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A. CLASSIFICATION

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B. SUBJECT: PRE-BRIEF: PRESS ROUNDTABLE (EVENT DATE: SEPT. 3) (B) (N) // VENUE: MC 12-755 (MEETING ROOM) // CONTACT: KLAS BERGMAN @ 33798 // IN ATTENDANCE: JDW, MMB, BERGMAN, SEVERINO, HUANG, V. NEHRU, BOTTELIER, HAFEEZ (for Nishimizu), ANSTEY, MONTOLIU // AGENDA: FOCUS ON ASIA // (B) BY EXTVP // DUE 5:30 PM TUESDAY, AUGUST 26 // EXC: CA // LFG (8/11)
Brief Includes two notebooks:
(Light Blue -- Media Roundtable and Pre-Annual Meetings Interviews)
--- Useful Numbers
--- Cover Note From Mark Malloch Brown
--- East Asia: Cover Note from J-M. Servino, Country Information: Cambodia, China, Indonesia, Lao PDR, Malaysia, Papua New Guinea, Philippines, Thailand, Vietnam
--- South Asia: Cover Note from M. Nishimuzu, Country Information: Bangladesh, India, Nepal, Pakistan, Sri Lanka
--- Other Topics: Corruption, Australia and the World Bank, Japan and the World Bank, Strategic Compact Progress Report, Financial Sector Reform and the World Bank
--- Annual Meetings information: Annual Meetings Fact Sheet, Hong Kong and the World Bank, Development Committee agenda, Program of Seminars
--- Background and bios on journalists attending the roundtable discussion
- Financial Times article - "Malaysian PM attacks IMF and currency speculators" (September 1, 1997)
- HIPC Initiative
(Dark Blue -- Briefing on China for Pre-Annual Meetings Interviews)
--- Overview
--- Issues
--- Questions & Answers
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DATE: 09/03/97

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TRANSCRIPT OF PROCEEDINGS

THE WORLD BANK

PRESS CONFERENCE

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Washington, D.C.
September 3, 1997

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THE WORLD BANK

PRESS CONFERENCE

Wednesday, September 3, 1997

12th Floor Conference Room
1818 H Street, N.W.
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P R O C E E D I N G S

MR. WOLFENSOHN: Well, I'm here at your command and happy to try and answer whatever questions that are put to me. You've met my colleagues. You've met--Mark you know and you know each other. I don't know whether there was a lead for any sort of opening statement, but maybe I should just comment on the importance to us of having this Annual Meeting in Hong Kong and demonstrating the focus that we've got on Asia in general, both East Asia and South Asia.

What must be clear to you is that with 60 percent of the world's population in East Asia and South Asia and a significant portion of the poor, 70 percent-plus of the poor, it's an area that we are particularly interested in. We have poured in over $130 billion in the area, which is more than a third of our outstandings. And we're concerned to ensure that we stay in Asia, both in East Asia and in South Asia, each having its own particular economic and political framework, because that's the purpose of the Bank. If the purpose of the Bank is to alleviate poverty in a sustainable way, then the area of greatest concentration is in South Asia and East Asia, not necessarily the greatest percentage of poor because that's in Africa, but Africa accounts for only 17 percent of the world's poor, and you've got 33--you've got over 70 percent in East Asia and South Asia. So given that the focus of the Bank and IDA is on poverty alleviation, this is a central area for us.

The other thing which is, of course, significant is that in terms of the way the world now works, with significant increases in private investment and the flows of private investment to East Asia and South Asia have been dramatic--more to East Asia, of course, than South Asia, where about $400 billion has gone into East Asia in the last five years, six years, and $40 billion into South Asia. So in terms of both need and in response to the private sector, this is a particularly crucial area for us, and that is one of the principal reasons that we have the seminar program going on in Hong Kong to focus on the opportunities that there are for private sector investing.

We hope that it will increase in South Asia as it has already done in East Asia, and we hope very much that the growth rates will grow in South Asia so that they'll also attract--growth rates and the economic climate and the regulatory climate will appeal to investors.

The other obvious reason of interest to us is that East Asia has demonstrated tremendous growth over the last years, close to 10 percent compounded growth. It's dropped a bit now. South Asia was near 4 or 5 percent, but it's coming up now and is reaching a level, we project, of maybe around 7 percent in the years ahead, so that the dynamics of the region are important to us. And we think we've got some lessons to learn there. It's been written up in the East Asian Miracle, and there may be new lessons that we're now learning in terms of what happens after a miracle occurs, what can happen in terms of financial systems which are particularly, obviously, of concern at the moment, to do what we can to ensure that there is stability within the region.

You're all aware of the recent concerns about Thailand and the ricochet effect of Thailand on other countries in the region. We are anxious that we should keep cool and work with the governments in the area so that people can recognize that the conditions in each of the countries are very different. Quite obviously, when you talk of East Asia and South Asia, that is a geographic description. It's not a homogeneous area in any sense. And what we're trying to do now is to both understand the particularities in each country and deal with the particularities in each country in terms of the role that we have with the IMF on the banking system and financial side.

So, frankly, the accident, if you like, of having the meetings be held at this time in Hong Kong, itself a fascinating time given the accession or linkage of Hong Kong to China, given the activity in the area, and given the objective of the Bank in poverty and in trying to sustain stability and growth, it couldn't be a better moment for us to go and have the meetings in China, in Hong Kong. And so that's why we're all quite excited about it. It puts a focus on the area and allows us to move forward.

That's perhaps all I should say, and I'd be glad to answer your questions.

MR. PARASURAM: Let me start with the most important goal, namely, the alleviation of poverty, in the latest press release, the publication pointed out that if you're growing at a 7 percent rate, you can reduce the poverty rate from 35 percent--

MR. WOLFENSOHN: In India you're talking about?

MR. PARASURAM: In India, from 35 to 6.3 percent by 2005, are we going on the right path to maintain the growth rate of 7 percent? And if not, what are the problems that you see, and what should we do to ensure that 7 or 8 percent, which is the goal of the Finance Minister, is attained?

MR. WOLFENSOHN: Well, first of all, I'd love to get you a copy of that book which I have on my desk. Have you got a copy of that book on poverty?

If you haven't seen it, you should--

MR. PARASURAM: Yes, I've seen it.

MR. WOLFENSOHN: You've seen the book. Well, I just want you to make sure that you've read more than the press release. That's a headline in the press release, and it's an accurate headline, according to our projections. But the thing that needs to be done, which your government has indicated that it should do in India, is to take a look at the whole question of equity, of trying to get to the poverty areas, and to bring along the general level of growth in India with an attempt to improve both savings and investment in the country and deal most particularly with agricultural areas and rural areas where the great centers of poverty exist in your country.

I've just--as you know, I was in India, and the particular programs that we've got on education, on communication, on health, particularly in rural areas, is something to which I believe you are committed, as, indeed, you are committed to the issue of poverty alleviation in the major cities. If you take activities in Mumbai(?), for example, both in communications with the network, of communications within the city, and bringing health care and education, that is a microcosm of the issues that you have throughout your country. And I think your government is committed to programs which are designed on education where we're working exceptionally hard with your government, on communications, on road systems, ports, telecommunications, which bring people into the community, on industrialization and job creation.

And I have the impression that the government understands extremely well what is the economic policy that is required, and it would be my hope that whatever government you have, they will continue with that policy. Certainly when I was there, which was two governments ago, that was the objective, and from what I've read--I haven't been back since, but from what I've read, this current government is committed to the same policy. So it would be my hope that on the issues of education, communication, investment, environmental protection--which is not just a gloss, it's also substantial in economic terms--and with a desire for equity, which means putting a lot of money into those areas of poverty, rural and urban, you'll have a program that hopefully should lead you to a 7 percent figure.

I'm impressed by what was being found, and I hope you'll continue to do it. I don't know whether any of my colleagues--there are probably greater experts in the room, everywhere, on all these subjects than I am. So if anyone thinks I'm getting it terribly wrong, would you please--

MR. PARASURAM: If I may just follow that up a little, there are stories in India recently quoting a World Bank official, stating that the Bank will be able to double what it has given, which is surprising because I thought you were saying that there was a resource crunch. On the other hand, this story quoting a World Bank official says that the World Bank will be in a position to double their lending, and also what we are able to do in infrastructure, particularly power, because sometimes you stop all lending for power because of the way the state mismanages.

MR. WOLFENSOHN: Well, I'm not aware of any statements about doubling the size of the funding for India, although an increase in IBRD lending would no doubt be possible. The IDA lending, given that India is a mixed country, as you know, borrowing both IDA funds and IBRD funds, there is a limitation on IDA funding. And I don't know whether an increase is possible, but certainly not on the order of magnitude of twice. I don't know where that came from. There may be a World Bank official who said it, but he did it without authorization, so far as I'm--and it may be a misquote.

On the question of power, there are serious issues, because in your country you have, as you know, a system of states and the federal government, and the power authorities typically are state-run. And in the state-run power authorities, you've had both subsidies and hidden subsidies, which is basically stealing of power. And the result is that you have had non-economic power companies. A number of your states have taken on the question of making them sustainable power companies, because without a sustainable power company, you can't get funding for it. You're not going to lend to a company that is collecting only 30 percent of its just income and losing money.

So there is a need for the states to focus on the issue of state-owned corporations that are operating in a non-economic manner. And it is at that level that we have been forced on some occasions not to continue with programs because of the lack of economic viability of state-owner corporations.

Now, many of your states have focused on that problem, and when they have, we have been very anxious and ready to come back with additional support, and we'll continue to be anxious to do that. But the focus in power is state-owned; it's not federal. And it varies from state to state.

MR. BROWN: Maybe we should just go around the room and have questions, and then we can come back.

MR. WOLFENSOHN: You probably know everything I know about India now. I'm sure there are a few other things.

MR. MERLI: You have mentioned the huge capital flows to several countries in Asia, also other regions, especially Latin America. Doesn't that make the role of the World Bank in a way at least partly redundant in middle-income--at least the middle-income countries and it doesn't make the case for concentration on the poorest?

MR. WOLFENSOHN: Well, that is a commonly expressed fallacy, if I can put it that way. The argument runs, if the private sector is prepared to put it out, why is there a need for public sector? And why do those trying to intrude themselves continue to stay in business?

The answer is exactly the opposite. Wherever we can, we would like to have the private sector do the job. That's an unequivocal statement. If the private sector will do it, as far as I'm concerned, that's the best news I could hear. But I have not seen the private sector--and the private sector will come in on economic projects. They will come in both for their own industrial or service investments, and they will come in on some aspects of infrastructure, some being where there's a profit, which might be a toll road or might be a port or it could be telecommunications or power or water, where there is an economic profit motive.

But, typically, the private sector will go to those areas which are profitable, and in the case of toll roads, for example, I think of toll roads in most countries as being 3 percent of the roads. You know, they'll go between one major city and another, and it's a very good thing to have it. But 97 percent of the rural roads or feeder roads and non-toll roads.

If you go to ports, it's less than 5 percent of ports that have been privatized in most countries, and for the rest, you need it.

Where you don't find private sector in any of these countries is in health, education, capacity building in the countries, judicial--

MS. SPIRO: What do you mean by capacity building?

MR. WOLFENSOHN: Capacity building means training the government officials or professionals to give you an infrastructure of people that can run the country. And what you can't do in most developing countries is ordain development. You just can't command it and, as you could here, go out and hire people, in Australia go hire people. They don't exist. And many of our problems are related to the building of the infrastructure, the human, the regulatory, the judicial, the educational, the health, the non-economic power, the non-economic ports--all the things that you need to create the infrastructure of a country, but which do not contain within them the immediate profit motive for the private sector.

Now, as a country develops, you could find that the private sector will move into these areas, even in areas of health care and education, and we're doing some work in private education and private health care. The objective of the Bank is very straightforward. If it can be done outside the Bank compass, we will support it. And as evidence of that, we have reorganized ourselves here so that we are making a major push to get the private sector to come in. If you look at this seminar program, you'll see that it's to encourage private sector to come.

So I would really love you to understand that we are not here trying to continue our careers when someone else will do it. The fact is that we have excessive demands on us, not just for money but also for advice on all these other subjects. So I don't see immediately the private sector solving the problems of development, though we welcome them as a partner.

MS. RYAN: How can you encourage the private sector to come into countries where they're not particularly keen to put their capital, countries other than, say, in Africa? Are you working on programs to facilitate the environment to encourage private sector capital?

MR. WOLFENSOHN: The first thing that you have to do is to make sure that you have a judicial and regulatory system that protects property rights and protects the investor. And so we have judges on the staff of the Bank, we have regulators on the staff of the Bank to try and ensure, first of all, that you can have a judicial and regulatory system, be it on corporate law or taxation or regulation, which can create an environment. You cannot get people, either foreigners or domestic, to invest unless they're properly protected and unless there's a system of justice in place. So you have to get that, first of all, that basic thing.

Secondly, what you have to do is to create an environment in which people want to come. There is the issue of civil safety. There's the issue of peace. In Latin America at the moment, one of the big problems that we're facing is crime and civil safety. People can't walk around in a lot of cities. And, unfortunately, that's true in some cities in Asia as well. So you need to have a stable environment. And that fundamentally gets back typically to macroeconomic policy.

Classically, you have dislocations of crime and personal freedom when you don't have economic development. If people have economic hope, they're much more likely to be peaceful. I'll give you a good example of that. Take Gaza, which is an extreme example. There is no chance of peace in the Middle East unless you have economic hope. There's no chance of peace in Bosnia unless you have economic hope, because otherwise people go into the streets.

And so what we have to do is to work with governments on regulatory, judicial, macroeconomic planning, and then things that go with it, education, health services. Why? Because if you're a company director and you're looking at a country in which to invest, you want to see where you can put your money safely, where you can know that it's predictable, where your people are going to be safe, and where there's economic growth. And that's what we're working on with countries.

