vote before the end of the fiscal year, and (c) the informal meeting of EDs should be deferred.

With regard to IDA VI, Mr. McNamara said that Treasury was willing to work towards a 27% share of a \$12 billion replenishment on a staggered basis. The Bank's strategy should now be to get the U.S. to agree to the 27% of \$12 billion and then try to go to a higher amount with a lower U.S. share.

Mr. McNamara said that Mr. Obey believed that the Bank had expanded too fast; this line of argument might well have originated from Bank staff.

CKW
April 16, 1979

OFFICE OF THE PRESIDENT

Meeting on General Capital Increase, April 10, 1979

Present: Messrs. McNamara, Cargill, Nurick, Gabriel, Wood, Bock

Mr. McNamara reported that the U.S. Government had stated that it was presently not in a position to support the General Capital Increase on April 24. He therefore wanted to go to President Carter and Secretary Blumenthal on this issue. He asked Mr. Wood to draft a letter to President Carter which would present the facts and arguments to a person unfamiliar with the issue. The letter should make the points that the Articles of Agreement provided for a lending limit which would be reached by 1982, that, therefore, the proposal for a capital increase had been before the Board for two years and had been endorsed by the London Summit and CIEC meeting, that this proposal was before the Board for final formal vote on April 24, that the Resolution would permit governments to subscribe to certain maximum amounts of the increase in authorized stock, that the U.S. was permitted but not obligated to subscribe, that the paid-in portion of the capital increase could be provided in equal instalments over X years, that failure to approve the Resolution on April 24 would lead to a reduction of the Bank's lending program, probably immediately but certainly by July 1, that this would do harm to U.S. foreign policy, that all 133 governments would vote in favor, and that only 51% of the votes were required to pass the Resolution, but that lack of U.S. support would severely weaken the Bank, and that he (Mr. McNamara), therefore,urged that the U.S. Director be permitted to vote in favor of the increase.

Mr. McNamara said that the Bank had to face very serious problems. He had smelled that this was coming. Congressional leaders had indicated that they would lead this year's appropriations bill but would not support the General Capital Increase. The Administration would have to argue that approval of the capital increase did not cost the U.S. a dime but would get other countries to support the Bank which in turn would lead to the purchase of goods in the U.S.

Mr. Wood said that, as a fallback position, the Bank did not even need an authorizing vote by Congress because the Resolution could be approved by a 75% majority of the Governors. Mr. McNamara said that this should be considered as a last option. In his view, the Administration was seizing on the wrong issue. Other than in the case of the IDA VI replenishment or the appropriations bill, the General Capital Increase was not a political problem because there was very little political price in this.

Mr. McNamara asked Mr. Bock for a note on what the U.S. share would be if (a) the U.S. did not pick up any general capital increase shares and (b) what the U.S. would have to pick up at minimum in order to keep its veto power.

Mr. Nurick said that the foreign policy argument would be the most powerful in President Carter's eyes. The U.S. should at least be neutral since it would involve little cost. Mr. McNamara agreed. The U.S. should at least not stand in the way. The rest of the world could carry the Bank. However, other governments might of course be affected by such lack of U.S. action; but this was not to be argued now.

CKW
April 16, 1979

813/9/22

OFFICE OF THE PRESIDENT

Meeting on General Capital Increase, April 9, 1979

Present: Messrs. McNamara, Cargill, Stern, Damry, Nurick, Gabriel

Mr. Ryrie

Mr. McNamara said that Mr. Ryrie's request for expressing authorized capital in SDRs at the date of decision introduced a contingent liability for the U.S. which could not be reconciled with Mr. Fried's position. Mr. Gabriel said that Mr. Ryrie simply objected to the favored U.S. position of being able to determine their contribution in their currency.

It was decided that Messrs. Cargill, Damry, Nurick and Gabriel would talk to Mr. Ryrie and, if necessary, bring Mr. Ryrie and Mr. Fried together in order to convince Mr. Ryrie that this was not the time to raise this issue. If the problem could not be resolved at that level, Mr. McNamara would meet with Mr. Ryrie.

Mr. Looijen

Mr. McNamara asked for a line-in line-out version of the Board document on the Capital Increase, introducing the changes proposed by Mr. Looijen. This document should then be used as the basis for an informal meeting to be convened at 10:00 a.m. on Thursday, April 12.

Mr. Fried

Mr. McNamara reported that Mr. Fried was "in shock" because of the deterioration of the situation on The Hill. Congressman Obey had indicated that he would not act as a leader of the Bill on the General Capital Increase. The Bank faced a very serious problem as to obtaining U.S. approval of the General Capital Increase on April 24.

CKW
April 16, 1979

813/9/121

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 6, 1979

FROM: Anthony IJ. A. Looijen

SUBJECT: General Capital Increase

I would appreciate it if you could arrange to have an informal meeting with Executive Directors in the beginning of next week to discuss a number of suggestions with regard to the Capital Increase proposals. One such suggestion was made by Mr. Ryrie. Some other suggestions I attach to this memorandum, and there may well be other Executive Directors who would like to suggest amendments to the proposed texts.

With regard to my own suggestions for amendments I would like to give the following explanation:

1) In para. 4 of your memorandum of March 21, 1979, it is stated that the Management proposed "an approximate doubling of capital subscriptions - or an increase of $40 billion - ". In reality it was proposed to double the subscriptions for an increase of roughly $40 billion. We might as well stick to the historical truth.

2) I appreciate that you have tried to be neutral in dealing with a choice between shares of $120,635 or SDR100,000, but I would prefer to make the language even more objective.

In the first place we should mention with how many shares the capital would approximately be increased if we translate the 1944 dollar into SDR's at the present exchange rate.

In the second place we should prevent as much as possible the impression that we may not be able to reach a decision on capital valuation before the first subscriptions take place (i.e. in 1981). It is stated quite clearly in para. 7 that we expect "to resolve this issue (I would like to add the word 'well') before subscription to the General Increase takes place." There is no reason why we should state that we would continue to accept subscriptions at the price of $1.20635 per share; even more so because we have already said this in para. 6. In Attachment 2 we can delete para. 4(g).

I have allowed myself to be convinced by Mr. Lester Nurick that it is inevitable to mention in the draft resolution at least one issue which would arise if we were not to decide on the valuation of the capital before 1981. This refers to the cancellation of shares, already subscribed to by member countries, in case the total amount of new shares has to be scaled down. I would prefer not to mention this point and to settle it, if necessary, in a separate resolution, during the last months of 1980, but there might be a danger that we would not be able to reach agreement on such a resolution. The consequence could be that later the total of new shares would be reduced, but that a number of countries would keep the shares they had already subscribed to. This would imply that the shares available for the other member countries would have to be reduced still further. If we have to maintain the cancellation clause I would, however, prefer to see it separated from other provisions in the draft resolution and transferred from para. 3 to a separate para.

3) The paid-in portion of 7½% is only valid for the general capital increase and not for the 25,000 shares which are put aside for special increases. Such shares will have to be allocated partly with a 10% and partly with a 7½% paid-in portion. This means that para. 10 of Attachment 1 has to be amended.

4) I understand from the Staff that para. 16 of Attachment 1 will have to be amended too, since it is not the intention that the special increases will have to wait until December 31, 1980.

cc: All Executive Directors
Messrs. I.P.M.Cargill, P.N.Damry, L.Nurick, K.G.Gabriel

SUGGESTED CHANGES IN DOCUMENT R79-57
IBRD GENERAL CAPITAL INCREASE

Attachment 1

Para. 4

Second to last sentence: The management's proposal for a doubling of capital subscriptions - or an increase of approximately $40 billion - was based on this principle, and on this same basis Executive Directors accepted an increase of $40 billion.

Para. 7

The Directors have not yet decided on how Bank capital subscriptions should be valued, but they expect to resolve this issue well before subscription to the General Increase takes place. If the price per share would be set at $120,635 a $40 billion increase would translate into an increase of 331,500 shares. If, on the other hand, the price would be set at SDR 100,000, the total number of shares corresponding with $40 billion would depend upon the relationship between $ and SDR. At the present rate of approximately 1SDR = $1.28 the number of shares would be 312,500.

Para. 8

As of this moment it is not foreseeable how the valuation issue will be resolved nor which will be the SDR/US$ rate at the time that decision is taken. Therefore, a capital increase of 331,500 shares is proposed on condition that the increase in Authorized Capital and the allocation of shares among members will be scaled down in case the increase would exceed the amount of $40 billion. This scaling down would also apply to the total number of shares set aside for the special increases. In case the Executive Directors would only reach agreement on the value of the 1944 dollar after subscriptions have taken place and if subscriptions have been made that exceed the scaled-down figures, the excess subscriptions will be cancelled and the amounts paid-in will be credited to the respective members.

Para. 10

Add after first sentence "..... for the second component mentioned in para. 5, whereas the portion to be paid in for the first component would be decided upon each time a portion of these shares is allocated."

Attachment 2

Delete para. 3, second sentence.

Delete para. 4(g).

Add a new paragraph between para. 4 and para. 5:

"If the Bank shall not have determined the value of the 1944 dollar by December 31, 1980, and if any member thereafter shall have subscribed a number of shares in excess of the number of shares authorized to be subscribed by it after reduction in accordance with para.3, such excess shall be cancelled and any amounts paid thereon shall be credited to the member on account of the subscription price of the balance of the shares theretofore subscribed to the extent that the amounts provided for in para. 4(c) below have not been paid and any balance shall be returned to the member."

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Mr McNamara

OFFICE MEMORANDUM

TO: GCI Steering Group

DATE: April 6, 1979

FROM: Joe Wood

SUBJECT: Mr. Looijen's Suggested Changes

1. At Mr. Looijen's request, I met with him today to discuss his proposed changes in the General Increase report and resolution. On the substance of these suggested changes I made the following comments to him:

(a) Clarification of $40 billion vs doubling (para. 4). While Mr. Looijen's language is more accurate, I suggested that he not call attention to the distinction. His response was that it would be a good thing to show that the Directors had on this occasion not followed management's recommendation. He presumably had the Long Committee report in mind.

(b) Spelling out the consequences of SDR valuation (para. 7). I expressed a preference for saying as little as possible on the valuation issue.

4/6

(c) Deletion of provision for cancelling subscriptions (para. 8 and resolution para. 3). I told him that Mr. Nurick was looking into the legal aspects and that there could be a problem. He seemed quite willing to drop this.

(d) Terms for special increases out of the 25,000 shares (para.10). His proposed language is an improvement. When I pointed out to him the possibility that a part of the 25,000 shares might be subscribed prior to December 31, 1980, he said para. 16 was misleading. Para. 16 reads as follows: "In order to avoid marked shifts in relative subscriptions and voting power - particularly at the time of the election of Executive Directors in 1980 - it is recommended that no subscription under these resolutions be accepted until December 31, 1980." I think he has a point.

2. On a more general level I urged him not to suggest any changes at all if they could possibly be avoided. The thrust of my argument was to avoid any action which could create "loose ends" and possibly delay final agreement on the General Increase. His response was that there should be an early informal meeting of the Directors to air these issues and hopefully to tie down the "loose ends". He said once he had heard from Mr. Nurick he intended to call Mr. McNamara and make this suggestion.

