

Earl P. S.
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TO IMMEDIATE F C O

TELEGRAM NUMBER 296 OF 30 SEPTEMBER

INFO PARIS (FOR UKDEL TO OECD) UKMIS NEW YORK UKMIS GENEVA

IMF/WORLD BANK ANNUAL MEETING: MCNAMARA'S ADDRESS.

MCNAMARA'S 13TH - AND LAST - ADDRESS TO THE ANNUAL MEETINGS WAS DELIVERED WITH CUSTOMARY FERVOUR AND NO SMALL DEGREE OF EMOTION. IT WAS RECEIVED BY A STANDING OVATION. COPIES OF TEXT IN IMMEDIATE BAG. FOLLOWING ARE HIGHLIGHTS.

2. MCNAMARA OPENED ON THE GRIM PROSPECTS FACING OIL IMPORTING DEVELOPING COUNTRIES IN THE NEXT DECADE WITH A PROJECTED AVERAGE GNP GROWTH RATE OF LESS THAN 2 PERCENT P.A. AND POTENTIAL NEGATIVE GROWTH IN SUB-SAHARA AFRICA. THIS COULD RECOVER IN THE SECOND HALF OF THE DECADE IF STRUCTURAL ADJUSTMENT PROGRAMMES WERE UNDERTAKEN TO REDUCE CURRENT ACCOUNT DEFICITS. DOMESTIC ENERGY PROGRAMMES COULD MAKE A SUBSTANTIAL CONTRIBUTION TO THE ADJUSTMENT PROCESS.

3. A MAJOR EXPANSION OF ODA WAS NEEDED TO MEET THE NEEDS OF THE POOREST COUNTRIES, BUT PROSPECTS FOR THIS WERE POOR. HE MADE SPECIAL MENTION OF THE AID CUTS ANNOUNCED BY THE BRITISH GOVERNMENT WHICH HE SAID (NEXT WORD UNDERLINED) COULD CAUSE UK ODA AS A PERCENT OF GNP TO FALL BY NEARLY A QUARTER FROM THE 1977-79 AVERAGE. (NOTE. THIS WAS A DIFFERENT PRESENTATION FROM THAT IN THE PRINTED TEXT) HE ALSO POINTED TO THE DIFFICULTIES FACING AID BILLS IN THE US CONGRESS. MOREOVER ALLOCATION OF AID TO THE POOREST WAS SHOCKINGLY SMALL.

4. AS FOR THE CAPITAL NEEDS OF THE MIDDLE INCOME COUNTRIES, THE COMMERCIAL BANKS MIGHT NOT BE ABLE TO PLAY AS FULL A ROLE AS IN THE 70S. THE DEVELOPMENT COMMITTEE, IMF AND BANK SHOULD CONSIDER WHAT COULD BE DONE TO SUPPLEMENT AND FACILITATE THE ROLE OF THE COMMERCIAL BANKS. FINANCIAL INTERMEDIATION BY THE BRETTON WOODS INSTITUTIONS SHOULD BE SUBSTANTIALLY ABOVE PRESENTLY PLANNED LEVELS.

5. IT WAS VITAL NOT TO DOWNGRADE THE URGENCY OF THE DRIVE AGAINST POVERTY IN THE CONCERN OVER THE SHORTER TERM ADJUSTMENT PROBLEM.

16. LENDING

6. LENDING LEVELS OF THE BANK AND IDA WERE INADEQUATE TO MEET THE NEED, EVEN IF THE GENERAL CAPITAL INCREASE OF THE BANK AND IDA 6 REPLENISHMENT WERE SECURED IN FULL (MCNAMARA REFERRED TO THE LEGISLATIVE ACTION REQUIRED BY THE US). THE PRESENT PROGRAMME FOR 1981-85 REFLECTED THE PLANNING ASSUMPTIONS OF 1977 WHICH WERE NO LONGER TENABLE. INFLATION HAD REDUCED THE REAL VALUE OF THE 81-85 PROGRAMME BY 10 PERCENT. FUNDS ADDITIONAL TO THE PLANNED PROGRAMME WERE NEEDED FOR STRUCTURAL ADJUSTMENT LENDING, ENERGY AND CHINA.

7. THE BANK THEREFORE HAD TO MOBILIZE SUBSTANTIAL ADDITIONAL RESOURCES, BUT IN A WAY TAKING ACCOUNT OF THE BUDGETARY CONSTRAINTS OF ITS MEMBER COUNTRIES AND WHILST SAFEGUARDING ITS FINANCIAL INTEGRITY. THERE WERE THREE POSSIBILITIES:

(A) CHANGING THE RELATIONSHIP BETWEEN LOANS OUTSTANDING AND THE EQUITY BASE. IT SEEMED THAT THE 1:1 RATIO ESTABLISHED IN 1944 WAS NO LONGER RELEVANT TO THE BANK'S FINANCIAL CONDITION OR THE ECONOMIC SITUATION OF ITS PRINCIPAL SHAREHOLDERS:

(B) ORGANISATION OF A SEPARATELY CAPITALISED ENERGY AFFILIATE, WHICH WOULD DRAW ON THE STAFF OF THE BANK FOR ITS OPERATIONS. ITS EQUITY COULD COME FROM IBRD PROFITS AND CONTRIBUTIONS FROM MEMBER GOVERNMENTS - NOT NECESSARILY ALL, NOR IN THE SAME PROPORTION AS THEIR CONTRIBUTION TO THE BANK'S CAPITAL; AND

(C) INCREASING THE SUBSCRIBED STOCK OF THE BANK WITHOUT ADDITIONAL PAID-IN CAPITAL. ANY ONE, OR A COMBINATION OF THE ABOVE WOULD HELP THE BANK BE MORE RESPONSIVE TO CURRENT NEEDS.

8. WHILE THESE MEASURES WERE BEING STUDIED, AND TO MEET THE URGENT NEED TO EXPAND THE LENDING PROGRAMME IN THE NEXT THREE YEARS, CONSIDERATION SHOULD BE GIVEN TO DRAWING FORWARD A PORTION OF THE LENDING PRESENTLY PLANNED FOR THE FUTURE. IN THIS WAY IBRD LENDING COULD BE INCREASED BY DOLLARS 10 BILLION OVER THE NEXT FIVE YEARS.

9. AS FOR IDA, GRADUATION OF ITS MORE CREDITWORTH MEMBERS TO A BLEND OR FULL IBRD TERMS WOULD PERMIT AN INCREASE IN IDA LENDING TO THE POOREST COUNTRIES NOT YET CREDITWORTHY FOR IBRD LOANS.

10. FCO PLEASE ADVANCE TO BUIST AND HUDSON (ODA) ST CLAIR (TSY) GREEN (FCO) AND LANGLEY (BOFE). ODA PLEASE ENSURE THAT PRESS OFFICE ARE BRIEFED TO DEAL WITH ANY ENQUIRIES RELATING TO UK'S PROJECTED AID PERFORMANCE (SEE PARA 3 ABOVE).

ANSON
MONETARY
ERD
NAD

[ADVANCED AS REQUESTED]