MS. RYAN: What about availability of financial tools like some new forms of guarantee or new forms of securitization?

MR. WOLFENSOHN: Well, that is important, but not sufficient. You have to have the first before you get the second, and on the second, we're not forgetting that either, because one of the major activities of the Bank and IFC is to strengthen and deepen the financial systems. So we're now working in most countries, actually, on areas of banking system, deepening the system. IFC is putting up leasing companies, its small business finance companies, and trying to broaden the range, and MIGA is insuring the investments in countries.

So the deepening of the financial system is a necessary component but it's not sufficient. You've got to have the first first. I mean, if you were to think of your own money, saying do I want to make an investment in Country X, and somebody says, well, we can't guarantee you that you'll get title to it, and if you have a problem, it'll take you three years to get litigation through, and we're not sure what the tax system is going to be--I can lend you all the money in the world and you take an obligation, you're still not going to invest.

So the fundamentals are to create an environment for investment, and it is at that level that we have a group called FIAS, which is the Foreign Investment

Advisory Service, which is a special group that we've set up which is helping countries to create the environment in which investment can take place.

MR. LACHICA: The financial distress in Thailand and those other countries in East Asia seems to be more a problem of your next-door neighbor's, but how do you expect the Bank to weigh in on this and to alleviate the ricochet effect, as you say, on the other countries?

MR. WOLFENSOHN: Well, we unfortunately are not God. I wish we were and could ordain it. But the first place to start is in Thailand, and so we have a major team now working in Thailand as we speak working on the analysis and support of the banking system and of the financial system in conjunction with the government in Thailand, and in conjunction with the IMF who has put together, as you know, a $17 billion package to try and reassure the public in terms of the macroeconomic situation.

Broadly, what we do is to split the responsibility with the Fund in terms of an agreement which we have with them where the Fund deals with the macroeconomic and the superstructure of the country and we deal with the micro level in terms of the banking system, and really getting down to the specific cases within the banking system. So what we're doing now, I think we've got seven people there under Jonathan Fishter now, who is the head of our group, who is working with the Thai Government to try and both praise the issues that need to be solved and get in and over a period of time try and strengthen the system.

The second part of your question is the ricochet effect, and the ricochet effect is something that we saw first in Mexico with the tequila crisis where, if you remember, days after that, markets in Poland and in Argentina and in wholly unrelated parts of the world got hit as people started to take fright in relation to Mexico. And what you're seeing now in East Asia is a ricochet effect of what is happening in Thailand on countries like Indonesia and Malaysia, and it's not rational. It's not rational in one sense because the conditions which caused the Thai crisis are not evident, for example, in a place like Malaysia and Indonesia. And I noticed yesterday that the prime minister of Malaysia made a rather vivid statement about his anger at the response on Malaysia.

All I think is that time takes care of it. What happened in Mexico was we had these shocks, but there was a fairly quick recovery in the period afterwards. People started to think what is the relationship between Poland and Mexico, and they decided that there was none. And so people started to come back in. And in the case of Asia, you can't look at it as a homogeneous group. The conditions in Indonesia and Malaysia are totally different than the basic conditions in Thailand, which became overheated, where the labor rates went up to over a dollar compared to 30 and 40 cents in other countries, where there was an overheated property boom, which are not the conditions which prevail in Indonesia and Malaysia.

So people are taking fright because they're saying, my God, it's East Asia, when, in fact, the fundamental conditions are quite different, and I would expect that after a period of quiet and reflection, you'll see the return of confidence in the Asian markets. I think what's important is that we all focus on ensuring the Thai market is strengthened and any problems are contained.

MR. LACHICA: You're not exculpating the role of George Soros in all that situation?

MR. WOLFENSOHN: I have no idea what George Soros is doing in the situation. I have read what Mr. Mahathir thinks of George Soros, and some others, but I think the role of the speculator may exacerbate some of these problems--may exacerbate. I don't know whether George Soros did or didn't. But I think that the problems are more fundamental. I don't think that George Soros created some of the fundamental conditions of Thailand, and I doubt that he created the conditions in Indonesia or Malaysia.

MR. BECK: On this question, Mahathir said earlier today--I don't know if you heard--he's considering setting up a $20 billion fund to protect the equities market in Kuala Lumpur. Do you think that's a viable response to the question, or is he--is that something of an overreaction?

MR. WOLFENSOHN: To be honest with you, I haven't seen it. I don't know how it would work, and so I really don't have additional comment.

I think that the reaction of most of the people in the region is going to be to try and give reassurance in one form or another to investors in their countries. But I honestly haven't seen that to see how it works. I've never heard of an equity support fund.

MS. RYAN: But the sympathetic reaction of some of the leaders, not perhaps the leaders but the governments of Indonesia and Malaysia, it does raise a question about the continuation of private sector support in these regions which may reflect back on the World Bank at some stage.

MR. WOLFENSOHN: Well, it might. I mean, we were involved in the Mexican situation. I think you ought to reflect on Mexico, because Mexico was a situation which, first of all, affected Latin America; and, you know, my friends in Brazil were saying Brazil is nothing like Mexico, Argentina is nothing like Mexico. Then it went beyond it, and places like Poland and the Czech Republic and others also felt it, because a lot of--particularly in the equity markets, a lot of young investors were saying and some young bankers were saying, my God, the developing countries which we thought would never have a problem are having a problem, let's pull out.

And so there was a sort of knee-jerk reaction, and it's not surprising that you have a knee-jerk reaction on Thailand because most people do not know the difference--many of the traders and speculators do not know the difference between Thailand, Indonesia, Malaysia. I guess they know the difference in China and India, but, you know, those other places, they're the--you know, they were the wonder countries, and if something's happening to one of them, maybe it's going to happen to the others.

That's not rational, but it's understandable.

MS. SPIRO: Certainly the banking systems in a lot of those countries have had problems, not just Thailand, but Korea's banking system, and we really don't know the condition of the Chinese banking system. Can you give us any feeling on what the condition of the Chinese banking system is since the Bank has done a lot of work in that area?

MR. WOLFENSOHN: China is a country which has, as you know, four principal banks which do 90 percent of the business, state-owned banks, with a trillion dollars of assets, 125,000 branches, and 1.5 million people working for it. But China is fueled significantly by domestic savings. The savings rate in China is dramatic. And so you don't have the immediate overhang that you had in Thailand with a lot of short-term external financing.

You see, you've got to look at a banking crisis of what are the conditions of the banking crisis that affects you internationally. It's overdependence on short-term lending internationally. You can have longer-term lending internationally which will not provoke a banking crisis because it doesn't all come in one day. And there was apparently a considerable imbalance in Thailand in terms of foreign deposits in the banking system and in the finance companies which brought about an exceptional outward flow.

My belief is that those conditions do not prevail in Indonesia, Malaysia, and China. They're not overly dependent on external financing; whereas, it appears that Thailand had an imbalance in terms of its debts that caused it--that made possible a very quick outflow. I do not believe that those conditions prevail in China, in Indonesia, and Malaysia. Some of that was evident in Korea, and so you have a run. But unless you have an immediate demand, there's no way of having a run. If you owe me money in ten years, there's no way that you can demand it tomorrow because the contract is for ten years, or five years.

So the maturity structure of the foreign borrowings is absolutely an essential element in terms of your analysis of the weakness of the condition, and from our estimates, it looks as though although you'll have a ricochet effect, which you have had, and some panics in the share markets where the share markets have dropped significantly, and some drop in exchange rates, in the case of Thailand you had a fixed exchange rate which was being defended by the use of your reserves. In many of the other currencies, you have a floating exchange rate, and Indonesia got in ahead while it still had reserves and floated its currency. And then it dropped, and now it's coming back again. That is precisely what happened in a lot of the Latin American countries and a lot of the other countries affected by the tequila crisis.

So, you know, when there's a storm going on, it looks very black. But history seems to show that in the end fundamental economics prevails, and I believe the fundamental economics of the countries we've mentioned is pretty sound. You had a 7 percent growth rate in Indonesia. You've had a reduction in its poverty levels that has been substantial. You've had improvement in its health. The same is true of Malaysia. Indonesia--Thailand spent less on education. It was more dependent on foreign borrowings and, therefore, became vulnerable, and there was a--you know, there was a heavy real estate boom.

But I think, you know, if--it's not to be sought after, but I don't think it's the end of East Asia in any sense. In fact, I'm very bullish on East Asia.

MS. SPIRO: What are your people trying to accomplish in Thailand?

MR. WOLFENSOHN: Well, at the moment, we're trying to understand the situation, and we're trying to work with the government to try and find out what is the scope of the problem and the extent to which the Bank is prepared to help. We have already indicated that we're prepared personally to put up a billion and a half in support of the financial systems. We're putting up a $20 or $30 million technical assistance loan very quickly, just to allow the work to be done. And within the context of that, we will try and review with them what are the weaknesses and strengths of their system.

But you don't have an instant fix of a banking system. It requires, first of all, assessment, then training, and then bringing the thing back into compass both in relation to banks and the finance companies that are borrowing from them. So, you know, it's a one- to three-year haul to reverse a trend. You've seen that in Japan. You've seen it in the United States. You know, the savings and loan crisis in the United States was not solved instantly. The crisis in Japan was not solved instantly. What happened in Chile, what happened in Malaysia 15 years ago. But they got over it. And I would guess that this is a hiccup and not a very pleasant one, but that we'll be there to try and stroke their back to get it fixed.

MS. SPIRO: I know the IMF has been criticized for not really being on top of the Thailand problem. You know, now that they're in, it's too late. The country is in disarray. Do you at the World Bank feel similar, that that's--I feel with the IMF that's a legitimate criticism. But do you feel that you had any obligation to be in there to help prevent this problem, working with their bankers?

MR. WOLFENSOHN: Well, I think everybody probably wishes that things had developed otherwise. I think that looking at what we offered to do and have done in recent months with the Thais, I think that we've acted correctly. And I have no comment about the Fund other than to say that I think they've got a great sense of their responsibility and that I think they have done the best they can.

MS. RYAN: What about the World Bank with the East Asian Miracle, and is the East Asian Miracle over, no? I mean, did the Bank--I suppose it's the same question--accurately assess that there were underlying problems with some of those economies that they didn't articulate early enough?

MR. WOLFENSOHN: I don't know what you can expect out of a sector of the world more than you have out of East Asia. You've had nearly a 10 percent growth rate, and maybe it's going to adjust to 7 or 8 percent in the period ahead. But Australia, for example, would be thrilled to have that growth rate, and so I wouldn't be too critical of East Asia.

I think East Asia, you know, has now got 30 percent of the world's exports. It's up from 10. It is a major trading power, and it is fundamentally well financed. Savings rates everywhere are over 30 percent with the exception, I think, of Indonesia, which I think is in the 20s. I'm not 100 percent sure, but the savings rates are enormous. People are diligent. There's a very high educational content. And the key to development is education, and what you've got to do in East Asia is to ensure that--this is well known to you, I'm sure, but the sequence in East Asia was originally that it was a manual-labor--set of economies with low labor rates, and that education allows them to move up to the next level and the next level and the next level, and you get higher up the chain in terms of labor rates and in terms of your earnings.

The classic example is Singapore where you've now got $23,000 per capita income, and it started as being a place for unsecured labor originally. And within two years, you'll have a computer in every home put in by the government. That's, if you like, the extreme example of what is possible in Asia, but my experience in East Asia is that there is a deep commitment to education, communications, to working hard, and the results are obvious. And if you take China, which is the largest of all the countries, you have to be deeply impressed by the economic progress that the country has made. And, you know, that's one-fifth of the world's population in one country in East Asia. And although I'm sure there will be periods of increased growth and periods of less growth in China and adjustments caused by moving from coastal regions to the internal regions and the resurgence of agriculture and the increases costs on the coast, which then have to be balanced by activities moving to the interior.

For example, the investment today is going to the interior of China. The growth is coming from the interior of China. This last year, the GDP was greatly influenced by the resurgence in rural development. Prices were higher. It was a good season, and really the center of China was the engine.

So you're going to find differences in growth. It's not going to be smooth. But I'm basically very positive. The thing that I'm hopeful for and I think that we should all be hopeful for is that in South Asia, in India and Pakistan, in particular, we will see an increase in the growth that will allow them to increase their standards of living, because you've got another 1.3 billion people in South Asia, I think it's 1.9 or something in East Asia, 1.3--is that right, Mark?--1.9, we've got about 3.2 billion of 5.6 billion people in the world in this one area. And I've just been to India. I'm shortly going to Pakistan. But you have to be impressed by what the Indians are doing. I was deeply impressed, anyway. It's a giant democracy that is functioning, and you have a sense of excitement.

The big problem that I think we all face is the one that was pointed out in that book, which is the issue of equity, the differences between the rich and the poor. It's not, by the way, something which is only found in Asia. It's found in our own country here, it's found in Africa, and it's found in Latin America. But we've got to find a way for bringing a more equitable distribution, and that really is a huge challenge for all of us because, if you have inequity, you then tend to have political instability, particularly in a democracy.

MS. SPIRO: Jim, I know you kind of answered--

MR. JINGSHENG: What do you think of the state-owned enterprises in China?

MR. WOLFENSOHN: You have 350,000, I think is the number, and half of them are not doing very well. I think you are losing about 1 percent of the GDP in terms of the profits, and they are talking a large proportion of bank lending. Between 60 and 70 percent of the Bank lending is going to state-owned corporations.

So what you have to be--my own personal belief, putting China aside, my general belief as a matter of experience is that broadly private sector does a better job than the public sector in running corporations. That has been demonstrated in a lot of the World Bank research reports. That is not a political judgment. That is an economic judgment, and that, broadly, the system works better when you have private enterprise rather than when you have public enterprise.