JW:omc

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813/9/20

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: The President, World Bank

DATE: 4 April 1979.

FROM: W. S. Ryrie WSR.

SUBJECT: IBRD General Capital Increase.

When we discussed this matter in the Board on 15 March, I requested that the Board should be given advice about the possibility of determining the amount of the capital increase in terms of SDR rather than U.S. dollars. I see no reference to this point in the paper which has since been circulated, and so far as I know there has been no response to my request in any other paper.

Your memorandum assumes that it is the Board's view that the value of the capital increase should be 40 billion current U.S. dollars. A number of Directors have expressed this view. I am certainly amongst those who believe that, as you say in your memorandum, the size of the increase should be fixed "in financial terms" rather than in terms of a number of shares whose price would not be fixed until later.

But clearly there are objections in principle to deciding on an increase in the capital of this world organisation in terms of one national currency. The alternative which I asked to be examined is that we should increase the capital by an amount equivalent to 40 billion current U.S. dollars at the time of the decision, but expressed in terms of SDR. If the U.S. dollar moved up or down against the SDR subsequently, the value of the capital increase would nevertheless remain constant in terms of SDR but might vary in terms of U.S. dollars.

4/4

I should like to make it clear that I am not formally proposing this solution at this stage; but, in accordance with my request in the Board meeting on 15 March, I should be grateful if we could be advised whether there are any financial or legal obstacles to it. It would be understood that the question of the valuation of the Bank's capital would not be prejudged. The price of the shares would not be fixed at this stage; nor would any decision be taken on the question of maintenance of value. The number of shares to be issued to each country would therefore be expressed as a maximum, as now. But the limit on the financial commitment being undertaken by the membership would be expressed not in U.S. dollars but as the equivalent (at the time of decision) in SDR.

Copies to:
- All Executive Directors
- Senior Vice President,
- Secretary,
- General Counsel.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

813/9/19

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 30, 1979

FROM: J. Burke Knapp JBK

SUBJECT: General Capital Increase

I did not get a chance to mention to you today a point that occurred to me in reading the generally admirable memorandum to the Board on the IBRD General Capital Increase dated March 21st.

I was surprised to see the last clause in paragraph 16 of the memorandum. Indeed I thought that "FY83" might be a misprint for FY82, but Joe Wood assures me that it is not.

My point is that according to paragraph 15 of the memorandum "the Bank's authority to make new commitments is expected to be exhausted by March 1982". I understand that the statutory limit in terms of disbursed loans might not be reached for another couple of years. However, I don't see how the Bank could prudently continue lending after March 1982 unless it actually had subscriptions in hand which would protect it against a breach of the statutory ceiling a couple of years later.

JBKnapp:gwh

cc: Messrs. Cargill
Gabriel/Wood

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

813/9/18

OFFICE MEMORANDUM

TO: All Executive Directors and Alternates

DATE: March 12, 1979

FROM: R.A. Johnston Johnston.

SUBJECT: IBRD General Capital Increase - Voting Power (Document R79-22)

As I think you know the member countries which I represent are concerned at the proposal as set out in paragraphs 15 and 16 (e) of this document in which is sought a report by the Executive Directors recommending to the Board of Governors an agreement to protect Board representation for particular groups of countries.

My authorities do of course recognise the importance of balanced geographic representation on the Board and it goes without saying that they have no wish to deprive any particular member of representation on the Board. However the Bank's Articles of Agreement make no provision for the election of any particular number of Directors from a particular group or group of countries and it seems to follow as a matter of principle that a "side" agreement should not be contemplated that would attempt to provide for that.

Moreover it would seem contrary to the Articles to declare a nominee elected to the Board if that nominee had fewer votes than another nominee - but that appears to be a possible implication of the proposed agreement.

3/12

I have been assured that the proposal is not intended to qualify the Articles of Agreement; nor that it could or would operate to the disadvantage of any other group. I accept these assurances as given in good faith. Nevertheless such an agreement conceivably could be a source of embarrassing pressure on other groups to forego their legal rights. Hence certainty for some would be achieved at the cost of greater uncertainty for others. Moreover the document is no comfort to any group other than the named five in the event that circumstances caused it to fall to the lowest position in terms of voting strength. Finally, it is impossible to foresee the total circumstances in which such an agreement might become operative.

In my view it would have been appropriate for these considerations to have been drawn out in the document and to have been incorporated in any agreement. However for the legal and practical reasons outlined I do not think the latter could be done satisfactorily.

I would like to suggest therefore that we try another approach, namely to couch an agreement in more general terms which whilst less explicit for some members would for all practical purposes give them the assurances they desire and importantly would be more equitable to all.

As a purely personal suggestion I offer the attached draft.

cc: President
Senior Vice President
Vice President and Secretary
Vice President and General Counsel

"In the event of additional eligible nominees for election as Executive Director coming forward, Board representation of some existing constituencies (at present the smaller Latin-American and African constituencies in particular) could be placed at risk and the pattern of wide geographic and balanced representation on the Board disturbed. Should such an outcome appear likely, a prompt examination should be made with a view to undertaking appropriate corrective action. It is not necessary at this time to decide upon the specific action to be taken."

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

813/9/17

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: March 9, 1979

FROM: Said El-Naggar, Executive Director SN

SUBJECT: Adjustment in the Voting Rights of Kuwait, Saudi Arabia and United Arab Emirates

On behalf of the Governments of Kuwait, Saudi Arabia and United Arab Emirates, I hereby request an adjustment in the voting rights of these countries. In your memorandum R79-22 dated February 12, 1979, these three countries figure among the 11 countries whom you are proposing for special increases in line with the recent adjustment of their IMF quotas. However, this adjustment falls far short of what they should claim on the basis of the following considerations:

1. That they are important contributors to IDA. In IDA V, for instance, the combined share of these countries amounted to 7.6%. In contrast their voting right in the World Bank is presently about 2.5%.

2. That they are important contributors in the field of development assistance in general. According to the most recent estimate of the OECD the proportion of net disbursement of concessional aid to their GNP in 1977 is as follows:

Kuwait	10.18%
Saudi Arabia	4.82%
United Arab Emirates	10.97%

(Source: OECD Observer, November 1978)

3. The fact that you proposed a special increase for OPEC countries on the occasion of the last Selective Increase which was supposed to increase their voting power from 5% to 15%. In the event these countries obtained only an increase from 5% to 9%.

In the light of these considerations, I believe the following adjustment of their voting right would be appropriate:

	Present Voting Power %	Proposed Adjustment %
Kuwait	0.74	1.50
Saudi Arabia	1.43	2.50
UAE	0.34	0.50

According to this request the total voting power of the 3 countries would rise from the present 2.5% to 4.5%. The number of shares required for this adjustment would be in the neighborhood of 6,000 shares.

It is hoped you will recognize the validity of this case and that some way will be found to accommodate their request.

cc: Executive Directors
Mr. I.P.M. Cargill
Mr. P.N. Damry

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813/9/16

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 9, 1979

FROM: E. G. Drake

SUBJECT: VOTING RIGHTS AND BOARD REPRESENTATION

Attached is a memorandum outlining a suggested amendment to your Proposal (C) in Document R79-22 for an additional 250 shares in order to prevent further erosion of the voting power of developing countries. The sense of my amendment is to ensure that these shares will not be a burdensome financial outlay for small and poor countries and will, in fact, be taken up by them.

G. G. Drake

Attachment

cc: Executive Directors
Messrs. Broches
Cargill
Damry

VOTING RIGHTS AND BOARD REPRESENTATION

VOTING POWER

I would like to refer to Document R79-22, dated February 12, entitled "IBRD General Capital Increase - Voting Power." Some proposals as outlined in page six of this Document, particularly Proposal (C), have created a certain degree of concern among some countries of my constituency. I would like, therefore, to advance some comments on Proposal (C), and offer as well a minor modification in its wording for the consideration of the Bank's management and my colleagues.

Article V, Section 3 (c) of the Articles of Agreement, stipulates that "each member shall have two hundred and fifty votes plus one additional vote for each share of stock held." Article II, Section 2 (a), specifies that "the capital stock shall be divided into 100,000 shares having a par value of $100,000 each ...." In this type of weighted voting structure, the membership votes provide a relative balance in voting power, favouring the poorest member countries. However, due to the statutory limitation on membership votes, the more the Bank's subscribed capital increases, the larger the erosion on the total voting power of developing countries. I believe that we all agree that this irreversible erosion is undesirable.

The most obvious way to solve this situation would be to change Article V, Section 3 (a) of the Articles of Agreement, in order to establish the level of membership votes as a percentage of total subscribed votes rather than as a fixed number. We are all aware, however, of the complications involved in proceeding with such an amendment, and I concur with the statement made in page five, paragraph thirteen of the Document, that the most practical solution, would be to authorize each member country to subscribe to an additional 250 shares, assuming that the subscribed capital is doubled. While I agree with the basic concept underlining this Proposal, there is one element that causes my authorities some concern, namely, the cost involved in this special subscription.

For Part I countries and for middle-income developing countries, the additional cost involved in subscribing to these shares will not involve a burdensome financial outlay. However, this is not the case when we consider the situation of the poorer member countries. It is interesting to note that out of the 134 countries currently represented at the Board, 54 countries (40.3 percent) have subscribed to less than 250 shares. Should these countries choose not to take up their option, because of the cost involved, we would be creating an imbalance in our voting power structure not only between Part I and Part II countries, but also within the group of developing countries.

In considering how to overcome the cost problem, I have had informal conversations with the staff and concluded that there would be no financial or legal obstacles to the following amendment to Proposal (C) in Document R79-22: "in addition to the proposed doubling of each member's capital subscription, there would be an additional authorization of 250 shares for each member with no portion to be paid or subject to call under Article I, Section 7 (i) but the entire additional authorization to be notionally subject to call under Article IV, Section 1 (a) (ii) and (iii). The same amount of shares and under the same conditions, will also be allocated to new members joining the Bank in the future."

March 9, 1979

813/9/15

OFFICE OF THE PRESIDENT

Meeting on IBRD Capital Increase, March 5, 1979

Present: Messrs. McNamara, Cargill, Broches, Damry, Gabriel, Stern, Wood

Mr. El-Naggar

The meeting discussed P&B's table on IBRD Voting Power at Fiscal Year End, dated March 2, 1979.

Mr. Damry said that Mr. El-Naggar would not accept the last column (i.e., voting power distribution after the General Increase including Alternative 1 for Japan and France) if this were final; but, if a further allocation from the unallocated 33,000 shares of the general capital increase for OPEC countries were to be done later, he would probably accept it.

Mr. McNamara asked Mr. Gabriel to work out the economic justification for an increased Kuwaiti and Saudi Arabian share.

Mr. Stern observed that management would have problems with this last column which showed that the non-oil LDCs' share has not been that low since 1966. It was agreed not to use the category of "non-oil LDCs" in the table but rather to put "other OPEC" and "non-oil LDCs" into one group. It was also agreed to add a line of "non-represented members" because this would make the evolution of the shares of Part II countries look better.

Mr. Wood said that the Bank could come up with a respectable case for an increase for OPEC as proposed by Mr. El-Naggar.

