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CALL BY THE PRESIDENT-ELECT OF THE WORLD BANK ON THE FOREIGN AND COMMONWEALTH SECRETARY : 18 MARCH 1981 AT 5.30 PM

Present:

The Rt Hon Lord Carrington KCMG MC	Mr A W Clausen
Mr Neil Marten MP	Mr Mont E McMillen, Executive Vice-President of the Bank of America
Mr J L F Buist, ODA	
Mr R M Evans	
Mr R M J Lyne	

1. Mr Clausen thanked the British Government for their continued support for the World Bank and noted with some concern that there was increased emphasis on bilateral aid in the plans of many donors. He was also concerned about attempts to politicise the World Bank. The proposal that a new Executive Vice-President post should be established to supervise all other Vice-Presidents, to be allotted to a Third World "representative", made no sense in organisational terms. He had just visited three Asian countries and France. In each country requests had been made to him for proportional representation at Vice-President level. The French, for example, had complained that their representation had been reduced from two Vice-Presidents to one. The British Government was the first Government not to make such a request to him.
2. Lord Carrington suggested that it was not unreasonable for OPEC countries to desire a bigger say in the Bank's operations. It would be right to take account of this, so long as control of the Bank remained in reliable hands: care should be taken not to frighten off the industrial countries. Mr Clausen assented. He accepted the need for change. But as a conservative banker, he thought this should be evolutionary, not revolutionary. The World Bank must remain a bank and must retain the confidence of the market place. It would be disastrous to politicise it.
3. Lord Carrington asked how the Bank could meet the needs of the poorest countries. Mr Clausen said that the multilateral institutions represented the only hope for the poorest countries, as they would not be able to obtain credit from commercial banks. He saw it as the World Bank's role to "bail in the desperate cases", ie to provide loans and so build up some credit-worthiness for countries which could not go to the market. He had been enormously impressed by the expertise and professionalism which the World Bank could mobilise in support of the economies of the developing countries. The critical role which the Bank played in such economies was emphasised by the fact that no country had ever defaulted: the consequences of defaulting on a World Bank loan (as opposed to credit obtained from a commercial bank) would be catastrophic for any country.

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4. Mr Clausen accepted that the World Bank faced a situation in which it would receive less "willing" financial support. He referred in particular to the reduced support expected from the United States under the Reagan Administration. At the same time, the needs of the Third World were increasing. He saw it as his task to steer round this problem. One possibility was to increase the involvement of the commercial banks in co-financing projects. He was also convinced that the Bank's gearing ratio of 1:1 had to be broken. The need for this had been underlined by the proposal to set up an energy affiliate; for which there was no strict justification in terms of energy per se. The Bank of America worked on a gearing ratio of 28:1. He wished to increase the World Bank ratio only from 1:1 to 2:1, after the present General Capital Increase. However, this step would apparently require amendment of the Bank's Articles, for which an 85 per cent majority was necessary. The Third World countries would favour such a change. The critical votes would be those cast by the United States, the UK, France, Germany and Japan. He did not know how the US would vote, though he had noted the new Administration's opposition to the energy affiliate. Mr Buist commented that changing the Articles had been seen previously as inviting legislature to add unacceptable riders to them. However, Congress might prefer to vote through a change instead of facing regular appropriations. But a capital increase could be achieved, as in 1960, without changing the Articles if the capital was all callable.

5. In conclusion, Lord Carrington assured Mr Clausen that the British Government would help the Bank in so far as it could in the UK's present economic situation.

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