My impression is that, first of all, you have had a tremendous growth in the creation of private corporations in China, a lot of them small, but as you well know, the entrepreneurial spirit is very, very high in China. I would expect that you will have a natural erosion or conversion of public companies and the gradual accession of private corporations in terms of the strength of the economy, and I would hope that you will go that way. I know the Chinese government is not against a release of public corporations, but I think they want to do it in their own time and with their own methodology. I think what we all need to look for is the 15th congress in September or October to try and see what is the direction that is going to be given by the party in terms of the speed and direction of state-owned enterprises.

You are more of an expert than I on that, but I think that is a matter of key importance for the September or October party congress to see the direction on which you are going. So we are all looking forward to see who the leadership is going to be.

This is the first conference you will have with--and you are making a change with the Prime Minister.

Well, it is thought that you will be making a change of the Prime Minister.

MR. JINGSHENG: We are not making news here.

MR. WOLFENSOHN: No, no. I am just quoting from your news agency. I think your news agency put out the story. So what happens in party congresses is not ever very well known to me until afterwards, but, certainly, I think all of us are interested in what is the policy that will be articulated in terms of private corporations.

Do you have anything to add to that? Is that an accurate statement of what I said?

MR. SEVERINO: I am sure we are very anxious to know what is going to come out of the meetings.

MR. HARADA: Do you have any--to assist the former Chinese banking system as the World Bank?

MR. WOLFENSOHN: We are working with the Chinese. You know, China is such an enormous market and such an enormous place that we are a very small part of the advisory group to China. Our total lending is $3 billion a year. Relative to the flows of funds in China in terms of the role of the World Bank, it is not unimportant, but it is in no sense critical.

Where I think the Chinese work with us best is on the advisory side, and one of the areas in which we are consulting with them is the area of banking, but we are not alone. They are getting consultation from others, and in due time, they will be making the decision. We are not the sole advisor to the Chinese government on banking, but we are participating. I think, as they have done in the past, they will assess all the advice in the beginning, and then they will make their decisions, but it seems to me that they have a pretty good control of the system itself. They have this immense savings rate which is the thing which really gives stability to the Chinese system. You have got over a 30-percent savings rate in China, which is something that in this country it is less than 5. That is a big difference.

MR. HARADA: How many staffs do you have to advise the banking system development in developing countries?

MR. WOLFENSOHN: Too little, too few. We are trying to increase it now. For us, it is the largest growth area in the Bank in terms of trying to bring in permanent staff and advisors, and the important thing, though, is to not lower our standards in the people that come in. My guess is that it will probably be double within the next 12 to 18 months. It is a very, very crucial area around the world.

MR. HARADA: How much money do you lend that project to?

MR. WOLFENSOHN: In the financial sector?

MR. HARADA: Yes.

MR. WOLFENSOHN: You know, I don't know.

MR. SEVERINO: It is numbers. It is just mainly technical assistant loans.

MR. WOLFENSOHN: You see, what we are doing mainly, we are not actually sort of pumping money in the banks. In some countries, we are. I mean, in Argentina, we help the banks. In Mexico, we have helped the banks, and we may have helped the banks in Thailand for all I know. It is not yet clear, but the real importance of what we are doing is on the advisory side, and that is why we need to--we have probably got 30 or 40 people out there.

MR. SEVERINO: We can call back and give you the numbers.

MR. WOLFENSOHN: We will give you the answer.

MR. HARADA: All right.

MR. WOLFENSOHN: I just simply don't know the number. I just know that we need more people.

We have got seven people now in Thailand, just to give you an idea.

MR. HARADA: Yes.

MR. WOLFENSOHN: So there are seven people there now, and the other thing that you can get in the banking area is that you can engage consultants, retired Central Bankers, retired bankers. You can put them in specific jobs, provided you have the leadership to deal with it. So it is one area where you can, in fact, find people, but we are prepared to give you a couple of years on something. We need more depth in the Bank, and we cannot find it. It is not easy.

See, we are competing at government rates to try and get people, and it is a very hot area internationally. So it is quite tough.

MR. HARADA: Yes.

MR. LACHICA: What do you plan to tell the Governors in Hong Kong about the results of your strategic comeback?

MR. WOLFENSOHN: I propose to tell them that we are very, very happy with the first 6 weeks. It is not the first 6 months of thinking about it or dealing with it. It is nearer 18 months, but compact is about 6 months old, and I will tell them, first of all, that I think the culture is changing the institution. There is acceptance, the need for the results-oriented culture, rather than a bureaucratic culture. We have reappointed 150 managers who have resigned their jobs. We have had 180 people, senior management go through management training out of 240 we will ultimately go through, and that is having a major impact on the institution.

We have restructured the regions and country offices to make them more dispersed with decentralization; that we have strengthened very much the networks on the specific areas, be they health or education or sewerage or rural--we have brought them all together; and that there is a sense of urgency. I think we are in the first stage of a 30-month program. Not everybody is happy, which is probably a reflection that something has happened, but there are many people who are, and I really feel that we now have a team that is united to try and make this work.

That does not mean that we have done it all year, but having spent much of my life in the private sector, working with companies that are bringing about change, you cannot expect success in six months. It does not happen in life. I wish it did, but it doesn't.

MS. RYAN: You said, quite passionately, about a year ago, this Bank would be a very different place in a year.

MR. WOLFENSOHN: Yes.

MS. RYAN: Take me a little bit longer back to when you had first started. Do you generally believe the Bank is a very different place to when you came?

MR. WOLFENSOHN: Yes. I think it is. I genuinely believe that, and I want to make one thing clear. I do not think these changes would have been possible without an extraordinary staff and an extraordinary experience. This whole thing has not been invented in the past 12 months. This is a modulation. This is a change of something which existed. This is not a new creation, and I think that what is wonderful for me is the strength in the people and their capacity to adjust.

I think now I could introduce you to quite a lot of people who are very excited--very excited.

MR. BECK: What can you report on the progress of your initiation on corruption in countries? Have you canceled any projects or amended any projects?

MR. WOLFENSOHN: We have delayed a number of projects. I mean, we delayed recently, even before the IMF announcements, the funding we were going to in Kenya, just as an example.

Let me tell you a couple of things about corruption. We have just actually yesterday came up with a corruption paper to the Board which we will be discussing in Hong Kong. Corruption will be an issue, and we will discuss it with the Development Committee.

You should remember that I first articulated the importance of corruption, 12 months ago, and the development since then has just been explosive.

I am not suggesting that I or Michelle were the first people to talk about corruption. We certainly were not, but the timing could not have been better. Whereas, 12 months ago, the word "corruption" was whispered in the halls of the Bank and the Fund, but today, you have absolutely straightforward discussions about it.

So the first thing I would like to say is that I think the climate to do something about corruption has never been better. The facts are that it is perceived to be the single strongest political issue in most developing countries. That is very simply that people do not mind being poor or they do not like being poor, but they cannot stand it when someone else is getting rich at their expense. That is very human. So you go back to that human aspect of it.

The second thing is that it is very clear that it is one of, if not the major deterrent to investment, both domestic and foreign, if you have to pay off every time you try to do something. You are not going to invest. Some people are not going to, particularly if they have a choice. People do not like it. So those are two very human reactions.

So what we have done is to take a look at two sides. First of all, there is the person being corrupted, and then there is the person who is corrupting. Let me start with that.

The person who is corrupting, at least in part, are industrialized countries, and as you know, until recently, bribery was tax-deductible in some countries. At the last G-7 meetings, the G-7 leaders came together and endorsed the principle that it should be a criminal offense as it is in this country. That is enormous change in the last 12 months, and the same with the OECD rules. The OECD has come in and, as you know, is talking about a compact in 2 years time where everything will be regulated and where everyone will agree that it cannot go on. That is very significant because it is very difficult to talk to countries about being corrupted, saying what a terrible thing it is, when you are allowing tax-exempt authority, and encouraging companies to corrupt. So that is one aspect of it, but the other aspect, what we have seen is that in many countries now, we are being approached quietly by the governments of those countries to come in and work with them on anti-corruption programs, which relate to regulation, judicial system, reform of the public sector, transparency, all of which go into the fight against corruption, along with, of course, macroeconomic growth.

If you have a climate with government officials being paid less than minimum wage, it is very difficult to stop some form of additional salary, unofficial salary which comes from leaving your jacket on a chair and having someone put some money in it, or whatever.

The other thing which is critical is you cannot eradicate corruption unless you have a commitment at the top. Groups of leaders cannot exempt themselves and then say to everybody else you cannot be corrupt. That is quite clear.

I think that you are seeing now in many countries an emerging awareness on the part of the leadership that flagrant corruption is no longer tolerated. That, by the way, is now possible, as you have seen a development of democracy. We have had in the last 10 years many more democratic governments. In an area where there is no democracy, it is very hard for people to express themselves. Under the price of feudalism or control is that the feudal lord can do what he likes. That has been true since the middle ages, but you are finding a democratic emergency in many countries.

So I would say to you that, first of all, the climate is right, and secondly, we are dealing now with the issue of corrupter, and many of the countries are now saying for economic progress, you have got to clean it up, clean up your act. We are in on all stages of that.

Then the question is, what do we do to force it? How do we influence it? I would say the first thing we would have done is to put a spotlight on it and to talk to governments about it, and I think the results are quite significant.

In some countries of Eastern Europe, we have been credited with changes in government. You know, President Kuchman of the Ukraine said that he changed his Cabinet because of concerns about corruption and intervention of the World Bank.

We are not allowed to get in politically. The role of the World Bank can only be to look at corruption as an economic issue, but in our discussions at the Board yesterday, it was very clear to me that the Board is 100-percent behind facing up to corruption as an economic issue. I was amazed at the unanimity of the Board yesterday on that issue.

So all I can say to you is that, in 12 months, I think that is just enormous progress. Now, we should all be very clear that, because I said or Camdessus says it or all the leaders of the world say it, you are not going to eradicate corruption overnight. It has been around for a long time, but I think the focus is now on it, and the fact that we can now delay or use finance as a mechanism to overcome the adverse effects, the adverse economic effects of corruption is something that was not possible a year ago. The words were not used.

If you check back on the last speeches of World Bank Presidents, the word "corruption" was never used until last year, I think I am correct in saying.

MS. SPIRO: Jim, Business Week just did an article about a World Bank project in Russia--

MR. WOLFENSOHN: Yes.

MS. SPIRO: --where we say that 11 million of that project went to corrupt managers in this loan.

MR. WOLFENSOHN: Yes.

MS. SPIRO: I mean, what about the problem of corruption here at the Bank with the Bank's own loans?

MR. WOLFENSOHN: If we find it, I mean, we are very clear-cut on Bank loans. If Bank loans are found to be corrupt, unless it is put right, we do nothing more. We will black-list the people that are involved. If we find a company, we are very clear we will just black-list them.

In the case of the Russian situation, when these things came up months ago, these allegations came up months ago, I personally talked to Anatoly Chubais and to Chernomyrdin on the first coal loan, and we made very clear that until it was put right, there was no possibility of a second coal loan. What you are finding now is the public disclosure of the things which we knew about, and they are putting it on the table. This is not some secret which the Business Week discovered. This has been out there for months on what has happened. Business Week just wrote a story on it, but we have known about the problems.

It was not so much as we can see it that someone pinched the money. It was that the money was diverted for uses other than the uses to which we put up for the coal. The objective of the coal loan was to relocate the miners, and it was to put the money out in the provinces, in those areas where the coal conversion or inefficient coal farms were being converted, either closed and the people were to be retrained. We, together with the Russians, because we monitor everything that is going on, discovered that some of the money had not gone where we thought it should go.

There was no evidence that we know of that someone wrote a check to themselves and pinched the money--that we know of. What we have to know is how much of the--that the $500 million which we put out in the first coal loan has gone to the objective which we used for it.

MS. SPIRO: Was it? Did it?

MR. WOLFENSOHN: It did not originally, but it has been put right, and we are not going to do a second coal loan until it is put right. I am not aware of anyone pinching $11 million, but we are still looking into it, and we have not yet made the second coal loan.

We are negotiating this with the government, but we took a very clear-cut stance that unless the money was used for what it was it was put out, there was no more money, period. The Russians felt the same themselves.

There had been a change in economic leadership, as you know, with Boris Nimsov [ph] and Chubais coming in as the first Deputy Premiers, and they were on it like a--and were doing it openly. Now, I am not suggesting that there is no corruption in Russia or no corruption in a lot of other places, but on Bank projects, we have a very, very strong auditing procedure to try and make sure that the money goes to where it is supposed to go and whether it be in contracting or in general purpose loans.

MS. SPIRO: That is not what your Manager told us. I mean, we quoted him as saying, you know, they contend that World Bank officials seem surprisingly unperturbed by their misspending. They contend that offering loans to support change is better than micromanaging expenditures.

MR. WOLFENSOHN: Well, that is not the way--

MS. SPIRO: Well, we have--

MR. WOLFENSOHN: I cannot tell you what Mr. Cardis [ph] said. I can tell you what I did because I did it, and that was I went personally. I saw Viktor Chernomyrdin and Chubais and I discussed the coal loan, and we are under constant discussion with Alexander Bugrov, who is the Executive Director here, and we have been discussing this for months.

I mean, I can tell you what I did. I cannot speak for what he is saying.

MR. BROWN: But the Vice President for--who covers Russia and also Michael Cardis were both pretty upset by the article, but Michael is here in Washington today. Either of them could talk to you. I think the quote you referred to is frankly out of context. What he was talking about was how we are generally trying to simplify conditionality on loans as the general policy. Governments have to be trusted with their own economic fortunes, but at the same time, by using it out of context, it was at odds with the fact that on our procurement and specific uses of loans for corrupt uses, we are tightening up enormously. So the two--the juxtaposition can confuse the point.