Mr. McNamara said that, if that were the case, Mr. El-Naggar should be told before next week's Board Meeting on voting shares that a respectable case for his proposal existed and that the Bank would consider it after the general capital increase had been approved; however, Mr. El-Naggar should be cautioned against interpreting this statement as implying acceptance. If such a statement did not satisfy Mr. El-Naggar in his present mood, he should be told that no formal request had been put forward by his governments and no justification had yet been established.

Mr. Stern said that the U.S. Government would push at this week's G-5 meeting for increased French IDA contributions in return for France's increase in IBRD capital stock.

Support for Voting Paper from EDs

Mr. McNamara said that, if the France/Japan issue were not resolved this week at the G-5 meeting, next week's Board Meeting on voting should be deferred. Possibly, also the IDA meeting in Paris would have to be postponed.

Paid-In Portion

Mr. McNamara said that he expected Messers. Blumenthal and Matthoefer to settle this issue during their meetings in Washington this week. He admitted that he did not care at what level of paid-in portion the issue was settled. He asked Mr. Cargill to check with the other EDs, particularly Messrs. Drake, Ryrie and Johnston, in order to ensure their support for the U.S./German agreement.

Currency Scheme for Disbursement of Loans to DFCs

Mr. McNamara asked Mr. Stern to check on the reactions of EDs before next week's Board Meeting on this matter. Mr. Damry said that he foresaw no problem.

Doubling of IBRD Capital Stock

Mr. Wood reminded the meeting that the U.S. had objected to allocating 250 shares to each member on top of the doubling of IBRD capital. Mr. Damry added that the U.S. and Sweden were talking of a $40 billion capital increase rather than doubling (which would amount to about $43 billion). Mr. McNamara replied that management's paper had carefully talked of doubling and not of a $40 billion increase. He asked that a column be added to the voting power table, which showed the general increase including the French/Japanese Alternative 1 without the allocation of the 250 shares per member.

CKW
March 6, 1979

OFFICE OF THE PRESIDENT

813/9/14

Meeting on Special Increase of IBRD Capital Stock for Japan, February 28, 1979

Present: Messrs. McNamara, Cargill, Damry, Stern, Fried, Kurth, Mentre, Murayama, Ryrie

Mr. McNamara said that the Bank faced a serious problem because management's proposal for a special increase of IBRD capital stock for Japan would not find a majority in the Board. This in turn would make it impossible to achieve 100% subscription for the IBRD General Capital Increase and a 100% participation in IDA. At this point, he simply wanted to ask the Directors to inform their ministers fully of the situation in preparation for the meeting of the G-5 next week in Washington. It would be possible for this group to meet again before the end of the week if the Directors so desired.

Mr. Murayama questioned Mr. McNamara's statement that there would be no majority in the Board for the proposal of a special increase of IBRD capital stock for Japan. All LDCs would support Japan. He was certain that Japan had a clear majority in the Board. Legally, only a simple majority was required. Messrs. McNamara and Murayama agreed to compare their respective vote counts privately.

Mr. McNamara said that, even if one assumed for a moment that Japan would carry a narrow majority, such an important proposal could not be "rammed through" on that basis. It was appropriate that political considerations of member governments were brought to bear on this important political issue; however, Bank management could not remain inactive in a situation which could well lead to the collapse of the General Capital Increase and the IDA Replenishment. Before this problem came up, the discussions of both the IDA replenishment and the general capital increase had been more constructive than at any time during his tenure at the Bank.

Mr. Mentre said that his authorities attached great importance to this highly political issue which could only be discussed at the ministerial level. This had also been the procedure under the quota increase review at the Fund. Mr. Murayama said that this issue should not be decided upon among the five major shareholders. It affected all countries and the other Directors would be embarrassed if they were left out.

Mr. McNamara said that there was a widespread feeling among members that such an important issue should not be settled if a large number of members were opposed. Mr. Mentre was right in that this was a very important matter for France and that the French position would move a sufficient number of governments towards abstaining or casting a negative vote.

Mr. Murayama said that he did not want to elaborate again on his Government's view on the relationship between Japan's position in IBRD and its willingness to contribute to IDA. If a vote were taken which showed that France was politically stronger than Japan, his Government would accept defeat. He stressed that the Bank was not a political but an economic institution and that he would strongly regret it if the problem would be resolved on a purely political basis.

In response to Mr. Murayama, Mr. McNamara suggested calling the differences in French and Japanese positions a technical rather than a political problem. He asked the EDs for suggestions as to how to move forward from here.

Mr. Mentre said that he did not want to reopen the French argumentation. His Government did not want either Japan or France confrontationally in a minority; therefore, procedurally, the ministers would have to deal with the issue. Another informal meeting between management and the five Directors would be desirable by Wednesday of next week. Mr. Murayama replied that he did not favor meetings of the five Directors because he was the only representative from Asia while there were three representatives from Europe.

Messrs. Fried and Kurth said that they understood that management had produced a paper giving alternative options. It was agreed that, in view of the fact that all Directors would like to receive a copy of this "non-paper," Mr. McNamara would meet with them privately to hand them a copy of the "non-paper" and to discuss the options. It was also agreed that the Directors would thoroughly brief the G-5 Deputies on the issue and its ramifications for IDA in advance of the meeting in Washington next week.

CKW
March 2, 1979

813/9/13

March 1, 1979

SPECIAL INCREASE OF IBRD CAPITAL STOCK FOR JAPAN

Following a request from Japan, the management of the Bank has proposed that a special increase of 4,000 IBRD shares be allocated to Japan. An increase of this size would bring Japan's shareholding in the Bank to within 73 shares of that of Germany and raise Japan from the 5th largest shareholder to the 4th largest shareholder. The Japanese authorities have made an increase in Japan's share of IBRD capital a prerequisite to an increased share in IDA6. Japan is seeking near parity with Germany in IBRD subscription as a condition of accepting cumulative parity with Germany in IDA contributions.

The French authorities have objected to the proposed increase for Japan on the grounds that:

a. Bank capital subscriptions should be linked to Fund quotas;

b. a decision on rearrangement of the ranking of the Big 5 in the Fund has recently been deferred until 1981;

c. France is justified on economic grounds in maintaining fourth position in the Bank, the real disparity being between Japan and the UK, whose relative positions might well be reversed on economic criteria.

Successful resolution of this matter is fundamental to both the IBRD General Capital Increase and the Sixth Replenishment of IDA. Directors have stated that it is to be discussed by the G-5 at their meeting in Washington next week. It should be resolved at that time in order to permit action to proceed on the IBRD General Increase and IDA6.

Four alternative courses of action have been suggested.

. The first is to allocate a special increase of 1,900 shares to France as well as 4,000 shares to Japan, thereby maintaining the present ranking of the Big 5 but bringing France and Japan respectively to within 45 and 73 shares of Germany. It would be understood that Japan would achieve cumulative parity with Germany in IDA contributions.

. The second alternative is to allocate a special increase of only 2,000 shares to Japan (and nothing to France) thereby achieving one half of Japan's objective and raising Japan's shareholding to within 128 shares of France. In this case, it would be understood that Japan's contribution to the IDA6 Replenishment would amount to at least 13%.

. The third alternative is to allocate special increases to Japan and France as in Alternative 1, but to do it in the context of the General Capital Increase by making a corresponding reduction in the increase for the U.K. As part of the General Increase, the adjustments in relative shares for Japan and France would together require 8,000 and 3,800 shares respectively (double the amounts required prior to the Increase). The UK would receive 14,450 shares in the General Increase rather than 26,250. Here too Japan would be expected to achieve cumulative parity with Germany in IDA contributions.

. The fourth is for the Executive Directors to proceed with the management's recommendation as it stands, despite French objections.

The attached table shows the voting power of each constituency that would result from each of these alternatives including the proposal put forward by the management.

Attachment

Attachment

PROSPECTIVE IBRD VOTING POWER

	After Acceptance of Previously Approved Increases and Special Incr. for Yugoslavia & 11 Other Countries a/		After Special Additional Increases for Japan and France and General Capital Increase b/							
			Alternative 1		Alternative 2		Alternative 3		Alternative 4	
	Number of Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)	Special incr. in Shares	Voting Power (%)
United States	77,735	21.51		21.39		21.62		21.74		21.50
United Kingdom	26,000	7.24		7.20		7.28	-11,800	5.67		7.24
Germany	17,612	4.93		4.90		4.95		4.98		4.92
France	15,667	4.39	+1,900	4.89		4.41	+ 3,800	4.97		4.39
Japan	13,539	3.80	+4,000	4.88	+2,000	4.38	+ 8,000	4.96	+4,000	4.90
Sub-total	150,553	41.87	+5,900	43.26	+2,000	42.64	0	42.32	+4,000	42.95
Other Part I	59,757	17.44		17.34		17.54		17.64		17.45
Part II	107,439	37.29		37.08		37.48		37.69		37.27
Countries not represented	11,327	3.40		2.32		2.34		2.36		2.33
TOTAL	329,076	100.00	+5,900	100.00	+2,000	100.00	0	100.00	+4,000	100.00

a/ Special increases as shown in "IBRD General Capital Increase - Voting Power" (R79-22, dated February 12, 1979).

b/ Under Alternatives 1, 2 and 4, the special increases are made prior to the General Increase. Under Alternative 3 the special increases for Japan and France are made as part of the General Increase.

3/1/79

Estimate of Votes on Management's Proposal for a Special Increase of 4000 Shares in Japan's IBRD Stock Holdings

Director	No. of Votes 1/			% of Votes 1/		
	For	Abstaining	Against	For	Abstaining	Against
Belkhodja	7,936			2.57		
de Groote	12,547			4.06		
Drake	15,054			4.87		
El-Naggar	14,213			4.60		
Franco-Holguin	8,416			2.72		
Fried		69,481			22.48	
Johnston			11,268			3.63
Kurth		17,862			5.78	
Madinga	9,766			3.16		
Magnussen	11,514			3.72		
Mentre			13,042			4.22
Mayobre	12,035			3.89		
Looijen	13,114			4.24		
Murayama	13,789			4.46		
Narasimham	14,152			4.58		
Razafindrabe	9,083			2.94		
Rota		11,020			3.56	
Ryrie		26,250			8.49	
Sola	7,575			2.45		
Zain	11,014			3.56		
Total 2/ 3/	160,208	124,613	24,310	51.82	40.31	7.85

1/ Certain governments (e.g., Belgium and the Netherlands) have been shown in favor of the proposition, although it is likely some would shift to abstention when they learn of the strength of the opposition of the French and other parties.

2/ For the Board of Executive Directors, only a simple majority of the votes cast in favor of the proposition is required to assure its transmittal to the Governors. Abstentions do not count as votes cast.

3/ With the Governors, voting without meeting, we need not only a simple majority of votes cast in favor, but the replies received should include replies from Governors exercising two-thirds of the total voting power. Only rarely do Governors abstaining reply.

3/1/79

OFFICE OF THE PRESIDENT

813/9/12

Meeting on Special Increase of IBRD Capital Stock for Japan, March 1, 1979

Present: Messrs. McNamara, Broches, Damry, Gabriel, Stern, Wood, Bock

The meeting discussed the revised "non-paper" on Special Increase of IBRD Capital Stock for Japan which would be handed to the Big Five Directors this morning. It presented for alternative courses of action:

1. to allocate a special increase of 1900 shares to France as well as 4000 shares to Japan, thereby maintaining the present ranking of the Big Five, but bringing France and Japan respectively to within 45 and 73 shares of Germany; it would be understood that Japan would achieve cumulative parity with Germany in IDA contribution;

2. to allocate a special increase of only 2000 shares to Japan, thereby achieving one-half of Japan's objective and raising Japan's shareholding to within 128 shares of France; in this case it would be understood that Japan's contribution to the IDA VI replenishment would amount to at least 13%;

3. to allocate special increases to Japan and France as in Alternative (1) but to do it in the context of the GCI by making a corresponding reduction in the increase for the UK; as part of the general increase, the adjustments in relative shares for Japan and France would together require 8000 and 3800 shares respectively (double the amounts required prior to the increase); the UK would receive 14,450 shares in the general increase rather than 26,250; Japan would be expected to achieve cumulative parity with Germany in IDA contributions; and

4. to proceed with the management recommendation as it stands, despite France's objections.

Mr. Broches confirmed that, in the case of the Board of the Executive Directors, a simple majority of votes had to be represented by the individuals present in the room; of those, only a simple majority had to be cast in favor of the proposition to assure its transmittal to the Governors. At the Governors' level, if a vote were cast during a Governors' meeting, two-thirds of the votes had to be represented and a simple majority of those was required; if a mail vote of Governors were taken, two-thirds of the votes had to be received and of those a simple majority had to be otained for approval.

Mr. McNamara said that, although he probably could get Governments at minimum to reply, this would not be the way to run the institution and the French would be incensed if the proposition were put to a vote.

Mr. McNamara said that his vote count gave a very thin majority of the votes supporting the special increase of IBRD capital for Japan; however, a number of European members, now listed as supporting the Japanese case, would probably change their position under French pressure and abstain or vote against.

Mr. Wood said that Alternative (2) did not reflect the Japanese position. If Japan received only 2000 shares, it would rather reduce its contribution to IDA. Mr. McNamara agreed that this was the case but, since Alternative (2) simply gave the French proposal, the 13% figure should be maintained in the text.

Mr. McNamara said that management had misjudged the French position. It had not been sufficiently aware of how deeply the French Government felt about this issue. This had been a serious error. Also, Mr. Murayama had apparently misinformed his Government and was now in a difficult position which might cause him to lose face.

CKW
March 5, 1979

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

813/9/11

OFFICE MEMORANDUM

TO: Mr R.S. McNamara, President

DATE: February 23, 1979

FROM: R.A. Johnston Johnston.

SUBJECT: IBRD General Capital Increase - Voting Power

My Australian authorities have directed me to seek further postponement of the Board's consideration of document R79-22.

The period between issue of this document (February 12) and its scheduled date for discussion (now March 5) in any case would be rather tight. In fact although copies were dispatched promptly they have only now reached Canberra.

The subject is important and complex and an opportunity is sought for the Australian Treasurer (who is also Governor for the Bank) to discuss it with you before the Board considers it. The Treasurer will be in Washington for the IMF Interim Committee meeting on March 7. He arrives on the afternoon of March 6 and departs on the afternoon of March 8. I would like to explore with you therefore whether a mutually satisfactory time for a discussion could be found within that period.

2/24

My Australian authorities fully appreciate the desire for speedy resolution of the issues raised in this document and also the difficulties involved in a postponement. Nevertheless in the circumstances outlined I request postponement until, at earliest, March 14.

Danny — a) check Johnston re 3/13 [illegible] 3/13

Cargill — ck Fried on "[illegible]" [illegible]

Cargill: re [illegible] + Fried —

Defer to Thurs 3/1, if [illegible]

[illegible] defer [illegible] - postpone 3 [illegible]

Bernard et al - should not have major Bd mtgs -

+ Danny think about

813/9/10

OFFICE OF THE PRESIDENT

Meeting on IBRD Capital Increase, February 16, 1979

Present: Messrs. McNamara, Stern, Damry, Gabriel, Wood

Mr. McNamara said that three points would have to be pursued further during his absence next week: (i) the proposal for a special increase for Japan, (ii) the general U.S. concern about the allocation of shares, and (iii) the paid-in portion of the capital increase. As to (i), because France might not support the proposal for a substantial increase in Japan's shares, German support was essential. With regard to (ii), Mr. Fried was opposed to the allocation of 250 shares to each Part II country. As to (iii), he did not believe that the Bank would be able to get a paid-in portion of 7.5%. As a first step, the U.S. had to be brought up from 0% to 5% and Mr. Blumenthal or Mr. Solomon would then have to call Bonn in order to get German acceptance for the 5%; the moves were now up to the U.S. He concluded that management had to keep the pressure on in order to get the resolution on the capital increase out in April. Tough times were ahead on a number of issues which made a further delay most undesirable.

CKW
February 28, 1979

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of the President

Note of Conversation with Mr. Murayama, February 14, 1979

At Mr. Murayama's request, I met with him at 6 p.m. today. He made the following points:

a. Cargill's information regarding the support from other countries for an increase in Japan's subscription to IBRD stock is not correct. Cargill is too optimistic.

b. Last Saturday and Sunday during the G-5 meeting, France strongly opposed the increase in Japan's share. Sagami responded by saying "the Japanese cannot agree with the French." The French continued to resist such an increase and Sagami finally agreed the matter would be discussed again during the forthcoming Interim Committee Meeting.

c. He had just finished talking to Kurth. During the conversation, he asked Kurth whether Germany would support an increase of 4000 shares in Japan's holdings (this would provide Japan a total of 73 shares less than Germany's total) against French opposition. Previously, Kurth had told Murayama that a Japanese share exactly equal to Germany's would "upset" Germany. Kurth replied he was not certain Germany could support Japan under the conditions outlined by Murayama because his government must consider relationships with France. He will cable Bonn to obtain the answer.

In reply to questions from me, Murayama responded:

a. Even though the proposed 4000 share increase would leave the total of Japan's shares 73 less than the total of Germany, Japan would contribute 13% of IDA 6.

b. The management's paper presenting a formal proposal for 4000 additional shares for Japan should not go to the Board until he had first talked to Ryrie and Kurth. He promised to do so promptly and report back to me by Friday noon.

When I pressed for an interpretation of the 13%, Murayama replied: "Japan is willing to catch up cumulatively to Germany and this will require 13% of IDA 6." When I asked at what level of replenishment a 13% share for Japan would yield a cumulative total equal to Germany's, he stated "at a level of $15 billion". He went on to say that if the level of replenishment was less than $15 billion, then under the formula Japan had agreed to, their share would go above 13%. He added that if Germany were to increase its share above the present level, then the Japanese formula would also require that Japan's share rise above the equivalent of 13% of $15 billion.

cc: Messrs. Cargill, Gabriel

RMcN
2/14/79

My meeting with Murayama occurred before I received Roberts 2/14 note reporting on Cargill's 2/13 meeting with Matsu[illegible]

Estimate of Votes on Management's Proposal for a Special Increase of 4000 Shares in Japan's IBRD Stock Holdings

	No. of Votes 1/			% of Votes 1/		
Director	For	Abstaining	Against	For	Abstaining	Against
Belkhodja	7,936			2.57		
de Groote	12,547			4.06		
Drake	15,054			4.87		
El-Naggar	14,213			4.60		
Franco-Holguin	8,416			2.72		
Fried		69,481			22.48	
Johnston			11,268			3.63
Kurth		17,862			5.78	
Madinga	9,766			3.16		
Magnussen	11,514			3.72		
Mentre			13,042			4.22
Mayobre	12,035			3.89		
Looijen	13,114			4.24		
Murayama	13,789			4.46		
Narasimham	14,152			4.58		
Razafindrabe	9,083			2.94		
Rota		11,020			3.56	
Ryrie		26,250			8.49	
Sola	7,575			2.45		
Zain	11,014			3.56		
Total 2/ 3/	160,208	124,613	24,310	51.82	40.31	7.85

1/ Certain governments have been shown in favor of the proposition, although it is likely some would shift to abstention when they learn of the strength of the opposition of the French and other parties.

2/ For the Board of Executive Directors, only a simple majority of the votes cast in favor of the proposition is required to assure its transmittal to the Governors. Abstentions do not count as votes cast.

3/ With the Governors, voting without meeting, we need not only a simple majority of votes cast in favor, but the replies received should include replies from Governors exercising two-thirds of the total voting power. Only rarely do Governors abstaining reply.

3/1/79

International Bank for Reconstruction and Development

Passed: ____________________

Rejected: ____________________

(Date)

TALLY OF VOTING OF EXECUTIVE DIRECTORS

RE: ________________________________

% of Total Voting Power	DIRECTOR Alternate	For	Against	Abstaining	Absent
2.57	BELKHODJA	7,936		—	—
4.06	de GROOTE Sutter	12,547		~~12,547~~	—
4.87	DRAKE Agostini	15,054	—	—	
4.60	EL-NAGGAR Al-Hegelan	14,213			
2.72	FRANCO-HOLGUIN Constaín	8,416			
22.48	FRIED Dixon			69,481	
3.63	JOHNSTON Suh		11,268		
5.78	KURTH Hanfland			17,862	
3.16	MADINGA Abdulai	9,766			
3.72	MAGNUSSEN Arsaelsson	11,514			
4.22	MENTRE de LOYE Cassou		13,042	—	
3.89	MAYOBRE Espinosa	12,035			—
4.24	LOOIJEN Stojiljkovic	13,114		~~13,114~~	
4.46	MURAYAMA Iwasaki	13,789	—		
4.58	NARASIMHAM Syeduz-Zaman	14,152			
2.94	RAZAFINDRABE Soglo	9,083		~~9,083~~	
3.56	ROTA Labisa		—	11,020	
8.49	RYRIE Deare		—	26,250	
2.45	SOLA Blanco	7,575	—		—
3.56	ZAIN Swe	11,014			
100.00*	TOTAL	125,~~464~~	24,310	~~159,357~~	

* May differ from the sum of the individual percentages shown because of rounding.

Total Votes: 309,131 160,208 124,613

March 1, 1979

Estimate of Votes on Management's Proposal for a Special Increase of 4000 Shares in Japan's IBRD Stock Holdings

Director	No. of Votes 1) For	Abstaining	Against	% of Votes 1) For	Abstaining	Against
Balkhodja	7,936			2.57		
Total 2) 3)				~~51.82~~	40.31	7.85

99.98

1) See note 1) on attached sheet
2) " " 2) " " "
3) " " 3) " " "

SECTION 13. *Voting without Meeting*

Whenever, in the judgment of the Executive Directors, any action by the Bank must be taken by the Board of Governors which should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board, the Executive Directors shall present to each member by any rapid means of communication a motion embodying the proposed action with a request for a vote by its Governor. Votes shall be cast during such period as the Executive Directors may prescribe, provided that no Governor shall vote on any such motion until 7 days after despatch of the motion unless he is notified that the Executive Directors have waived this requirement. At the expiration of the period prescribed for voting, the Executive Directors shall record the results and the President shall notify all members. If the replies received do not include a majority of the Governors exercising two-thirds of the total voting power which are usually required for a quorum of the Board of Governors, the motion shall be considered lost.