You could talk, if you wanted to, to either Yohanus Lin [ph] or Michael Cater after this meeting because they are dying to correct--

MR. WOLFENSOHN: Please do.

MR. BROWN: --what they felt was a misrepresentation.

MR. SPIRO: The entire article--

MR. WOLFENSOHN: Can I tell you--I can tell you the principle that I had was really clear-cut. I mean, it would be totally inconsistent with everything I have said to say I do not care what happens with World Bank projects. That is the thing I care about the most, and I have done surprise audits. I have had studies done by outside groups where I have been concerned. I have brought them in to go and look at every project. There are groups on the outside that will do studies for you that will not just look at the receipts and expenditures. They will check values. They will go in with a team of people. We have done that now in a variety of countries, just to satisfy myself that we are not getting taken advantage of.

Now, can I guarantee you that somewhere in a Bank project there has been some default down the line? I cannot guarantee to you that, nor can anybody. All I can tell you is, is that it is a central thrust of what we are doing, and I have gotten now much more accountability and even much more checking. When I discover something that even smells a little bit wrong, I am on a plane myself or I send the Vice President and say take a look at it, and that is what we did with the coal loan.

MS. SPIRO: What is the status of that loan now? Is it being delayed?

MR. WOLFENSOHN: No, no. We made that loan, but we were going to make a second coal loan.

MS. SPIRO: Right.

MR. WOLFENSOHN: And until we are absolutely ceratin of it, there will be no second coal loan. I do not believe have yet reached that decision.

Check with Michael, but, I mean, my positions is absolutely crystallized because if I took any other position, it would be totally inconsistent with what I am saying. To me, it is very simple. If you do it right, then there is more money, and if you do it wrong, there is no more money, period. And if there was a mistake or if something was done incorrectly, then put it right before the next step is taken.

So I have a very simple personal credo, and that is what I am trying to get across in the Bank. Talk to Michael about that first.

MS. SPIRO: Okay. No, I appreciate your answering that.

MR. WOLFENSOHN: It is very straightforward.

MS. SPIRO: So you do not think corruption is a problem with the Bank's own lending, say to China? You do not think that is a problem?

MR. WOLFENSOHN: I believe that--my personal opinion is no. We have done over 130 projects in China. The criticisms we have had in China have never been on defalcation or problems on--I mean, many people will say that our contracting arrangements are too complicated because we put them out for public bidding, it is transparent, and all that stuff. Maybe they are even over-audited, but I think they are safe.

The only criticisms we have had in China were by Harry Wu on using slave labor, and I sent out team over there and we covered every inch of where it was we were, and Harry Wu, despite my request, has never come to me with any evidence. He has never met with me about it, and I have heard him on occasions. I have said if you have really got evidence, come in and sit down, and we will deal with it. I have told the Chinese government that if we are using slave labor inadvertently, A, I want to know about it, and secondly, we are not using slave labor, children's labor. That is something we do not do. That was the only criticism I have ever had in the project in China, and I have explored it. I sent two Chinese-speaking people out, Chinese-speaking--they trudged over all the area, and it is just simply not true. So our experience in China has been terrific, really terrific. I spent 8 days looking at projects, and it is remarkable.

MR. PARASURAM: You mentioned the judiciary. Are we doing anything about it? I mean, [?] focussing on delays of the judiciary.

MR. WOLFENSOHN: The what?

MR. PARASURAM: Delays. For instance, if you go to court--

MR. WOLFENSOHN: Oh, court reform, we are doing a lot.

MR. PARASURAM: You go to court, and it is--

MR. WOLFENSOHN: That is part of the judicial system.

MR. PARASURAM: Seven years or 10 years.

MR. WOLFENSOHN: It is crazy. That is not justice. If you have to wait 7 or 10 years, you might as well not have a judicial system. So we are doing a lot on judicial system reform. As I told you, we have judges who are on the payroll, and we have a whole host of advisors' objectives, and we are working on--speeding up the judicial systems throughout the world. But you've got to have a willing judiciary and you've got to have people that are prepared to--

There are ways now of speeding things up. The prime example of speeding up the judiciary is probably Singapore, which had tremendous delays. Then they brought in this Chief Justice Yong Pun Hou, [phonetic] who was a businessman as well as a lawyer, and he cleaned up the system. So I think he got a 90-day trial period or something.

MR. PARASURAM: He's amazing.

MR. WOLFENSOHN: Yes. Pun How is an amazing man

MR. HARADA: As you know, the Japanese government is now challenging the fiscal consideration, so they will cut off the foreign aid budget in this year. I think Japan has been very good and decided to do that.

Do you have a concern about the change in the Japanese situation?

MR. WOLFENSOHN: Yes.

MR. HARADA: In Japan, there is some argument that Japan should use much money to the bilateral aid than the multilateral aid, because bilateral aid should be made by the name of the Japanese government, if the multilateral is by the World Bank.

How do you think about that?

MR. WOLFENSOHN: First of all, Japan has become the largest single partner that we have in the Bank. We have an extremely close relationship with the Japanese aid agencies, and with the Japanese Treasury. I meet with them twice a year. In fact, I have a meeting in September on the way to Hong Kong.

I believe, generally, that the world is giving too little to development assistance. Therefore, when any country reduces its assistance, I get concerned. I become particularly concerned when Japan is doing it, because it's been such a remarkable leader in terms of development finance. So that reaction you would expect. They have been a great partner and they've been a leader.

So what I'm anxious for is there be as little--that the Japanese people should decide there should be as little reduction as possible, and recognize that it's in their interest to keep it going.

Now, I believe that, given Japan's investment in export activities, particularly for developing countries, that it's in their interest to keep it going. I think that's been the rationale for the Japanese decision to have a high level of development assistance, in addition, of course, to the moral activity. But if you look at the activities of the Japanese trading companies and export concerns, investment concerns, the developing world--which is now 18 percent of the world's GDP, and in 25 years will be 20 percent of the world's GDP--it represents a tremendous growth market for Japan.

So I would hope they would keep it up in their own interests, as will as in the interest of stability. I mean, there is a basic reason. Japan has profited significantly from growth in developing countries, in terms of exports and in terms of investment. So that's, at base, the reason.

The second thing is, why should they do it with multilaterals and not bilaterals. I think there is a very simple answer. There are some things that they can do with multilaterals that they cannot do on their own. There is some experience which can be gained from working with multilaterals which is valuable to them as bilaterals, and that's what we're doing in working very closely together with the Japanese aid agencies.

You could also get leverage from it. What we're doing is a great deal of trust fund lending for preparation of projects, where we're acting as the human part of it, in trying to develop projects in these countries, which the Japanese are well aware of, and then can participate in terms of financing or joint projects. I think it would be a terrible day if everybody in the world decided to do things bilaterally, because there is some leverage they can get from us, speaking as a world institution, that you cannot get speaking just to Japan, and I think the Japanese government recognizes that. You're not supporting the Bank out of love. I think you're supporting the Bank because there is a web of partnerships which are useful, and I believe that multilateral organizations are a very important part of that activity.

So all I can say is that I hope they--The debate rages everywhere in the world, by the way. It's just not the Japanese, on how much goes multilateral and how much goes bilateral. But I think, since Japan has a very important voice on our board--we have two Japanese vice presidents here.

This is not a distant activity. This is something where you're intimately involved. You're the second largest shareholder in the Bank. After the United

States, you have an eight percent interest. You're bigger than Germany. So this is not a foreign institution. This is an institution in which Japan has a great voice, and I look forward to continuing with their cooperation.

MR. MERLI: You were first reporting on the debt relief issue. Are you satisfied with that score? Is it positive enough or--

MR. WOLFENSOHN: Yes, I think we're doing quite well, actually. In one year, we have done Uganda. We are about to do Burkina Faso. We're looking at Bolivia and Cote d'Ivoire, Mozambique. By the end of this year, we will have looked at, in present value terms, probably $700 million worth of debt relief from the Bank alone, with $3.5 billion from the HIPC contributors. We have started a trust fund in which there have already been some useful contributions.

In 12 months, we have come to agreement with the Paris Club. As I said last year--so I'm not making it up--I said last year what we're going to do in the coming year is to develop how it is we get the thing done. You will remember that 18 months ago no one thought it was possible. We got the HIPC initiative and now it's functioning. I think the progress in the year of working out the bugs, trying to see how we deal with bilateral creditors, with Paris Clubs, it has actually been terrific. I think the pace will pick up. You know, there were 20 countries on our original list. But I think in the first year, to have done what we're doing, that five countries is really quite good.

And it is a dramatic change. I remind you that 18 months ago nobody thought it possible that you would have a HIPC. So I'm very proud of what's happened. I think we get too little credit with HIPC, if you want the truth.

MS. RYAN: I would like to ask you a question about the structure of the Bank. Coming from the private sector, with more of a bureaucracy, are you happy with the way the board of the Bank operates? Do you think it tries to micromanage the Bank too much, or do you have any thoughts about how you might change the operation of the board?

MR. WOLFENSOHN: No. The first thing you have to understand is the board is a resident board and it meets twice as week. That is unusual in the private sector. In fact, there is no place in the private sector where you would have that sort of setup. So you have to first of all recognize that that's what the nature of the board is. You just have to accept that when you become President of the World Bank.

But within the framework of the resolute board, I'm not saying that I found the board both useful and constructive. I think that they have very good people. And then, because, unlike directors in a private organization, who are appointed for themselves, in the case of a board of a multilateral institution, they are representatives of the government, so they have to reflect the views of the government. So if you ask them to vote on something, they have to canvass their government. Whereas in the private board you can develop individual relationships and an individual doesn't have to explain, take risks, and can exercise judgment, in the case of the board of the Bank, very correctly, they have to present the view of their governments every day, so they're in a very tough position.

As new things keep coming up, and in the case of the Bank, with new things coming up all the time, they've got to keep going back and explaining to a number of people back in the head office what's going on and then get instructions.

I don't think the place could operate without them. I mean, in that sense, I think the board is a necessity. Given the way the international system works, you couldn't have it other than having a resident board, if each of the governments is keen to take both an economic and political decision on everything you're doing. So I think the nature of the beast is such that it probably mandates this sort of institutional setup.

Beyond that, I think that this board is particularly very constructive and very helpful. I mean, they did unanimously endorse the compact, unanimously. There was obviously a lot of debate, but the fact is that in the end they unanimously endorsed it. They unanimously endorsed HIPC. I think they will unanimously endorse the corruption--I mean, in the end there's a debate, but without the board to act as an intermediating body between what management is suggesting and what countries are prepared to do, the place wouldn't function. No international body so far has yet to pick a management team and say, "Here it is, go speak in the name of England or Australia--" Frankly, I miss that. But I think it's reality and I think this board has been very constructive.

MS. RYAN: I suppose it makes it difficult for you to not work the way a chairman or chief executive might do in the private sector.

MR. WOLFENSOHN: Well, it's very different. It's very different. But within the context of the structure, I have come to appreciate this board. I don't think, given that governments are not prepared to give you their blanket authority to go do things, that this system is mandated. And I think within that system this board is functioning very well.

MS. SPIRO: Jim, I know you've been asked this question before, but maybe you can take another crack at it. China has about $121 billion in reserves, and they're the World Bank's biggest client. As we said, it's not a huge amount of money that they get, but, still--

MR. WOLFENSOHN: Huge for us.

MS. SPIRO: Right, it's huge for the Bank. But if they have all these reserves, why does the World Bank need to lend them any money?

MR. WOLFENSOHN: Let me start by saying that they still have 250 million that live under a dollar a day, so it is the largest center of poverty in the world. And so IDA funding has been directed basically to those people. The IDA funding, as you know, is likely to run out in the next couple of years, and then we will be back to IBRD funding.

MS. SPIRO: For everybody?

MR. WOLFENSOHN: No, no. For China. China is a so-called case of a mixed borrower. They borrow some IDA funding and some IBRD funding, roughly two to one. India is also a case of a mixed borrower, with some IDA funding. And--

MR. JINGSHENG: Excuse me. Did you say IDA will dissolve for China next year?

MR. WOLFENSOHN: The end of--it is thought--it's not definitive, but it's thought that IDA-11 will be the last available IDA for China and that thereafter what will be available is IBRD lending. That is not a definitive decision, but that's what is thought as likely. In IDA-11, China has $880 million, roughly, allocated to it.

MS. SPIRO: Is that--

MR. WOLFENSOHN: For the three-year period.

MS. SPIRO: Is that because of China's development?

MR. WOLFENSOHN: Yes, because it's graduated. That happens in many countries. They come through IDA, and then they become IBRD borrowers. That is perfectly natural and a normal sequence. And we generally stop IDA lending when they reach a certain level of per capita income and then are able to borrow from the Bank.

MS. SPIRO: Do you know what that level is?

MR. WOLFENSOHN: Yes. It ranges between $700 per capita and $1,000 per capita. It's roughly $2.50 a day where we start looking at drawing down, and in the case of China, the GDP per capita now is $620 per capita. So now we're getting around a level where IDA normally converts to IBRD. Nothing unusual, absolutely straightforward in keeping with the principles of IDA. So that's a normal extension.

Then the question becomes, Why should the Bank lend to China given that it can go out and borrow money? And the answer is that the Chinese--that the Bank does two things: A, it lends money; and, secondly, it gives advice and counsel and assistance. And if you ask me, the reason that the Chinese want to borrow from us is because of the technical advice and assistance and professional assistance we can give.

I think if you were to ask the Chinese Government, they would tell you they trust us. We've been operating there for over 15 years. We've helped train a lot of people, had a very intimate relationship, and so they're choosing to borrow from us in addition to borrowing from others because of the special background that we can bring on issues of development.