~~Analysis of Voting~~

1\. ~~Executive Directors tally sheet shows 125,464~~ in favor of the proposition ~~in favor,~~ only ~~24,310 against, and 159,357 abstaining.~~ 2) For the Board of Executive Directors, a simple majority of the votes cast is required ~~and the proposition has sufficient votes for transmittal to the Governors.~~ Abstentions do not count as votes cast. to assure its

~~2.~~ 3) With the Governors, voting without meeting, we need not only a simple majority of votes cast ~~(of 134 members)~~ in favor, but the replies received should include replies from Governors exercising two-thirds of the total voting power ~~(309,131)~~. Only rarely do Governors abstaining reply.

3\. The assumption made is that the Governors of the constituency will vote as their Executive Director has voted, and will abstain if their Executive Director has abstained from voting. When a Governor abstains, he, with rare exceptions, refrains from replying. If, therefore, the abstention pattern of the Executive Directors holds good, and replies are not received from the US, UK, and Germany, then even if the voting is 125,464 "for" (86 Governors), and 24,310 "against" (7 Governors), as in the Board of Executive Directors, the motion will be lost.

4\. We could be wrong in the following circumstances:

(a) A substantial number of Governors, including those of the biggest countries, vote "for" when their Executive Directors had voted "against" or abstained from voting.

(b) Some of the big countries like the US, UK, actually reply saying they are abstaining (this would be very unusual). However, if they do so reply, those replies would go towards the two-thirds majority.

5\. The assumptions in the tally sheet are based on the opinions of Peter and myself, but Peter wanted to check with Mr. Ryrie and Mr. Johnston, and probably Mr. Looijen regarding their attitude in the Board, but this would be of academic importance because even if Mr. Johnston abstained instead of voting against, and Mr. Looijen and Mr. Ryrie voted "for" instead of abstaining as assumed, the motion would have gone through the Board of Executive Directors in any case.

1) Certain governments (e.g. Belgium and the Netherlands) had been shown in favor of the proposition, although it is likely they would shift to abstention when they learn the strength of the opposition of the French and other parties.

OFFICE OF THE PRESIDENT

893/9/7

Meeting on IBRD General Capital Increase--Voting Power, February 2, 1979

Present: Messrs. McNamara, Cargill, Stern, Rotberg, Damry, Gabriel, Wood, Vibert, Knapp

Mr. Cargill reported that Japan wanted an additional 4,000 shares which would bring its voting power up to approximately the German level, i.e., to 4.96%. In return for such action, Japan would be prepared to increase its share of IDA VI contribution to 13%. Mr. McNamara said that this was hard to believe because Japan's share in IDA would be higher than Germany's but its voting power in IBRD would be the same as Germany's; however, assuming that this information was correct, the Bank could get a 13% Japanese share in IDA for an increase of only 1.15% in Japan's IBRD votes. Such an increase could easily be fitted into the 10,000 unallocated IBRD shares.

Mr. McNamara enquired whether allocation of shares should not be done in accordance with the economic importance of countries. Mr. Wood replied that the formula was to follow parallelism with the Fund but to depart from this concept if warranted by special circumstances. It was agreed (a) to allocate shares following Fund allocations but to allow for special circumstances; (b) following that principle, to authorize special increases out of existing stock for 11 countries, corresponding to parallel special increases in their respective Fund quotas; these adjustments should not be left for the General Capital Increase because it was desirable to endorse the principle of parallelism; (c) to authorize special increases for Japan and Yugoslavia out of existing authorized but unsubscribed shares because their applications had been received; further applications would be taken care of in the context of the General Capital Increase on their merits; (d) to conclude that the General Capital Increase would lead to no change in positions of countries; and (e) to increase the authorized capital in connection with the general increase to allow for a margin of about 35,000 shares for further special subscriptions.

With regard to Board representation, the paper should state that the problem would be dealt with through an agreement that, in the event that less than three Directors were likely to be elected to represent predominantly Latin American constituencies or less than two Directors were likely to be elected to represent predominantly sub-Saharan constituencies, steps would be taken to avert this result.

CKW
February 8, 1979

OFFICE OF THE PRESIDENT

813/9/8

Meeting on General Capital Increase--Voting Power and on IBRD Lending Criteria, February 8, 1979

Present: Messrs. McNamara, Cargill, Damry, Gabriel, Nurick, Wood, Bock, Knapp

It was agreed that the paper on IBRD General Capital Increase--Voting Power would be distributed to the Board on Monday, February 12 and Board discussion would be scheduled for Thursday, March 1, i.e., two days after the deferred discussion on the paid-in portion. A formal resolution from the Board to the Governors should be drafted and distributed to the Board on March 6 for consideration on April 10. Other remaining issues should not be covered by further informal papers but rather in the resolution paper. The paper on voting power should be considered as a framework memorandum which would be followed by three separate memoranda to be distributed next week and calling for action on (a) special increases for 11 countries out of existing stock, corresponding to parallel special increases in their respective Fund quotas, (b) a special increase for Japan and (c) a special increase for Yugoslavia. Board action on these three matters would be on a lapse-of-time basis; in case the Board wanted a discussion, it would take place against the framework memorandum on voting power. If the approximately 20 countries which were in a situation similar to Yugoslavia would request special increases along the Japan and Yugoslavia lines, this would require about 6,000 shares, which would be available in view of the fact that about 3,000 shares were left after the action suggested by the paper and that additional shares would be available by closing out the past resolution in June.

With regard to the outline on IBRD Lending Criteria prepared by Mr. Wood, dated February 1, 1979, Mr. McNamara said that this was an excellent but ambitious outline. He asked Mr. Knapp to assist Mr. Wood in preparing the draft paper. The outline should also deal with the possibility of introducing variable terms for higher-income borrowers. Mr. Cargill said that this had been tried before and had caused tremendous trouble. Mr. McNamara said that it should not be done through maturities as tried in the past but rather through interest rates.

With regard to the deadline to be set for the draft paper, Mr. Wood observed that someone apart from the Finance group and with experience in putting together lending programs should help in this work. Mr. Knapp suggested asking Mr. Goodman. Mr. McNamara agreed that this possibility should be discussed with Mr. Stern upon his return. In view of the fact that the Bank would have no lending program unless the Board discussion of graduation policy was conducted before the FY80 budget discussion, it was necessary to have the draft paper prepared not later than April 15. For this first discussion, the paper would not have to cover the "graduation in" issue; the major concern was not the size of the Bank in the '80s but whether the Bank provided resources to countries which were not in need of Bank assistance.

CKW
February 9, 1979

813/9/6

FORM NO. 75
(1–76)

THE WORLD BANK

307 ROUTING SLIP	DATE: February 9, 1979

NAME	ROOM NO.
Mr. McNamara	
5/9	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

Attached for your approval is a copy of the final version of the GCI - Voting Power paper.

2/9
Approved -
as modified.
[signature]

FROM:	ROOM NO.:	EXTENSION:
K. Georg Gabriel	E-624	74214

307

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of the President

February 12, 1979

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: IBRD General Capital Increase - Voting Power

I. Introduction

1. In the recent Board discussion of the memorandum "Size of the IBRD General Capital Increase" (R78-263, dated December 5, 1978), it was noted that voting power and Board representation issues would need to be addressed before final agreement could be reached on the General Increase. The purpose of this memorandum is to advance the discussion of these issues to the point where decisions may be taken.

2. The basic concept of a General Capital Increase is that each member country's subscription to the capital of the IBRD would be increased in the same proportion. A strong majority of the Executive Directors have agreed that the negotiations should proceed on the assumption that the increase would be 100%; that is, capital subscriptions after the Selective Increase would be doubled. Strict adherence to the notion of an equal percentage increase for all members would, however, result in two kinds of problems. First, it would perpetuate certain imbalances which currently exist between the responsibilities assumed in the Bank Group by particular countries and the relative voting power of those countries. Secondly, it would produce an unintended and undesired reduction in the total voting power of the developing countries and would increase the risk that inter alia the number of Directors representing Latin America or sub-Saharan Africa could be reduced, were there to be a change from the present pattern of Board representation.

3. There are in addition several special capital increases that have been pending since agreement was reached last October on the Seventh General Review of IMF quotas. The Bank has traditionally made parallel increases in Bank subscriptions corresponding to the selective component of such Fund quota increases. Section II of this memorandum proposes that in continuance of this policy of parallelism, the Bank allocate special increases to eleven countries. Section II also considers the situation of two countries which have requested an upward adjustment in their IBRD subscriptions in order to

achieve a more appropriate correspondence between the rights and responsibilities assumed by these countries in the Bank Group. It is proposed to deal with all of these increases by special allocations of shares from the roughly 10,000 shares already authorized for subscription but not yet allocated to particular countries.

4. Section III then takes up the questions relating to the total voting power of the developing countries and to their representation on the Executive Board. These issues have already been described in the Role of the Bank memorandum and in a Technical Note distributed a year ago.1/ The purpose of this section is to propose concrete steps for dealing with the issues raised.

II. Special Subscription Increases

5. Special increases in IBRD capital subscriptions of individual countries have been approved on several occasions in the past in connection with parallel special increases in IMF quotas. The Selective Capital Increase of 1976, for example, was undertaken in connection with the Sixth General Review of IMF quotas. While this policy of parallelism has been criticized in the past on the grounds that the criteria underlying IMF quota adjustments - which are heavily trade related - may not be as appropriate for Bank capital subscriptions, the policy has enabled the Bank to avoid many contentious arguments about relative shares. It has also maintained the principle that countries obtaining the benefit of higher Fund quotas should also accept the obligations flowing from higher Bank subscriptions. Unlike the Fund, access to resources in the Bank is not governed by the size of the members' subscriptions. Thus, the basis for determining subscriptions is less important in the Bank than in the Fund, and it has been convenient as well as broadly acceptable financially and economically to allow the Fund to take the lead in determining subscriptions of new members and changes in subscriptions of existing members.

6. Last year, the IMF completed the Seventh Review of quotas and authorized a 50% general increase in the quotas of all members plus special further increases in the quotas of eleven member countries. The

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1/ "Role of the World Bank and its Associated Capital Requirements" (R77-18, dated January 31, 1977), paras. 131-139 and Annex 1. Technical Note #5 "IBRD Voting Power and Board Representation" (dated February 2, 1978).

corresponding parallel increases in Bank subscriptions would require 2,107 shares.1/ I propose to continue the policy of parallelism with respect to the Seventh Review. A separate paper proposing the necessary action is being submitted for the Directors' consideration.

7. The policy of parallelism has not proven satisfactory for the Bank in one important respect. In recent years, several member countries have accepted progressive adjustments in their relative subscriptions to IDA without receiving any corresponding adjustments in the IBRD. While there is no reason to expect or seek exact correspondence between countries' relative position in the IBRD and IDA, the disparities have now reached a point where some corrective action seems appropriate.

8. The Bank has received requests for special increases from Japan and Yugoslavia. Each of these countries has been a contributor to IDA in the past. Each has also been a source of IBRD borrowings. As additional justification for its request, Yugoslavia has cited the disparity between its initial subscription in the IBRD and in the IMF as well as its intention to release in full the paid-in portion of any capital increase allocated to it.

9. Rather than acting contrary to the concept of the General Capital Increase (i.e., a proportional increase in each member's subscription) and to avoid complicating the design of the General Capital Increase by allocating special increases out of newly-authorized capital, it would seem both simpler and more expeditious to implement these increases by making special allocations from the authorized but unsubscribed shares prior to the General Increase.3/ ¶There are approximately 10,000 ~~such~~ shares (excluding shares already allocated but not yet subscribed)2/. After provision for the proposed increases shown in the table below, a small balance of about 3,100 shares would be left. This reserve of shares could be replenished as part of the increase in authorized capital that will be necessary to accommodate the General Increase. This will make it possible for the Bank to respond - if justified by the merits of each case - to similar requests from other member countries as and when such requests are made.

authorized but unsubscribed

Separate papers proposing the Japanese & Yugoslav increases are therefore being submitted for the Directors' consideration.

1/ Paragraph 10 shows the details of these special increases.
2/ Attachment 1 shows status of the authorized capital.

Should not this sentence be added

10. The number of additional shares to be allocated are as follows:

Member Country	No. Shares
To parallel action of IMF's 7th Quota Increase	
Iran	446
Iraq	92
Korea	87
Kuwait	278
Lebanon	63
Libya	111
Oman	28
Qatar	34
Saudi Arabia	763
Singapore	82
United Arab Emirates	123
Sub-total	2,107
To meet requests of:	
Japan	4,000
Yugoslavia	754
TOTAL	6,861

III. Voting Power and Board Representation

11. Voting Power. The Role of the Bank memorandum discussed the main legal and other issues associated with the voting power of the developing countries. Technical Note #5 described alternative techniques for maintaining the voting power of the developing countries at various target levels. As was emphasized in both of these papers, one source of the LDC voting power "problem" is the fact that membership votes are fixed by the Articles of Agreement at 250 per country. Therefore, the share of membership votes in total votes declines whenever the subscribed capital is increased. Since membership votes make up a much larger share of the total voting power of developing countries than of developed countries, the decline in importance of membership votes has the effect of reducing the total voting power of developing countries. A doubling of all members' capital subscriptions, for example, would reduce the voting power of Part II countries by 2.9%.

12. Such a reduction in developing country voting power is both undesirable and avoidable. Among the alternatives described in Technical Note #5 for avoiding this result, the simplest and most practical would appear to be a supplementary authorization of shares. Assuming that subscribed capital is doubled, the dilution of membership votes may be offset by authorizing each member country to subscribe an additional 250 shares. This approach would not guarantee any country or any group of countries a particular share of voting power, but it would ensure that each country and each constituency has the opportunity to preserve its current voting power. Attachment 2 shows the capital subscriptions and voting power of each member country assuming: (a) a doubling of all members' capital subscriptions after full subscription to the Selective Increase and the special increases described in Section II; and (b) subscription to an additional 250 shares by each member country.

13. Under this alternative the allocation of 250 shares to each member country would be in addition to the proposed doubling of each member's subscription. Hence subscribed capital would be somewhat more than doubled. In order to accommodate this increase in subscribed capital and to replenish the reserve of unallocated shares, it would be necessary to increase the authorized capital by about 390,000 shares.1/ Moreover, the results shown in Attachment 2 can only be achieved if countries are willing to waive their pre-emptive rights.2/

14. Board Representation. These proposals on the allocation of shares would neither help nor hinder in a material way the problem of Board presentation. While it would, theoretically, be possible to "protect" particular constituencies against the risk of loss of representation by authorizing further special increases for the countries in the constituencies, this approach is potentially divisive and would complicate the design of the General Increase. A preferable approach would be to deal with the problem through an agreement that, in the event less than three Directors were likely to be elected to represent predominantly Latin American constituencies or less than two Directors were likely to be elected to represent predominantly sub-Saharan African constituencies, steps would be taken to avert this result. It would not be necessary at this time to agree on the specific action to be taken. An agreement in principle to maintain three Latin American and two sub-Saharan African seats would be recommended in the Report of the Executive Directors to the Board of Governors.

1/ While it would of course also be possible to design the General Increase so as to preserve the relative voting power of countries and at the same time keep the overall increase in authorized capital to 100%, the additional 250 shares would on average only raise Part I countries' subscription increases to slightly more than 102%.

2/ Pre-emptive rights relate to increases in authorized capital. In essence, they give each member the right to increase its own subscription by the same percentage as authorized capital is increased.

IV. Summary

15. In summary, it is proposed that:

(a) special increases be authorized (out of existing stock) for eleven countries, corresponding to parallel special increases in their respective quotas;

(b) special increases also be authorized for Japan and Yugoslavia;

(c) in addition to the proposed doubling of each member's capital subscription, there would be an additional authorization of 250 shares for each member;

(d) the authorized capital be increased in connection with the General Increase by enough to provide for the proposed doubling of subscriptions, the additional allocation of 250 shares for each country and a margin of about 33,500 shares for further special subscriptions;1/ and

(e) an agreement to protect the Board representation of Latin American and sub-Saharan African countries should be recommended in the Executive Directors' report to the Board of Governors.

Attachments

1/ This would require a 390,000 share increase in authorized capital.

Attachment 1

IBRD Authorized Capital

(As of January 31, 1979)

		Number of Shares
Present Authorized Capital		340,000
Less: Present Subscribed Capital		288,165
		51,835
Less: Amounts required under Resolution No. 258, dated July 31, 1970:		
- For members that have not yet taken or completed action a/	1,176	
- For members that have indicated they will not subscribe b/	245	
- For members that have not yet fully subscribed c/	1,745	3,175
		48,660
Less: Amounts required under Resolutions Nos. 313, dated Jan. 3, 1977, and 314, dated February 9, 1977:		
- For members that have not yet taken or completed action	29,466	
- For members that have indicated they will not subscribe d/	591	
- For members that have not yet fully subscribed e/	8,584	38,641
Less: Amounts needed for pending memberships f/		10,019
		47
Balance now available for subscription		
Less: Proposed special increases:		9,972
- Parallel action to IMF Seventh Quota Review	2,107	
- Increases for Japan and Yugoslavia	4,754	6,861
		3,111
Addition to Authorized Capital proposed to support General Capital Increase		390,000
Less: Amounts required for General Capital Increase:		
- Proposed doubling of subscriptions	326,099	
- Additional 250 shares per member	33,500	359,599
Balance available for subscription after General Capital Increase		33,512

a/ Members (and number of shares) affected are: Cameroon (95); Congo, P.R. (4); Ivory Coast (73); Lebanon (358); Liberia (34); Libya (364), Portugal (198); Sierra Leone (50).
b/ Members (and number of shares) affected are: Singapore (209); Tunisia (36).
c/ Members (and number of shares) affected are: Kuwait (523); United States (1,231).
d/ Members (and number of shares) affected are: Singapore (591).
e/ Members (and number of shares) affected are: New Zealand (80); United States (8,504).
f/ Members (and number of shares) affected are: Djibouti (31); Dominica (16).

P&B
2/9/79

IBRD - PROJECTED CAPITAL SUBSCRIPTION AND VOTING POWER

	AFTER SELECTIVE INCREASE a/			AFTER SPECIAL INCREASES b/			AFTER GENERAL INCREASE c/		
	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL
DIRECTORS APPOINTED BY:									
1. UNITED STATES	77735	77985	21.68	77735	77985	21.27	155720	155970	21.50
2. UNITED KINGDOM	26000	26250	7.30	26000	26250	7.16	52250	52500	7.24
3. GERMANY	17612	17862	4.97	17612	17862	4.87	35474	35724	4.92
4. FRANCE	15667	15917	4.42	15667	15917	4.34	31584	31834	4.39
5. JAPAN	13539	13789	3.83	17539	17789	4.85	35328	35578	4.90
ELECTED DIRECTORS:									
6. DRAKE (CANADA)									
BAHAMAS	270	520	.14	270	520	.14	790	1040	.14
BARBADOS	139	389	.11	139	389	.11	528	778	.11
CANADA	11122	11372	3.16	11122	11372	3.10	22494	22744	3.14
GRENADA	24	274	.08	24	274	.07	298	548	.08
GUYANA	205	455	.13	205	455	.12	660	910	.13
IRELAND	1266	1516	.42	1266	1516	.41	2782	3032	.42
JAMAICA	596	846	.24	596	846	.23	1442	1692	.23
SUB-TOTAL	13622	15372	4.27	13622	15372	4.19	28994	30744	4.24
7. EL-NAGGAR (EGYPT)									
BAHRAIN	163	413	.11	163	413	.11	576	826	.11
EGYPT	1650	1900	.53	1650	1900	.52	3550	3800	.52
IRAQ	864	1114	.31	956	1206	.33	2162	2412	.33
JORDAN	233	483	.13	233	483	.13	716	966	.13
KUWAIT	2402	2652	.74	2680	2930	.80	5610	5860	.81
LEBANON	115	365	.10	178	428	.12	606	856	.12
MALDIVES	6	256	.07	6	256	.07	262	512	.07
PAKISTAN	2519	2769	.77	2519	2769	.76	5288	5538	.76
QATAR	327	577	.16	361	611	.17	972	1222	.17
SAUDI ARABIA	4899	5149	1.43	5662	5912	1.61	11574	11824	1.63
SYRIAN ARAB REPUBLIC	508	758	.21	508	758	.21	1266	1516	.21
UNITED ARAB EMIRATES	980	1230	.34	1103	1353	.37	2456	2706	.37
YEMEN ARAB REPUBLIC	106	356	.10	106	356	.10	462	712	.10
SUB-TOTAL	14772	18022	5.01	16125	19375	5.29	35500	38750	5.34
8. NARASIMHAM (INDIA)									
BANGLADESH	1242	1492	.41	1242	1492	.41	2734	2984	.41
INDIA	11333	11583	3.22	11333	11583	3.16	22916	23166	3.19
SRI LANKA	961	1211	.34	961	1211	.33	2172	2422	.33
SUB-TOTAL	13536	14286	3.97	13536	14286	3.90	27822	28572	3.94
9. LOOIJEN (NETHERLANDS)									
CYPRUS	278	528	.15	278	528	.14	806	1056	.15
ISRAEL	1673	1923	.53	1673	1923	.52	3596	3846	.53
NETHERLANDS	7679	7929	2.20	7679	7929	2.16	15608	15858	2.19
ROMANIA	2001	2251	.63	2001	2251	.61	4252	4502	.62
YUGOSLAVIA	1509	1759	.49	2263	2513	.69	4776	5026	.69
SUB-TOTAL	13140	14390	4.00	13894	15144	4.13	29038	30288	4.18
10. DE GROOTE (BELGIUM)									
AUSTRIA	2696	2946	.82	2696	2946	.80	5642	5892	.81
BELGIUM	7268	7518	2.09	7268	7518	2.05	14786	15036	2.07
LUXEMBOURG	297	547	.15	297	547	.15	844	1094	.15
TURKEY	1631	1881	.52	1631	1881	.51	3512	3762	.52
SUB-TOTAL	11892	12892	3.58	11892	12892	3.52	24784	25784	3.55
11. MAYOBRE (VENEZUELA)									
COSTA RICA	131	381	.11	131	381	.10	512	762	.11
EL SALVADOR	141	391	.11	141	391	.11	532	782	.11
GUATEMALA	167	417	.12	167	417	.11	584	834	.11
HAITI	174	424	.12	174	424	.12	598	848	.12
HONDURAS	109	359	.10	109	359	.10	468	718	.10
MEXICO	3156	3406	.95	3156	3406	.93	6562	6812	.94
PANAMA	216	466	.13	216	466	.13	682	932	.13
PERU	938	1188	.33	938	1188	.32	2126	2376	.33
SPAIN	4551	4801	1.33	4551	4801	1.31	9352	9602	1.32
SURINAME	162	412	.11	162	412	.11	574	824	.11
VENEZUELA	3776	4026	1.12	3776	4026	1.10	7802	8052	1.11
SUB-TOTAL	13521	16271	4.52	13521	16271	4.44	29792	32542	4.49