Now, we are not resource constrained in the Bank about lending. We have a lot of room. The only question is, How much can we lend in any one year to a country and what is the total that we should be lending to a country? And so we will no doubt at some point decide with the Chinese what is the appropriate level of lending to them, but, you know, they can go out in international markets and borrow.

But I think it's in the interest of the world--not just the Chinese; in the world--that we retain the dialogue that we have because the dialogue is very rich. It's very rich in terms of rural, in terms of general macroeconomic development, and I think the Chinese welcome it and so do we. It is, after all, a fifth of the world's population, and I would hope very much that the link will continue for a very long time.

MR. JINGSHENG: You mentioned--

MR. WOLFENSOHN: IBRD is not concessional lending. IBRD--

MS. SPIRO: It's not a market rate, though, is it?

MR. WOLFENSOHN: We charge a half over our cost and then rebate a quarter, so it's essentially a quarter over our cost. The Bank does not make money on lending. I've made this point many times. It's a service that we give, but it's a two-way service. You know, we learn something about the country; the country learns something about us. And the function of the Bank is to ensure that the fight against poverty and sustainable development--the fight against poverty and the support of sustainable development is carried forward. And I therefore think China is a very important part of our job. That's why--it's not originally why we were set up, but it's the way the Bank has evolved. We were originally set up as a post World War II reconstruction and development agency, but the mutation of the Bank has that as the objective. Therefore, China, I would imagine, for many years will be a good client of the Bank.

At a certain point in time, they graduate from IBRD, too, and that's above $6,000 to $7,000 per capita income. And at some point China will graduate. But between now and then, I think there's a lot of work to be done.

MS. SPIRO: Certainly they can afford to pay the Bank after all the Bank has given them. I certainly can't dispute that the Bank has done tremendous things for China. The question is, Why should they not pay for it?

MR. WOLFENSOHN: Well, they do pay for it. They pay interest on their loans, but no borrower--no borrower--pays us for our services. As a private sector preacher, you know, I might have set it up differently. But I wasn't around when Mr. Keynes and Mr. Wright decided to set it up. And so I'm just doing loyal service for the institution, and I do what I'm told to do. If the Board ever decides to charge, that would be a great day, I think.

MR. BROWN: Just two clarifications. One, at the beginning of the answer, Jim misspoke. India is the country with the largest concentration of poor people, not China.

MR. WOLFENSOHN: Is that right?

MR. BROWN: About 312 million versus 270 million.

The second point, just to understand, you know, just--I don't think you're under this misapprehension, but the payment for those services that China gets the Bank is paying. It's not as though it's some sort of subsidy from the U.S. Government. It's the Bank out of its net income is essentially providing free advisory services to countries or out of its administrative costs providing the services. So it's not as though, you know, the U.S. taxpayer has got a gripe toward this arrangement. As Jim says, China's situation is exactly the same as Argentina's or in other countries.

MR. WOLFENSOHN: Just to be clear--someone has just given me a note, and I think I used these numbers. Did I say 3 billion is the total that we were putting up? It's 3 billion for the six packages for HIPC, and the Bank will come up with about $900 million in present value terms. I think I said $700 or $800 million. And the countries are Cote d'Ivoire, Guyana, Mozambique, after Uganda, Bolivia, and Burkina Faso. I think I omitted to say Guyana. Guyana is, in fact, on--I've already seen the memorandum on Guyana.

MR. JINGSHENG: And Burkina Faso?

MR. WOLFENSOHN: Burkina Faso, yes. Burkina

Faso is next. In fact, we discussed this with our Board yesterday, and I think the Fund may be discussing it today. So Burkina is the next, then Bolivia, and then the next three are Cote d'Ivoire, Guyana, and Mozambique.

MR. MERLI: Your changing relation with the private sector, is IFC going to be given a bigger role and more resources? Have you considered at least partly privatizing it, as has been suggested, for instance, by a study sponsored by the U.K. Government?

MR. WOLFENSOHN: Well, I haven't decided--I haven't studied the privatization. Of course, I think that the strength of IFC depends on it being a global entity. You ought to understand that the strength of the Bank, of MIGA, and the IFC, is the strength of 180 countries or the proportion of them that own the Bank, IFC, and MIGA. And the reason that we're different and get paid back is that if you fool with the Bank or with the Fund, you essentially cut yourself off from all the countries in the world.

That is the real strength of the institution, and so the strength of IFC in terms of its weight with governments I think depends on its ownership. I've not seen the study of the British Government--

MR. MERLI: Although it technically is not guaranteed, the same way as the World Bank--

MR. WOLFENSOHN: It's not technically guaranteed, but there is a strong, persuasive influence if you deal with IFC, and that is related also to the Bank and is part of the Bank family. I think if you were to privatize the World Bank or privatize the IFC or privatize MIGA, you would lose the greatest strength that you might otherwise have.

That does not mean that IFC cannot work in partnership with the private sector, which it does significantly. In fact, the leverage we tend to get on our projects in which we put sometimes goes as high as 10 or 15 times. So we are using leverage the whole time. It also doesn't mean that we can't sell off strips of loans, which we've also done on occasion.

So as with the private sector enterprises, we're looking at ways in which we can join the private sector in funding, either in partnership or in selling strips of loans. And in the case of MIGA, we can do it by reinsurance. So we are very closely linked with the private sector, and I want to try and develop that because it gives us more leverage.

On the role of the Bank and the private sector, I think what was very clear was that we were operating here with a number of different heads. We were operating through the Bank, through IFC, and through MIGA, all dealing with the private sector. Each had its own hierarchy. Each had its own marketing plans. And one thing we've done in the last year is at least bring together all the information that we have on companies and all the approaches that we're dealing with on companies into one area.

The second thing that we've done is to make it easier for the public to deal with by setting up a business bureau so that if you're interested in doing anything with the World Bank Group, you can make a single phone call, and you'll have someone who will say, yes, we should put together a team of IFC, the Bank, your region, MIGA, and tomorrow morning we'll have them all together for you or we'll send you the information. And what we're now working on is having a single point of contact for each client, which might be in IFC or in the Bank, but which is most likely going to be in IFC in most cases. In that sense, IFC will have an expanded role, but it will have a supportive role provided by the Bank and by MIGA.

And we're just working on that now, and I have put two people in charge, the head of IFC and one of my top Managing Director, Gautam Kaji, to jointly bring that together, and that is a work in progress which we will have completed by the end of this year. We've already taken a number of Bank staff dealing in some industrial sectors and located them at IFC. So we have a physical location of specialists in areas where they're literally adjacent to the people in IFC. And all this is now starting to happen, and in two years we'll have all our--in three years, we'll have all our offices overseas collocated so that the Bank and IFC will be together. And the objective that I have very clearly is to make it easier rather than more difficult for the private sector to come in, because the complaints that we've got, we don't know where to go and, you know, some multi-headed monster, now you can make a phone call or an e-mail call and do it all in one hit.

Chances are that as a result of this, IFC will take all responsibility for direct contact with the corporate sector, and I expect to see growth. IFC is not capital constrained at the moment, and it has some possible constraint in terms of the amount of equity that it can take. But that is a self-imposed constraint. MIGA is capital constrained, and we're looking to try and get a capital increase on MIGA because it's been very successful and it just needs more capital to write more insurance.

MR. BROWN: We're going to try and bring this to a close.

MR. BECK: I have just one thing I'd like to just be updated on. What's the position vis-a-vis the U.S. administration and Congress regarding their level of financing?

MR. WOLFENSOHN: Today and tomorrow, it is being discussed on the floor of the House. The Senate has recommended $1.34 billion, which is $800 million for this tranche and $234 million as the residual part of the backlog. The House originally came in with a figure of $600 or $700 million, but it is either on the floor of the House today or in conference.

MR. BROWN: It's on the floor.

MR. WOLFENSOHN: It's on the floor of the House today, and ultimately it will go to conference, and it has the full support of the administration to go to $1.34 billion to clean it all up. And we're very hopeful that that will happen, but today and tomorrow you'll get an answer, get some indication.

MR. BECK: So things have improved dramatically?

MR. WOLFENSOHN: Dramatically, yes. But we're not celebrating yet because there's still a big gap between the House and the Senate.

MR. BROWN: Okay. Well, thank you all very much.

MR. WOLFENSOHN: It was a real test for me. Thank you.

[Whereupon, at 11:15 a.m., the meeting was adjourned.]

HIPC Initiative

I. Summary of the Initiative

- ***Country-specific outputs:*** In CY97 to date, 7 countries (Uganda, Benin, Bolivia, Burkina Faso, Côte d'Ivoire, Guyana and Mozambique) have been considered, with following results:

⇒ *Debt relief packages for six countries have been presented to the Bank/Fund Boards.* These packages could be worth *US$3 billion in present value terms*. It is proposed that this number be mentioned in Mr. Wolfensohn's speech at the Annual Meetings.

⇒ *Board decisions:*

Country	NPV Debt Relief ($ mil.)	Decision Point
Uganda	338	April 1997
Benin	0 (sustainable case)	July 1997
Burkina Faso	106	Sept. 2 (Bank) Sept. 8 (IMF)
Bolivia	448	Sept. 9 (Bank) Sept.11 (IMF).
TOTAL	892	

⇒ *Preliminary HIPC documents* have or will be discussed by the Boards for *Côte d'Ivoire* (last April), *Guyana* (September 2nd at the Bank), and *Mozambique* (September 9 at the Bank). We expect that these countries will reach their decision points during the 4th quarter of 1997. (For more details, see annex).

- ***Policy-papers***: 4 Board papers reviewed progress and enabled the Board to consider policy issues that have arisen in the course of implementation so far. The Boards approved several methodological changes, including the introduction of a three-year export average in calculating the export base and a fiscal criterion for countries with unusually large shares of exports in GDP. A Progress Report on the Initiative was prepared in April for consideration by the Development Committee. Another report will be issued to the Committee at the Annual Meetings.

- ***Costing of initiative and burden sharing:*** The latest estimate put the total cost at US$7.4 billion in 1996 present value terms of which US$1.6 billion for the World Bank. The burden sharing issue between the Paris Club and the multilaterals has been resolved in favor of a fully proportional burden sharing approach after the full application of the Naples terms.

Brief prepared by: Axel van Trotsenburg, HIPC Implementation Unit, x36794
8/31/97

- ***Coordination among multilateral development banks.*** The Bank has taken the lead in coordinating HIPC matters among about 20 multilateral institutions. In this context, a third conference of multilateral creditors to HIPC countries was convened at the Bank in March. The next conference is scheduled at the Bank on September 15 and 16.

- ***HIPC Trust Fund***:

⇒ The Bank transferred last April US$500 million to the HIPC Trust Fund. In July 1997, the Executive Directors recommended to the IBRD Board of Governors another transfer of US$250 million from IBRD FY97 net income. Together with the relief provided through IDA grants, the money provided to the Trust Fund is expected to be sufficient to cover the Bank's share of the cost under the Initiative through 1997. The Bank remains committed to meet its full share of the cost under the Initiative.

⇒ Bilateral contributions or pledges to the Trust Fund are in the order of US$100 million. However, based on the anticipated debt relief to be committed in 1997, *additional donor contributions are needed in order to ensure that all multilateral institutions, especially the AfDB, are in a position to meet their share of the cost.*

- ***Challenges for the coming months:*** We expect that about 6 countries (including, Côte d'Ivoire, Guyana, Mozambique, Mali, Senegal, and Togo) could reach their decision points between September and the next Spring Meetings. Timing of the processing of country documents is largely a function of the length of track record under Bank and Fund programs and the need to reach agreement on policy measures to be undertaken in the period between the decision point and the delivery of debt relief at the completion points.

II. Participation of Multilateral Creditors

- *World Bank.* The Bank established the HIPC Trust Fund in November, 1996, and subsequently transferred US$500 million from its IBRD surplus to this Trust Fund as an initial contribution. The World Bank remains committed to meet its share of the agreed debt relief out of its own resources: The Executive Directors recommended to the Board of Governors a further IBRD contribution of US$250 million from its FY97 net income to the HIPC Trust Fund. The Board will consider this recommendation during the Annual Meetings.

- *IMF.* IMF established the ESAF-HIPC Trust for financing special ESAF operations under the Initiative, and decided that an amount of up to SDR 180 million can be transferred from the ESAF Trust Reserve Account and used for special ESAF operations. However, given the higher cost estimates and the frontloaded profile of commitments, commitments required from the IMF in 1997 may exceed SDR180 million. Therefore, according to the IMF, substantial bilateral contributions to the ESAF HIPC Trust are needed or other financing options, including optimization of the use of Fund's reserves, may need to be reopened soon.

- *Other Multilaterals.* Most MDBs have either obtained or are well advanced in obtaining the appropriate institutional approvals to enable them to participate. The African Development Bank and the Inter-American Development Bank have obtained the necessary formal approvals, in principle, for them to participate. The *African Development Bank* has decided to use the HIPC Trust Fund to provide assistance under the Initiative, and to allocate the equivalent of about US$260 to US$330 million to it during the years 1997 to 2003. Based on the anticipated debt relief to be committed in 1997, the AfDB would need to receive substantial bilateral contributions in order to meet its share of the cost.

- *Coordination among Multilaterals.* Multilateral creditors of the HIPCs met under the chairmanship of the World Bank in November 1996 and March 1997 to discuss the implementation of the Initiative, as well as the status of their participation in it. They are scheduled to meet again on September 15 and 16 in Washington.

- *Contributions to HIPC Trust Fund as of end July 1997:*

  Actual contributions: US$ 23.5 million from Switzerland ($14 m.), Norway ($4 m.), Denmark ($4 m.), Greece ($1 m.), and Luxembourg ($0.5 m.)

  Contributions expected soon: US$ 82 million from Netherlands ($50 m.), Denmark ($18 m. for AfDB component), and UK ($10.5 m. for AfDB component).

III. Cost of the HIPC Debt Initiative

1.6

- The latest estimated cost is **US$7.4 billion**, expressed in 1996 present value terms. The Board discussed the costing and burden sharing paper on July 24,1997.

- The cost estimates are highly sensitive to assumptions used. If the export growth rate were to be 2 percent lower than the baseline, cost would increase to US$8.5 billion. A higher NPV of debt-to-export target of 220 percent instead of 200 percent assumed in the baseline would reduce the cost to US$6.3 billion in 1996 present value terms.

- The main reasons leading to:
  possible increases in costs are (i) the use of three-year export averages, (ii) updated country debt sustainability analyses, and (iii) the decision to allow for a lower NPV of the debt-to-exports target for open countries with a heavy burden of debt in relation to fiscal revenues, and
  possible reductions in costs are (i) higher NPV debt-to-export targets, compared with the baseline assumption of 200 percent, and (ii) the possibility that debt relief may be delayed or lower as a result of slippages in country performance, or that some countries may not take up assistance under the Initiative.

- *Annual time profile of potential cost to be committed at the "decision" points:*

	1997	1998	1999	2000	20001	TOTAL
In US$ bil.	3.3	0.5	2.2	0.3	1.2	7.4
In % of Total	45%	6%	29%	4%	16%	100%

- With the fully proportional burden sharing approach approved by the Boards, *cost to the World Bank* is estimated *US$1.6 billion.*

IV. Debt Relief for Uganda, Bolivia, and Burkina Faso

Uganda:

- In April, 1997, the Bank/Fund Boards decided that

  (i) that Uganda had reached the "*decision point*";

  (ii) *to shorten the interim period to one year* in light of Uganda's exceptional record of sustained and strong record of adjustment and reform, and the program of economic reforms and social development to be pursued with support of the IMF and the Bank, ("*completion point*" would therefore be *April 1998*), and

  (iii) *to provided debt relief totaling about US$ 340 million in net present value terms.*

- Of the total assistance, IDA will provide (in net present value terms) US$160 million in debt relief. This relief will reduce nominal debt service to the Bank by around US$430 million over the lifespan of the IDA credits concerned. During the next 12 months, IDA has agreed to advance a portion of this relief through the provision of US$75 million in the form of IDA grants.

- The IMF will be providing in net present value terms the equivalent of US$70 million in assistance which will reduce nominal debt-service to the Fund by about US$90 million (around 30 percent of current debt-service due to the Fund) over the next nine years.

- Confirmation by other multilateral institutions to provide HIPC debt relief: Status as of August 1997: Most MDBs have responded positively and will participate. They include AfDB, EU, Islamic Development Bank, and Nordic Development Fund. We expect to finalize the confirmation process by the Annual Meetings.

Bolvia: <u>(To be Decided by the Bank and Fund on Sept. 9 and 11, respectively)</u>

- If the Bank/Fund Boards agree with staff recommendations, they will decide that

  (i) that Bolivia had reached the "*decision point*" in September 1997;

  (ii) *to shorten the interim period to one year* in light of Bolivia's strong performance record, ("*completion point*" would therefore be *September 1998*), and

  (iii) *to provided debt relief totaling about US$ 448 million in net present value terms.* In view of Bolivia's heavy debt-service burden (which will exceed 20 percent of exports until about 2003), both the Bank and the Fund intend to frontload their assistance so as to reduce the debt service ratio to 20 percent or below.

- Of the total assistance, IDA will provide (in net present value terms) US$54 million in debt relief. During the interim period, IDA has agreed to advance a portion of this relief through the provision of US$25 million (equivalent to US$7 million in NPV terms) in the form of IDA grants. The remainder of the debt relief will be provided by the HIPC Trust Fund by means of paying Bolivia's IDA debt service as it falls due.

Burkina Faso: <u>(To be Decided by the Bank and Fund on Sept. 2 and 8, respectively)</u>

- If the Bank/Fund Boards agree with staff recommendations, they will decide that

  (i) that Burkina Faso had reached the "*decision point*" in September 1997;

(ii) *to shorten the interim period to two years* in light of Burkina Faso's performance record, ("*completion point*" would therefore be *September 1999*), and

(iii) *to provided debt relief totaling about US$ 106 million in net present value terms.*

- Of the total assistance, IDA will provide (in net present value terms) US$40 million in debt relief. This relief will reduce nominal debt service to the Bank by around US$85 million over the lifespan of the IDA credits concerned.

V. Status of Potential Debt Relief for Other HIPCs

Côte d'Ivoire: The Boards have discussed the preliminary HIPC document in April 1997. Based on the guidance of the Boards, consultations with other creditors have been completed. However, the Government is still negotiating with the Bank and Fund on a new Policy Framework Paper (PFP) as well as on a new ESAF arrangement. We are now expecting a "decision points" somewhere in the 4th quarter of 1997.

- *Guyana and Mozambique*: Bank and Fund staff have circulated the preliminary HIPC documents for both countries. The Boards will discuss these country cases on September 2nd and 9 at the Bank and on September 3 and 12 at the Fund.

- *Benin:* A debt sustainability analysis was undertaken by the authorities, the Bank, and the Fund. The results of this exercise show that Benin has a sustainable debt burden and, therefore, would *not* qualify for debt relief under the HIPC Initiative. For those countries where the authorities agree that the debt burden is sustainable, we will not prepare a detailed HIPC document but rather provide a brief summary of the debt sustainability analysis that is being circulated to our Board on an informational basis.

- We will prepare in the fall of 1997 debt sustainability analyses with the governments of several other countries, including *Mali, Senegal, and possibly Togo*. The debt sustainability analysis for *Ethiopia* has been postponed because of problems in implementing the current ESAF arrangement.

VI. Supplemental Tables

- Total cost of the Initiative
- Potential Debt Relief to be Committed in 1997
- World Bank Debt Relief to be Committed in 1997

HIPC Initiative: Estimates of Total Costs

(In billions of US dollars, in 1996 present value terms)

Scenario	Total Estimated Costs
1. Baseline	7.4
2. NPV of debt-to-exports target of 220 percent instead of 200 percent in baseline	6.3
3. Export growth rate 2 percent lower than baseline	8.5
<u>Memorandum:</u>	
Baseline excluding countries without current Fund/Bank-supported programs 1/	5.9

Sources: HIPC: Estimated Costs and Burden Sharing Approaches, July 1997.

1/ Burundi, Dem. Rep. of Congo, Myanmar, Rwanda, and São Tomé and Príncipe

HIPC Implementation Unit
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8/31/97

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HIPC Debt Initiative

Potential Debt Relief To Be Committed in 1997

(Preliminary and Final HIPC Documents Discussed by the Bank/Fund Boards through September 1997)

	Firm or Likely Decision Point	Likely Completion Point	NPV debt/export or NPV debt/revenue at Completion Point	NPV debt/export or NPV debt/revenue Target	POTENTIAL DEBT RELIEF (In millions of US$, NPV terms) 3/						
					TOTAL 2/		Bilateral	Multilateral of which:	IMF	World Bank	AfDB/IDB
Uganda	Apr-97	Apr-1998	249%	202%	338	700	67	271	69	160	22
Bolivia	Sep-97	Sep-98	259%	225%	448	800	157	291	29	54	155
Burkina Faso	Sep-97	Sep-99	243%	210%	106	200	19	87	10	40	18
Cote d'Ivoire 4/	4th Q. 1997	4th Q. 2000	298%	280% 1/	492	900	232	260	30	131	76
Guyana	4th Q. 1997	4th Q. 1998	390%	280% 1/	292	500	103	189	39	33	60
Mozambique	4th Q. 1997	4th Q. 1999	466%	200%	1,479	3,000	946	533	98	288	100
TOTAL					**3,155**	6,000	**1,523**	**1,632**	**275**	**706**	**431**
										AfDB	216
										IDB	215
Memorandum: Debt relief as % of Total					100%		48%	52%	9%	22%	14%

Sources: Joint IMF and World Bank Final HIPC Documents on Uganda (April 1997) and Bolvia and Burkina Faso (August 1997).

Joint IMF and World Bank Preliminary HIPC Documents on Guyana and Mozambique (August 1997) and Bolvia and Burkina Faso (August 1997).

Joint IMF and World Bank Guidelines Paper (April 1997) for Cote d'Ivoire.

1/ Application of new "guidelines" approved by the Boards on April 24.

2/ Bilateral and multilateral debt relief.

3/ In NPV terms at the completion point.

4/ Based on the cost estimate included in the Guidelines papaer in April 1997. This estimate is likely subject to a substantial downward correction.

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8/31/97

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HIPC Debt Initiative

World Bank Debt Relief To be Committed in 1997

(In millions of US$, in NPV Terms at the completion point)

	Firm or Likely Decision Point	TOTAL	To be delivered through			Memorandum: CAS Lending (FY98-2000)
			HIPC Trust Fund	IDA Grant		
				NPV terms	Nominal terms	
Uganda	Apr-97	160	138	22	75	675
Bolivia	Sep-97	54	47	7	25	222
Burkina Faso	Sep-97	40	40	---	---	399
Cote d'Ivoire	4th Q. 1997	131	---	131	394	800
Guyana	4th Q. 1997	33	33			54
Mozambique	4th Q. 1997	288	227	61	183	366
TOTAL		**706**	**485**	**221**	**677**	**2,516**
<u>Memorandum:</u> Vehicles of debt relief as % of Total		100%	69%	31%		

Sources: Final HIPC Documents for Uganda (April 1997), Bolivia and Burkina Faso (August 1997).
Ethiopia cost estimate comes from Joint IMF and World Bank costing paper, July 1997.
Cote d'Ivoire estimate comes from Guidelines Paper, April 1997 as it is more in line with the latest cost estimate than the one included in the costing paper.

HIPC Implementation Unit
Axel van Trotsenburg
8/31/97

JDW – these are the HIPC numbers.

HIPC

Last year, I promised that we would work closely with the International Monetary Fund to implement the Debt Initiative for the heavily indebted poor countries. I am very pleased to report to you that we have made tremendous progress over the last 12 months. To date, we have undertaken debt sustainability analyses for seven countries and presented debt relief packages for six that could be worth about **$3 billion** in present value terms. Our Boards have already taken decisions to provide debt relief to Uganda, Bolivia, and Burkina Faso, amounting to about **$900 million** in present value terms. Over the next few months, we expect decisions on the terms of debt relief for Cote d'Ivoire, Guyana, and Mozambique and we will work with governments of a number of other HIPC countries to assess their debt situation.

Let me reiterate the Bank's strong commitment to provide debt relief to those HIPC countries with unsustainable debts but strong track records in implementing social and economic reforms. Let me also stress that the Bank will pay for its full share of the cost. Earlier this year we transferred $500 million to the HIPC Trust Fund and another transfer of $250 million was recently approved by our Board. I am prepared to recommend additional allocations to the Trust Fund to meet the Bank's share of the cost as we progress with the Initiative's implementation. This will create the fiscal space that will allow our poorest member countries to redouble their efforts to improve social conditions and reduce poverty.

Regions at a glance

IEC, August 1996

SOCIAL INDICATORS	High-income countries	East Asia	Europe & Central Asia	Latin America & Carib.	M. East & North Africa	South Asia	Sub-Saharan Africa
Population mid-1995 *(millions)*	902	1,709	488	480	273	1,243	589
GNP per capita 1995 *(US$)*	24,370	830	2,240	3,300	1,780	350	490
GNP 1995 *(billions US$)*	21,982	1,418	1,093	1,584	486	435	289
Average annual growth, 1990-95							
Population *(%)*	0.7	1.3	0.4	1.8	2.7	1.9	2.8
Labor force *(%)*	0.8	1.4	0.6	2.4	3.3	2.4	2.8
Most recent estimate *(latest year available since 1989)*							
Urban population *(% of total population)*	78	31	66	74	56	26	31
Life expectancy at birth *(years)*	77	68	68	68	66	61	52
Infant mortality *(per 1,000 live births)*	7	36	23	41	49	73	92
Access to safe water *(% of population)*	94	77	..	81	82	81	47
Illiteracy *(% of population age 15+)*	< 5	17	..	13	39	50	43
Gross primary enrollment *(% of school-age population)*	104	117	97	110	97	98	71
KEY ECONOMIC RATIOS *(%, 1995)*							
GDP *(billions US$)*	23,097.0	1,328.1	1,093.4	1,685.6	462.1	443.2	293.8
Gross domestic investment/GDP	20.5	37.1	24.0	19.8	21.5	23.0	19.5
Exports of goods and non-factor services/GDP	21.1	30.6	24.0	16.6	30.4	14.0	28.6
Imports of goods and non-factor services/GDP	20.2	30.2	22.6	17.1	30.0	16.7	31.3
Gross domestic savings/GDP	21.3	37.7	21.8	19.5	22.0	20.5	17.2
Gross national savings/GDP	*19.8*	36.7	..	15.4	20.3	20.8	14.1
Current account balance/GDP	0.1	-1.1	-0.6	-1.8	-2.7	-1.9	-2.7
Interest payments/GDP	..	1.2	1.3	1.7	1.3	1.3	1.6
Total debt/GDP	..	30.4	35.5	35.9	47.0	38.1	73.9
Total debt service/exports	..	12.3	15.4	30.3	13.7	24.9	14.7
Present value of debt/GDP	..	*28.1*	*25.1*	*29.7*	*29.4*	*26.6*	*55.5*
Present value of debt/exports	..	*95.0*	*109.1*	*221.0*	*89.4*	*180.6*	*190.2*
LONG-TERM TRENDS *(average annual growth)*							
GDP							
1991-94	1.7	9.7	-9.0	3.6	2.4	3.9	0.7
1995 estimate	2.6	9.2	-0.7	0.9	2.5	5.5	3.8
1996-2005 forecast	3.0	8.1	4.3	3.8	2.9	5.4	3.8
GDP per capita							
1991-94	1.1	8.2	-9.3	1.6	-0.3	1.8	-2.2
1995 estimate	2.0	8.0	-0.8	-0.7	0.1	3.6	1.1
1996-2005 forecast	2.5	7.1	3.7	2.2	0.4	3.7	0.9
Inflation (GDP deflator)							
1991-94	2.7	6.8	54.0	20.0	5.1	10.1	9.4
1995 estimate	2.3	8.6	38.6	11.1	5.9	9.0	9.7
1996-2005 forecast	2.8	5.8	18.1	8.7	6.3	6.4	8.0
Exports of goods and non-factor services							
1991-94	5.6	15.5	-0.4	7.0	3.1	11.5	2.1
1995 estimate	8.6	19.8	10.2	9.0	2.6	14.4	5.6
1996-2005 forecast	6.0	10.7	5.1	6.1	4.1	7.2	4.8
Imports of goods and non-factor services							
1991-94	5.3	17.0	-3.9	12.2	1.1	13.3	2.1
1995 estimate	8.5	16.5	11.0	-3.2	4.4	5.6	10.9
1996-2005 forecast	5.8	11.7	5.9	5.8	5.9	8.0	5.5
Current account balance *(% of GDP)*							
1991-94	-0.1	-1.6	-1.1	-2.6	-5.7	-1.2	-1.4
1995 estimate	0.1	-1.1	-0.6	-1.8	-2.7	-1.9	-2.7
1996-2005 forecast	0.4	-2.0	-0.5	-1.6	-1.6	-2.3	-2.2
EXTERNAL DEBT and RESOURCE FLOWS *(billions US$, 1995)*							
Total debt outstanding and disbursed	..	404.3	379.8	607.2	217.0	167.6	223.3
IBRD	..	27.9	15.8	36.4	10.6	13.3	7.6
IDA	..	9.7	0.7	2.2	2.1	29.0	27.9
Total debt service	..	51.7	40.4	72.3	21.7	17.0	12.2
IBRD	..	4.2	2.1	7.6	1.9	2.1	1.7
IDA	..	0.1	0.0	0.0	0.0	0.5	0.3
Composition of net resource flows							
Official grants	..	3.0	7.7	2.5	4.2	2.8	11.6
Official creditors	..	6.5	1.7	12.3	2.1	3.6	4.4
Private creditors	..	19.4	3.3	9.9	4.6	2.5	-0.4
Foreign direct investment	..	52.2	12.5	17.8	2.1	2.0	2.2
Portfolio equity	..	10.0	1.6	6.2	0.1	1.4	0.2