IBRD - PROJECTED CAPITAL SUBSCRIPTION AND VOTING POWER

	AFTER SELECTIVE INCREASE a/			AFTER SPECIAL INCREASES b/			AFTER GENERAL INCREASE c/		
	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL
12. MAGNUSSEN (NORWAY)									
DENMARK	2524	2774	.77	2524	2774	.76	5298	5548	.76
FINLAND	2140	2390	.66	2140	2390	.65	4530	4780	.66
ICELAND	222	472	.13	222	472	.13	694	944	.13
NORWAY	2410	2660	.74	2410	2660	.73	5070	5320	.73
SWEDEN	3676	3926	1.09	3676	3926	1.07	7602	7852	1.08
SUB-TOTAL	10972	12222	3.40	10972	12222	3.33	23194	24444	3.37
13. JOHNSTON (AUSTRALIA)									
AUSTRALIA	6450	6700	1.86	6450	6700	1.83	13150	13400	1.85
KOREA, REPUBLIC OF	1306	1556	.43	1393	1643	.45	3036	3286	.45
NEW ZEALAND	1887	2137	.59	1887	2137	.58	4024	4274	.59
PAPUA NEW GUINEA	246	496	.14	246	496	.14	742	992	.14
SOLOMON ISLANDS	17	267	.07	17	267	.07	284	534	.07
WESTERN SAMOA	24	274	.08	24	274	.07	298	548	.08
SUB-TOTAL	9930	11430	3.18	10017	11517	3.14	21534	23034	3.18
14. ROTA (ITALY)									
GREECE	945	1195	.33	945	1195	.33	2140	2390	.33
ITALY	10120	10370	2.88	10120	10370	2.83	20490	20740	2.86
PORTUGAL	1126	1376	.38	1126	1376	.38	2502	2752	.38
SUB-TOTAL	12191	12941	3.60	12191	12941	3.53	25132	25882	3.57
15. MADINGA (MALAWI)									
BOTSWANA	74	324	.09	74	324	.09	398	648	.09
BURUNDI	174	424	.12	174	424	.12	598	848	.12
EQUATORIAL GUINEA	77	327	.09	77	327	.09	404	654	.09
ETHIOPIA	146	396	.11	146	396	.11	542	792	.11
GAMBIA, THE	65	315	.09	65	315	.09	380	630	.09
GUINEA	239	489	.14	239	489	.13	728	978	.13
KENYA	550	800	.22	550	800	.22	1350	1600	.22
LESOTHO	58	308	.09	58	308	.08	366	616	.08
LIBERIA	260	510	.14	260	510	.14	770	1020	.14
MALAWI	182	432	.12	182	432	.12	614	864	.12
NIGERIA	2941	3191	.89	2941	3191	.87	6132	6382	.88
SIERRA LEONE	178	428	.12	178	428	.12	606	856	.12
SUDAN	702	952	.26	702	952	.26	1654	1904	.26
SWAZILAND	98	348	.10	98	348	.09	446	696	.10
TANZANIA	439	689	.19	439	689	.19	1128	1378	.19
TRINIDAD & TOBAGO	667	917	.25	667	917	.25	1584	1834	.25
UGANDA	398	648	.18	398	648	.18	1046	1296	.18
ZAMBIA	1151	1401	.39	1151	1401	.38	2552	2802	.39
SUB-TOTAL	8399	12899	3.59	8399	12899	3.52	21298	25798	3.56
16. RAZAFINDRABE (MADAGASCAR)									
BENIN	118	368	.10	118	368	.10	486	736	.10
CAMEROON	246	496	.14	246	496	.14	742	992	.14
CAPE VERDE	16	266	.07	16	266	.07	282	532	.07
CENTRAL AFRICAN EMPIRE	118	368	.10	118	368	.10	486	736	.10
CHAD	118	368	.10	118	368	.10	486	736	.10
COMOROS	16	266	.07	16	266	.07	282	532	.07
CONGO	125	375	.10	125	375	.10	500	750	.10
GABON	230	480	.13	230	480	.13	710	960	.13
GUINEA-BISSAU	27	277	.08	27	277	.08	304	554	.08
IVORY COAST	511	761	.21	511	761	.21	1272	1522	.21
MADAGASCAR	274	524	.15	274	524	.14	798	1048	.14
MALI	203	453	.13	203	453	.12	656	906	.12
MAURITANIA	126	376	.10	126	376	.10	502	752	.10
MAURITIUS	221	471	.13	221	471	.13	692	942	.13
NIGER	118	368	.10	118	368	.10	486	736	.10
RWANDA	174	424	.12	174	424	.12	598	848	.12
SAO TOME & PRINCIPE	14	264	.07	14	264	.07	278	528	.07
SENEGAL	448	698	.19	448	698	.19	1146	1396	.19
SOMALIA	189	439	.12	189	439	.12	628	878	.12
TOGO	182	432	.12	182	432	.12	614	864	.12
UPPER VOLTA	118	368	.10	118	368	.10	486	736	.10
ZAIRE	1236	1486	.41	1236	1486	.41	2722	2972	.41
SUB-TOTAL	4828	10328	2.87	4828	10328	2.82	15156	20656	2.85
17. ZAIN (MALAYSIA)									
BURMA	591	841	.23	591	841	.23	1432	1682	.23
FIJI	147	397	.11	147	397	.11	544	794	.11
INDONESIA	3888	4138	1.15	3888	4138	1.13	8026	8276	1.14
LAOS	118	368	.10	118	368	.10	486	736	.10
MALAYSIA	2066	2316	.64	2066	2316	.63	4382	4632	.64
NEPAL	146	396	.11	146	396	.11	542	792	.11
SINGAPORE	320	570	.16	402	652	.18	1054	1304	.18
THAILAND	1478	1728	.48	1478	1728	.47	3206	3456	.48
VIETNAM	755	1005	.28	755	1005	.27	1760	2010	.28
SUB-TOTAL	9509	11759	3.27	9591	11841	3.23	21432	23682	3.26

IBRD - PROJECTED CAPITAL SUBSCRIPTION AND VOTING POWER

	AFTER SELECTIVE INCREASE a/			AFTER SPECIAL INCREASES b/			AFTER GENERAL INCREASE c/		
	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL	NUMBER OF SHARES	VOTING POWER TOTAL VOTES	VOTING POWER % OF TOTAL
18. FRANCO-HOLGUIN (COLOMBIA)									
BRAZIL	5401	5651	1.57	5401	5651	1.54	11052	11302	1.56
COLOMBIA	1175	1425	.40	1175	1425	.39	2600	2850	.39
DOMINICAN REPUBLIC	175	425	.12	175	425	.12	600	850	.12
ECUADOR	368	618	.17	368	618	.17	986	1236	.17
PHILIPPINES	1715	1965	.55	1715	1965	.54	3680	3930	.54
SUB-TOTAL	8834	10084	2.80	8834	10084	2.75	18918	20168	2.78
19. BELKHODJA (TUNISIA)									
AFGHANISTAN	349	599	.17	349	599	.16	948	1198	.17
ALGERIA	2327	2577	.72	2327	2577	.70	4904	5154	.71
GHANA	856	1106	.31	856	1106	.30	1962	2212	.30
IRAN	5199	5449	1.51	5645	5895	1.61	11540	11790	1.63
LIBYAN ARAB REPUBLIC	1476	1726	.48	1587	1837	.50	3424	3674	.51
MOROCCO	1220	1470	.41	1220	1470	.40	2690	2940	.41
OMAN	164	414	.12	192	442	.12	634	884	.12
TUNISIA	469	719	.20	469	719	.20	1188	1438	.20
YEMEN, PDR	336	586	.16	336	586	.16	922	1172	.16
SUB-TOTAL	12396	14646	4.07	12981	15231	4.15	28212	30462	4.20
20. SOLA (ARGENTINA)									
ARGENTINA	4701	4951	1.38	4701	4951	1.35	9652	9902	1.37
BOLIVIA	264	514	.14	264	514	.14	778	1028	.14
CHILE	1240	1490	.41	1240	1490	.41	2730	2980	.41
PARAGUAY	70	320	.09	70	320	.09	390	640	.09
URUGUAY	518	768	.21	518	768	.21	1286	1536	.21
SUB-TOTAL	6793	8043	2.24	6793	8043	2.19	14836	16086	2.22
COUNTRIES NOT REPRESENTED									
CHINA	7500	7750	2.15	7500	7750	2.11	7500	7750	1.07
KAMPUCHEA, DEMOCRATIC	254	504	.14	254	504	.14	758	1008	.14
NICARAGUA	110	360	.10	110	360	.10	470	720	.10
SOUTH AFRICA	3463	3713	1.03	3463	3713	1.01	7176	7426	1.02
SUB-TOTAL	11327	12327	3.43	11327	12327	3.36	15904	16904	2.33
GRAND TOTAL	326215	359715	100.00	333076	366576	100.00	691902	725402	100.00
PART I COUNTRIES	210310	215060	59.79	214310	219060	59.76	433370	438120	60.40
PART II COUNTRIES	104578	132328	36.79	107439	135189	36.88	242628	270378	37.27
COUNTRIES NOT REPRESENTED	11327	12327	3.43	11327	12327	3.36	15904	16904	2.33

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a/ Assumes full subscription to the Selective Capital Increase (Resolutions 313 and 314) except for Singapore which has indicated that it will not subscribe.

b/ Assumes special increases for Japan, Yugoslavia, and eleven other countries. The additional shares per country are:

Japan	4000	Libyan Arab Republic	111
Yugoslavia	754	Oman	28
Iran	446	Qatar	34
Iraq	92	Saudi Arabia	763
Korea, Republic of	87	Singapore	82
Kuwait	278	United Arab Emirates	123
Lebanon	63		

c/ Assumes: (i) a doubling of the capital subscription of each country (except that of China) after the Selective Increase and further special increases listed in footnote b; and (ii) an additional subscription of 250 shares by each member country (except China).