Notes: 1995 estimates are preliminary; figures in italics are for 1994. Data reading 0.0 mean less than half the unit shown. Geographic regions cover developing countries only. Sub-Saharan Africa includes South Africa.

IBRD

Developing Country Statistics

Net Long-term Resource Flows

Portfolio Lending Indicators

	Indonesia	Malaysia	Philippines[a]	Thailand
GDP Growth *(1996, %)*	7.8	8.2	6.9	6.7
Current Account Balance *(1996, in % GDP)*	-3.5	-5.2	-4.3	-8.0
Public Sector Surplus *(1996, in % GDP)*	0.9[b]	1.6	0.2	2.2
External Debt *(1996, in % GDP)*	46.9	38.8	48.1	49.9
Private	18.8	..	27.7	40.6
Public	28.1	..	20.4	9.3
Debt Service *(1996, % of exports of goods & servs.)*	33.0	5.7	12.2	11.4
Inflation *(latest available, 12 month % change)*	8.0	2.2	4.8	4.9
Stock Market (local currency terms) *% change Jan. 2 - Sept. 2, 1997*	-24.9	-35.3	-38.2	-35.8
Exchange Rate (local currency/ US$)				
% change since end Dec., 1996	28.6	13.6	16.7	33.6
% change since end June, 1997	23.5	13.9	16.3	32.6

a. Data for Philippines are in GNP terms
b. Central Government only

→ long term.

Structure of debt is key.

Talking Points For Press and External Audiences

- East Asian countries have been leading beneficiaries of open global trade and investment and the resurgence of private capital. But there are risks which must be managed as well as opportunities in a world of mobile capital.
- The likelihood that a country will come under major pressure depends on the extent of its macroeconomic and financial sector vulnerability. This includes the magnitude and composition of liabilities, real exchange rate appreciation and loss of export competitiveness, and much more importantly than previously recognized, fragility in the banking sector often because of too rapid and too risky lending.
- A decisive policy response is vital: delayed and inadequate measures can make these vulnerabilities worse and hasten a full fledged crisis. This is equally important for countries which may suffer contagion as investors drastically reassess their views of countries that they see, rightly or wrongly, as sharing similar attributes.
- Countries in Southeast Asia have taken the pragmatic step of allowing their currencies to float, and tightening liquidity.
- The challenge now is to establish confidence quickly so as to minimize the risks of a major downturn and create the conditions for sustained growth. In this, it is important to recognize that restoring confidence in the currencies means restoring confidence in the economies.
- This of course requires a strong macroeconomic response.
- But equally important, countries need to address the structural issues central to soundly based long-term growth and hence to the restoration of investor confidence. Foremost is the need to deal forcefully with the difficulties of the financial sector. Countries also need to signal renewed commitment to market reforms and fiscally responsible investments.
- On our side, we are actively engaged in discussions with countries to see how we can tailor support to their particular circumstances. One area where we are paying particular attention is the strengthening of the financial sector. In the case of Thailand, we are preparing a technical assistance loan on a fast track, and we are prepared to follow this as needed with other operations.

Prepared by a team from East Asia and PREM/DPG including Amar Bhattacharya, Stijn Claessens, Sanjay Dhar, Uri Dadush, Ronald Johannes, Himmat Kalsi and Robert Lynn under the guidance of Masood Ahmed

INSTITUTE FOR POLICY STUDIES ENVIRONMENTAL CLAIMS:

- **The Bank's record for loans on the environment is now the largest in the world.** Since Rio, the Bank has sharply expanded its targeted support for environmental reforms in our client countries, with active environmental programs in 68 countries. **The portfolio of (disbursing) loans now stands at nearly $12 billion.**

- **We lend for coal and other fossil fuels because many of our countries have significant coal reserves.** But we require these projects to be as environmentally and socially sustainable as possible. **It is likely that without the Bank's environmental and social constraints placed on some of these projects, they would have produced more damage to the environment.**

- The Bank's lending for coal projects (power generation and mining) over the last 5 years amounts to 27 percent of the overall energy lending portfolio of approximately $2.5-3 billion per year, all of which were subjected to full environmental and social assessment.

- **Will Bank-funded projects emit 9.5 billion tons of carbon over the next 20 to 50 years, as the IPS report claims?**
- **No. The IPS figure is too high by a factor of 5. Our estimate is between 1.4 and 1.8 billion.**

FIAS —

RUSSIA COAL SECTOR LOAN

- Increased transparency and accountability in handling of coal subsidies has been an important benefit of the Bank's coal loan in Russia. Before the loan, RosUgol was given $1.5 billion a year with no accountability. The concern now, as expressed in the article, is over $50-100 million. **Because of mishandling of these funds, corrupt coal company executives and local officials have been demoted or fired.**

- As for future lending, it has been clearly indicated to the Government that **significant up-front progress will be required in further improving the transparency and management of coal subsidies and in reducing RosUgol's control over the industry.** Alternative agencies and new mechanisms for handling subsidies, particularly those for social protection, are being sought, while coal subsidies as a whole continue to be reduced. In parallel, the Government will need to move forward with a clear program of accelerated privatization of the coal sector.

15th Party Congress

President Jiang - First without Deng

China needs 700-800 Bill in 10 yrs for infrastructure

Provincial differences -

Telecom Urban Transport roads water power -

400 Bill

1990 – 96

Private Capital Flows to Asia

E. Asia 400 Bill

S. Asia 40

East Asia

/ 43%

- During 1990-96 net private capital flows to East Asia (excluding Korea) amounted to more than $ 400 billion or 43% of total private capital flows to developing countries.
- The composition of these flows has changed during this period. During 1989-92, 91% of the flows were in the form of foreign direct investment and long-term loans. In 1994-96, the share of these flows declined to 74% , with portfolio flows accounting for the remaining 26%.
- Short-term borrowing also increased substantially during the last three years, especially for Thailand. Short-term liabilities of the private sector in Thailand now exceed $ 40 billion. Banks and finance companies have been responsible for the bulk of this borrowing which has fueled a lending boom concentrated in the real estate sector.

South Asia

/ 40 Bill 4%

- Net private capital flows to South Asia amounted to $37 billion during 1990-96, or only 4% of the total private capital flows to developing countries.
- There has been a similar shift in the composition of flows, with the share of foreign direct investment and long-term loans declining from 71% in 1989-92 to 44% in 1994-96, and the share of portfolio flows increasing to 56%.
- Short-term borrowing has been relatively modest for India (less than 10% of the country's total external debt) but larger for Pakistan (1/4 of its $ 40 billion external debt).

Exports

Is the East Asia Miracle Over?

First, a word about the miracle.

- East Asia has grown at more than twice the rate of other developing countries and industrial countries. During 1974-90, East Asia's growth amounted to 7.3% p.a. This accelerated to 10.5% p.a. during 1991-95.
- This growth performance has been accompanied by dramatic reductions in poverty and improvements in social indicators. For example, in Indonesia, the proportion of the population in absolute poverty has declined from more than two thirds in the early 1960s to around 11% currently. In 1960, three out of five adults were illiterate; today that proportion is less than 15%.

What were the driving forces of this miracle?

Although there were many factors that combined to create the East Asia miracle, three are particularly noteworthy.

- High and increasing levels of investment, largely financed by domestic savings. Except for the Philippines, domestic savings rates in major East Asian countries are in excess of 30% of GDP.
- A head start in human capital development. This is reflected not only in the achievement of universal primary education, but in rapid increases in secondary enrollment ratios. For example, in Indonesia, secondary enrollment increased from 6% in 1960 to around 45% today.
- Macroeconomic stability and export-led growth. The share of East Asia in developing country exports increased from 10% in 1970 to 31% in 1996.

What led to the recent crisis?

- The currency crisis in East Asia has taken place against a backdrop of concern about macroeconomic overheating and future prospects of East Asia in general and about overvaluation of the Thai baht in particular.
- Investors perceived Thailand to be facing growing macroeconomic and financial sector vulnerability (large current account deficit financed by short-term borrowings, sharp slowdown in exports, lending boom concentrated in the real estate sector with adverse effects on the soundness of banks and finance companies).
- The delay in the decision to let the currency float and large liquidity support to the finance companies (10% of GDP) exacerbated Thailand's vulnerability and triggered a full fledged crisis.
- In turn, the Thai crisis focused attention on the vulnerability of other South East Asian economies, notably similarities in macroeconomic conditions and weaknesses in the financial sector.

Implications for future growth

- The restoration of investor confidence is not an easy task, requiring a strong macroeconomic response. Even more importantly, there is a need to address the structural issues confronting these economies, especially difficulties in the financial sector and export competitiveness.
- While exchange rate depreciation will provide a boost to export competitiveness, East Asian countries will need to move up the export ladder, given growing competition from low wage economies (hourly average wage in Thailand is $1.10 compared with 35 cents in China and 25 cents in Vietnam). This will require continued investments in education, an area where Thailand lags behind other countries in the region.
- Despite the many risks that they face, the East Asian countries have demonstrated the important ability to undertake difficult measures in the face of external setbacks.
- The experience of Chile, which suffered a similar boom bust cycle in the early 1980s, and Mexico more recently, suggests that recovery can occur surprisingly quickly once investor confidence is regained.
- The fundamentals in East Asia remain sound. Hence, although a slowdown in growth is inevitable in the short-run, we expect that East Asia can sustain growth in the range of 7% p.a. during the coming decade.

Poverty

Cambodia
Lao
Mongolia
Vietnam

Transition Economies

Poverty – Rural
Low Education

1987

Poor 33% E Asia (37.8
39% South Asia (39.1)
17% (16.6)

Note ~~China~~ is 75% Poor.
Asia

900 million poor

World Bank Lending to Asia

- Cumulatively, the World Bank has lent a total of $133 billion to Asia, $65 billion to South Asia and $68 billion to East Asia. Of which:

China:	$28.5 billion
Indonesia	$23 billion
Philippines:	$9 billion
Vietnam:	$1.6 billion
Thailand:	$5.5 billion
India:	$49 billion (Bank's largest borrower cumulatively)
Pakistan:	$11 billion
Bangladesh	$2.6 billion
Sri Lanka	$2.3 billion

- The composition of lending has also shifted quite substantially during the 1990s.
- In East Asia, lending for the environment, which was non-existent a decade earlier, amounted to $1.4 billion during the past five years. While education has always been an important component of our lending in East Asia, other social sector lending has increased from 4% in the first half of the 1980s to 7% over the past five years.
- In South Asia, the shift has been more dramatic. Lending for the environment is also relatively new, amounting to more than $0.5 billion over the past five years. Lending for education, health and social infrastructure, which amounted to only 4% of overall lending during the first half of the 1980s, accounted for 34% of total lending to South Asia during the last five years. There has been a corresponding decline in lending to the industry, energy, power and transportation sectors.

90-96 400 Bill - 43% of Private
40 4% Capital
flows

Amar Bhattacharya
Economic Adviser

September 2, 1997

Note to Mr. Wolfensohn

Re: Your Meeting With Asian Journalists

Jim:

As requested, attached are talking points on the issues that you raised today.

We still owe you the latest figures on international reserves, including for Hong Kong.