P & B
2/9/79

813/9/5

OFFICE OF THE PRESIDENT

Meeting on Paper to the Board on the Paid-In Portion of the IBRD Capital Increase, January 25, 1979

Present: Messrs. McNamara, Cargill, Broches, Damry, Gabriel, Rotberg, Stern, Wood, Bock, Knapp

In response to a question, Mr. Cargill said that, although Fred Bergsten was in favor of 0% paid-in, the U.S. could possibly be brought up to 5%. Mr. Gabriel reported that the Germans would accept 7.5%. Mr. Knapp enquired about how the U.S. could justify 7.5% in the case of the IDB, if they pushed for 0% at the Bank. Mr. McNamara asked Messrs. Gabriel and Wood for an analysis of differences between the IDB and the IBRD which would justify U.S. support for 7.5% there and 0% here.

Mr. Rotberg reported on the concerns voiced by underwriters about the lowering of the paid-in portion. The journals would interpret such a move as withdrawal of support from the Bank by the U.S. This could affect IBRD's Triple A rating. All three underwriters were planning to write a letter to Secretary Blumenthal, stating that the street would consider it as a very bad move. He admitted that these reactions of the underwriters were purely phsychological. Mr. McNamara said that he was concerned about the letter to be written by the underwriters: the letter might leak and create the issue. Mr. Rotberg should ask the underwriters not to write such a letter and rather to make their statements orally.

Mr. McNamara asked Mr. Broches to look into the issue of U.S. liability. There were Treasury obligations which could be met without U.S. Congressional appropriation. The Bank had to find out whether U.S. callable capital subscriptions fell under that category. One could think of two conditions: (a) the U.S. would take the position that they would not appropriate before a claim was put upon them and (b) no appropriation was necessary. Mr. Broches argued that Congressional action was always needed. Mr. Stern said that it was basically a source of funds question; if U.S. subscriptions could come out of extra-budgetary funds, appropriations would not be necessary.

CKW
February 2, 1979

813/9/4

OFFICE OF THE PRESIDENT

Meeting on IBRD Capital Increase: Germany's Position, January 24, 1979

Present: Messrs. McNamara, Cargill, Gabriel, Wood

Messrs. Gabriel and Wood reported on their recent visit to Germany to meet with Government officials on issues relating to the IBRD Capital Increase, particularly the German position on the paid-in portion.

Mr. Gabriel reported that the strong German attachment to a 10% paid-in portion had been confirmed by their meeting with Mr. Moltrecht and associates as well as officials from the Ministry of Finance and the Bundesbank. Mr. Moltrecht had given Minister Offergeld's considered view, namely (i) German support for doubling of IBRD capital; (ii) reservations as to lowering the paid-in portion; it was considered imprudent to go below 10%, and 7.5% was only acceptable if an early subscription of the whole amount were assured; (iii) preference for keeping Japanese voting rights below the German level; and (iv) with respect to maintenance-of-value, reference to an agreement supposedly negotiated by Fred Bergsten with other Governments to delay action until after the next U.S. Presidential election. Mr. Wood said that the main opposition to a lower paid-in portion seemed to come from the Bundesbank; their statement had sounded like the position taken by the German ED at the Board one year ago. The Ministry of Finance seemed to find the lesser amount attractive.

Mr. Cargill said that, according to Mr. Bergsten, the situation in the U.S. Congress had worsened to an extent which might make it impossible to get any appropriations at all. Fred Bergsten supported a doubling of the capital increase with 0% paid in. Mr. McNamara agreed that very serious problems lay ahead with Congress: the new committees were loaded with conservatives; the Democrats were moving to the center; and domestic issues received priority.

It was agreed that Board discussion of the paper on the paid-in portion would be scheduled for two weeks from tomorrow and an IBRD Capital Increase Steering Group meeting would be held tomorrow morning. Any reference to alternative sizes of the capital increase should be taken out of the paper; it should address itself only to a doubling, i.e., an increase of $40 billion. The paper should take the position that management would prefer a 10% paid-in portion, could accept 5% but recommended 7.5% because it would strengthen the institution's financial position. This put management into a flexible position. The paper would force U.S. decision-making on its position; if the U.S. could not agree to 7.5%, the meeting would have to be deferred.

OFFICE OF THE PRESIDENT

813/9/3

Meeting on IBRD Capital Increase, January 11, 1979

Present: Messrs. McNamara, Cargill, Broches, Chenery, Damry, Gabriel, Stern, Rotberg, Wood, Bock, Knapp

Mr. McNamara summarized the results of the Board discussion. A strong consensus in favor of a doubling of IBRD capital had emerged but a large number of governments had problems with a reduced paid-in portion. It was crucial to approach the German Government on the paid-in issue. Therefore a group, consisting of Messrs. Gabriel and Wood, or Gabriel, Wood and Rotberg, or Cargill and others, should go to Germany as soon as the draft paper on the issue had been prepared. The paper was scheduled to be distributed to this group on January 18 for distribution to the Board on January 25; the Board could then discuss the paid-in capital issue around February 10. He asked Mr. Cargill also to do more talking with Mr. Fried. It was of course desirable to get a doubling of the capital based with as high a paid-in portion as possible. In developing the paper, P&B should look at the experience of other institutions and at the Bank's experience in the past. There had been a gradual evolution not only of the Bank's thinking on the issue but also of the approach of the private banks. Mr. Broches said that the Bank had always had to lead the banks on these issues of financial evaluation.

Mr. Stern said that for the U.S. there was no trade-off between amount of capital increase and percentage of paid-in capital. This position was only \$40 billion and 0%. Mr. Wood said that the U.S. could take a smaller subscription. Mr. McNamara agreed. The U.S. could be asked to support a Board consensus, say, in favor of a \$40 billion increase with 5% paid in and then later take a share based on, say, a \$35 billion increase with 5% paid in.

As to capital market confidence, Mr. Wood said that it was mainly trends which affected public confidence; he gave the example of Bank debt-equity ratios which had increased from 1 to 1 to 6 to 1. Mr. Rotberg argued that it was mainly the fact that Board discussions on the issue took place which could create concern with Bank investors. The market had no clear view on the issue.

It was agreed that the key issue was to get the German and U.S. views together.

CKW
January 15, 1979

813/9/2

OFFICE OF THE PRESIDENT

Meeting on IBRD Capital Increase, January 10, 1979

Present: Messrs. McNamara, Cargill, Broches, Chenery, Damry, Gabriel, Wood, Knapp

The meeting reviewed the positions likely to be taken by the EDs at tomorrow's Board meeting on the amount of the proposed IBRD Capital Increase.

Mr. McNamara enquired about the time schedule for payments. Mr. Wood replied that this could wait until CY1982. Mr. McNamara said that he wanted an authorizing bill through Congress within the next 18 months; otherwise the Bank could not claim to have obtained the capital increase. Mr. Wood said that in the past a formal resolution of the Board had been deemed sufficient. Mr. McNamara said that U.S. Congressional action should be separated into (i) approval of the Governors' vote; and (ii) action to subscribe. The former would have to be obtained 12-18 months after the Board submitted its resolution to the Governors. If there were no such U.S. Congressional vote, the Bank would be in a weak position in the market, and other countries might choose to sit on the sidelines. As to appropriations, the Bank did not need subscription before FY83. He could conceive of a situation giving considerable flexibility as to the timing of these subscriptions.

Mr. Wood reported that a number of countries had argued against the concept of "headroom" because in their views the EDs would not be able to resist management using it. Mr. Knapp warned that there was considerable monetary illusion involved. Mr. Wood said that the Swedes wanted to give a signal on the size of the Bank. Mr. McNamara said that they could make this point when the future role of the Bank was discussed.

CKW
January 15, 1979

813/9/1

OFFICE OF THE PRESIDENT

Meeting on IBRD Capital Increase, January 8, 1979

Present: Messrs. McNamara, Cargill, Broches, Chenery, Damry, Gabriel, Stern, Nurick, Wood, Knapp

The meeting discussed (a) preparation for Thursday's Board discussion, (b) steps to be taken after the Thursday Board meeting, and (c) underlying policies including graduation.

It was agreed that Messrs. Cargill, Gabriel and Wood would meet with Messrs. Kurth, Murayama, Drake, Magnussen, Looijen and de Groote before Thursday in order to find out about their positions and to convince them to support management's proposal.

It was agreed that, after the Thursday Board meeting on the amount of the IBRD Capital Increase, the following issues would have to be dealt with:

(i) the percentage of paid-in capital;

(ii) allocation of shares;

(iii) allocation of voting rights to Part II countries;

(iv) Board representation and seats;

(v) time schedule of payments;

(vi) capital valuation; and

(vii) formal resolution by Board to Governors.

It was agreed to consider as non-issues in the context of the capital increase discussion: (a) the lending program, (b) changes in the Articles, particularly the question of the relationship of outstanding receivables to the capital structure, and (c) membership of China. In response to a question by Mr. Damry, Mr. McNamara said that the terms of lending were also unrelated to the capital increase discussion and would be taken up by the lending rate paper.

With regard to the paid-in capital issue, it was agreed that a paper would be prepared by January 18 and plans would be made for a trip to Germany soon thereafter in order to talk to the Bundesbank and the Ministry of Finance about the reasons for their opposition to a reduced paid-in portion. The German position seemed to be that a less than 10% paid-in ratio would reduce the interest coverage, thus weakening German bond holders' confidence. It should be argued with the Germans that, say, a $40 billion capital increase with 0% paid-in would not result in a deterioration of the Bank's financial ratios because of other compensating measures which could be taken.

With regard to issues (ii), (iii), and (iv), it was agreed that one paper would be prepared by January 28, dealing jointly with allocation of shares, allocation of voting rights to Part II countries, and Board representation. Mr. Cargill said that, because of changed circumstances, three Latin seats were not any longer desirable. Mr. McNamara disagreed; three Latin seats would have to be assured. Mr. Stern agreed with Mr. McNamara; for the present discussion, the desirability of three sub-Saharan African and three Latin seats should be stated. The China issue was not germane to the discussion. Mr. McNamara said that he was disinclined to raise any hopes for an increase in Saudi Arabian and Kuwaiti shares. But it would be very difficult to raise Japan's shares without reducing Part II participation. At some point, a change in the veto level should be considered in order to get around the U.S. concern of not reducing their share below 20%. Mr. Broches observed that, by reducing the veto level, the veto right would also be given to some other shareholders groups. Mr. Knapp urged thinking more about Saudi Arabian, Kuwaiti and Libyan participation because the Bank needed their financial support. Mr. Cargill observed that, if the Bank gave Japan all unallocated shares, Japan would become the third largest shareholder with a position somewhere between Germany and the U.K.

Mr. McNamara concluded that the issue of shares should be dealt with in the following order of priority: (i) increase of Japan's share; (ii) no decrease of Part II shares; and (iii) the OPEC issue. Mr. Wood said that the Bank should argue that the OPEC countries were also Part II countries. Mr. McNamara agreed. The Bank had a serious problem with the Arab demand for an increase in the number of their nationals on the Bank's staff. They would like an Arab Vice President.

It was agreed that the Japanese Government would be told before the next IDA negotiations on March 23 that Japan would receive a significant increase.

As to underlying policies, Mr. McNamara said that the Bank had come under pressure to consider its graduation policy before the end of the fiscal year. This was an extremely difficult question. He asked Messrs. Cargill, Chenery, Gabriel and Wood to prepare an outline on how to deal with the issue. Mr. Wood should be responsible and the outline should be prepared by February 1.

CKW
January 15, 1979