Amar

Poverty Reduction and Economic Management (PREM) Network
ROOM: N 4031 TEL: (202) 458-0554 FACSIMILE: (202) 522-1135

	Pop	Per Cap	GNP.
CAMBODIA FY 96, 80 mill	10 mill	260	2.7
CHINA	1.2	620	750.
INDONESIA	193	980	190
LAO	5	350	1.7
MALAYSIA	20	4,800	80
Papua N.G.	4 M	1,160	5.0
Philippines	67	1,070	72.0
Thailand	59	2,720	160
Vietnam	73 M	250	18.4
EAST ASIA	1,709	830	1418
BANGLADESH	119	240	28.6.
INDIA	929	340	319.7
NEPAL	21	210	4.6
PAKISTAN	129	460	59.5
SRI LANKA	18	700	12.6
SOUTH ASIA	1,243	350	435

Tendus

90.95 Growth rate % 10½ ↗ 7.8%

95 90 % c.4.6 9% and 6% and Growth was 10 yrs

IDA
880 for
IDA 11

15 Party Conference in October

CHINA

	Trade
1980	30 Bill
96	300 Bill +

250 000 Below poverty lines

20 years

quadruple per capita income

FDI
Commitments declined in 1/2 97
But actual investment grew

4 State Banks
1 Trillion assets
125 000 Branches
1.6 mill employees –

Illiteracy fallen to 10% from 30%

200 mill out of poverty –

Infrastructure – 700 – 800 Bill 10 years

State enterprises $300. m

Budget 1-1½ % deficit

Investment now 200 Bill
30-35 in 97

Infrastructure
Human development
Agriculture · Food security
Protecting Environment

3 Bill environmental assistance.

Air Pollution 300.000 to premature deaths –

22% Popn
7% arable land

19 Bill IBRD
9 " IDA

IFC – 1 Bill 38 projects
(45 9)
own account

Thailand

July 2 - Devaluation of Baht.

Exports dipped in region

23 Bill reserves spent.

Banks relying on external investors

30 Left.

COUNTRY BY COUNTRY

Indonesia

IMF Package 17 Bill -

→ Short term 40 Bill -

We to work with govt - 20. 30 ~~Bill~~ Ted Anslaie

Human Skills - Not as much in higher education.

Generally High savings rate
High Participation in Education

South Asian countries NOT as vulnerable or integrated

Malaysia - Banking Crisis 1983-84
Chile - 79-81

CHINA - Agricultural growth - Shift to interior.

Briefing Note on Recent Turbulence in Emerging Markets

Turbulence in East Asia. After a substantial loss of reserves (including incurring a $23 billion forward position), the Thai authorities allowed the baht to float on July 2, since which it has fallen by around 30 percent. Spillover effects have been large, and still unfolding, for the Philippines (currency depreciated by 15 percent), Indonesia (currency depreciated initially by more than 25 percent and has fluctuated since with a depreciation now again of 25 percent), and Malaysia (initial depreciation of 5 percent, but a substantial weakening this week, with a depreciation now of 13 percent) and somewhat less for Korea (depreciation of 7 percent). Even Singapore and Hong Kong have come under pressure.

Situation Elsewhere. To date the Thai crisis has not had a significant impact on countries in other regions. The Czech Republic also suffered a currency crisis, but this occurred earlier in May and had little effect on other countries. In the period since the float of the baht, countries that have come under some pressure include Poland and Czech Republic in Eastern Europe (exchange rate), Brazil and secondarily Argentina and Mexico in Latin America (mainly in the stock markets), South Africa, and to a small extent India and Pakistan in South Asia. There are also underlying concerns about Turkey and Lebanon, but no visible signs of erosion of investor confidence as yet.

Why the Speculative Attacks? The Thai crisis and its fallout took place against a backdrop of concerns about overheating and future prospects of East Asia in general, and concerns about overvaluation of the Thai baht in particular. Investors perceived Thailand to be facing growing macroeconomic and financial sector vulnerability (large current account deficit financed by short-term borrowings, sharp slowdown in exports, a lending boom concentrated in the real estate sector with adverse effects on the health of banks and finance companies). The delay in the decision to let the currency float and large liquidity support to the finance companies exacerbated Thailand's vulnerability and triggered a full fledged crisis. In turn, the Thai crisis focused attention on the vulnerability of other Southeast Asian economies, notably similarities in macroeconomic conditions, weaknesses in the financial sector, and concerns, as in Indonesia, about the political situation and commitment to further reforms.

Response of Countries. Thailand, as well as the other Southeast countries, have responded to the recent market developments in three ways: (a) through adopting greater exchange rate flexibility; (b) supporting their currencies through tighter monetary policy, especially in the case of Indonesia and Thailand; and (c) signaling movement on fiscal, banking and other reforms, although there are still many uncertainties on the strength of response.

IMF, World Bank and Other Support. A $4 billion IMF stand-by program has been agreed with Thailand, with an overall rescue package of $17 billion. The existing IMF EFF has also been extended for the Philippines, amounting to $1.05 billion. So far no formal IMF-WB program has been sought by Indonesia or Malaysia. The Bank is planning a program of assistance to Thailand of $1.5 billion over the next three years including a fast track financial sector technical assistance loan and two structural adjustment loans to strengthen the financial sector and enhance investment efficiency and international competitiveness. In the Philippines, the Bank had highlighted the vulnerabilities in the financial sector and suggested specific actions, some of which the Government have subsequently adopted, but there is no immediate operational follow-up planned presently. And in Indonesia, we are providing policy advice on how to deal with the immediate financial sector difficulties.

Outlook and Issues. The extent of the effects on the domestic economies remain uncertain. In particular, repercussions of weaker asset prices, slower growth and currency depreciation on the financial and corporate sector will be aggravated if high interest rates have to be sustained for a long period to stabilize exchange rates. On the other hand, experience is showing that, under current circumstances, exchange rates react sharply to any loosening of monetary policy. The market reaction to date has not been favorable, with both exchange rates and stock markets still under considerable downward pressure in all of the four ASEAN countries. Hence there is an urgent need to restore confidence. For this, even more important than macroeconomic policy adjustments, is the need to come up with credible programs to deal with the financial sector and to signal commitment to deal with politically sensitive investments and structural reforms.

Implications for the Bank. Given the nature of the problem in Thailand, its first recourse was appropriately to the IMF—to access urgent balance of payments support and to enable an international financing package to be assembled. The appropriate Bank role is to support structural reform measures that go beyond stabilization needs. But experience has shown that countries with weak financial sectors are unwilling to face problems until they have no choice, and spurn preemptive offers from the Bank for assistance. Even in the case of Thailand, where the need for substantial actions in the financial sector was glaringly apparent, it was only in early July that the Thais accepted a joint Bank/Fund financial sector mission, and even then the mission was unable to obtain basic reform commitments from the Thai monetary authorities. The Bank's objective should therefore be to use the Thai experience to impress upon governments in other vulnerable countries of the need for preemptive action and the costs of delay.

Talking Points For Press and External Audiences

- East Asian countries have been leading beneficiaries of open global trade and investment and the resurgence of private capital. But there are risks which must be managed as well as opportunities in a world of mobile capital.
- The likelihood that a country will come under major pressure depends on the extent of its macroeconomic and financial sector vulnerability. This includes the magnitude and composition of liabilities, real exchange rate appreciation and loss of export competitiveness, and much more importantly than previously recognized, fragility in the banking sector often because of too rapid and too risky lending.
- A decisive policy response is vital: delayed and inadequate measures can make these vulnerabilities worse and hasten a full fledged crisis. This is equally important for countries which may suffer contagion as investors drastically reassess their views of countries that they see, rightly or wrongly, as sharing similar attributes.
- Countries in Southeast Asia have taken the pragmatic step of allowing their currencies to float, and tightening liquidity.
- The challenge now is to establish confidence quickly so as to minimize the risks of a major downturn and create the conditions for sustained growth. In this, it is important to recognize that restoring confidence in the currencies means restoring confidence in the economies.
- This of course requires a strong macroeconomic response.
- But equally important, countries need to address the structural issues central to soundly based long-term growth and hence to the restoration of investor confidence. Foremost is the need to deal forcefully with the difficulties of the financial sector. Countries also need to signal renewed commitment to market reforms and fiscally responsible investments.
- On our side, we are actively engaged in discussions with countries to see how we can tailor support to their particular circumstances. One area where we are paying particular attention is the strengthening of the financial sector. In the case of Thailand, we are preparing a technical assistance loan on a fast track, and we are prepared to follow this as needed with other operations.

Prepared by a team from East Asia and PREM/DPG including Amar Bhattacharya, Stijn Claessens, Sanjay Dhar, Uri Dadush, Ronald Johannes, Himmat Kalsi and Robert Lynn under the guidance of Masood Ahmed

THAILAND

Authorities' policy response

- Expended sizable reserves defending the baht, including incurring a $23 billion forward position.
- Abandoned the peg on July 2. The baht immediately fell by more than 15 percent, to date about 30 percent.
- After considerable hesitation, agreed to stand-by program with the IMF for $17 billion package. The BIS agreed to $3 billion bridging loan.

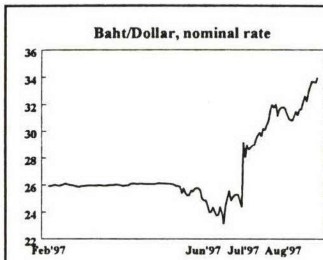
- Measures:
  - ◊ maintain a floating exchange rate;
  - ◊ reduce the current account deficit to 5 percent in 1997, 3 percent in 1998;
  - ◊ suspend 42 of 91 finance companies (16 were suspended earlier), with a curb on liquidity support and tighter supervision;
  - ◊ adjust the fiscal deficit of 1 percent in 1997 to a surplus of 1 percent by 1998 (including VAT increase and reduction in state agency subsidies);
  - ◊ tight monetary policy restraining the growth of credit; and
  - ◊ restore the soundness of the financial sector, by closing down unviable financial institutions, and implementing structural measures, including creation of a financial restructuring corporation.

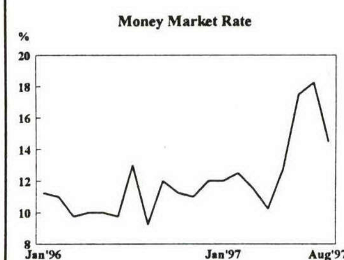
IMF program and World Bank position

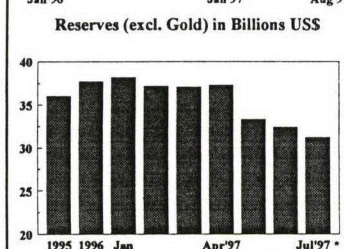
- $4 billion IMF stand-by program (34 months duration), first tranche already drawn.
- $17 billion package funded by Japan, China, Malaysia, Hong Kong, Singapore, Australia, Indonesia, Korea and Brunei as well as IMF, World Bank and ADB.
- Bank's proposed operations totalling up to $1.5 billion include a fast track technical assistance loan to strengthen the financial sector (by mid September), and two structural adjustment loans to strengthen financial sector and enhance investment efficiency and international competitiveness.

Outlook and Issues

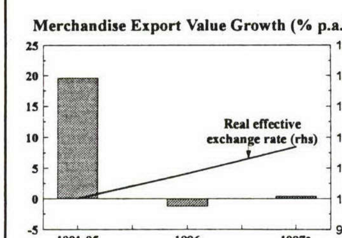
- Continued uncertainty on stabilization of currency: the baht has depreciated to record lows.
- Magnitude of the problem in finance companies still unknown, losses probably amounting to more than $15 billion.
- High interest rates placing severe strain on the corporate and banking sectors.
- Growth expected to slow sharply to 2.5 percent in 1997, 3.5 percent in 1998.
- External financing requirements remain large: need to refinance short-term debt of $40 billion (though much will be rolled over by Japanese banks).



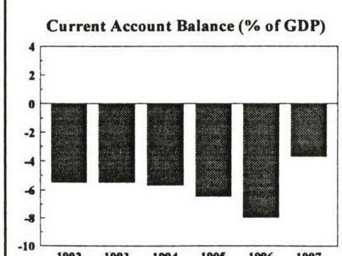




* Of which $23.4 billion in forward contracts are due in next 12 months.



* First 5 months over similar period a year ago



PHILIPPINES

Authorities' policy response

- Prior to peso float on July 11:

  ◊ Capital adequacy requirements for banks raised;
  ◊ Criteria for real estate lending tightened;
  ◊ A 30 percent liquidity requirement on banks' foreign currency deposits imposed.

- Spent $2.5 billion defending the peso, of which $1.5 billion since the baht float on July 2.

  ◊ Peso fell 11.5 percent on July 11; about 15 percent to date.

- Significantly raised liquidity requirements and peso deposits; tightened foreign exchange and prudential controls selectively.

- Rapidly agreed to IMF program—approved on July 18. Existing IMF program extended to end 1997 and supplemented with the IMF's first use of its Emergency Financing Mechanism.

- Measures:

  ◊ increase the fiscal surplus to 0.3 percent of GNP in 1997;
  ◊ restrain base money growth to meet inflation target of 6.5 percent (year average);
  ◊ maintain net international reserves above $ 7.5 billion in 1997, with end year target of $8 billion;

IMF and World Bank position

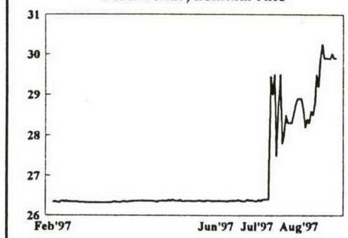
- IMF program of $1.05 billion runs through end-1997.
- Japan Eximbank provided $400 million.
- Private banks have lent directly to the central bank at favorable terms.
- Government has not requested additional financing from the Bank:

  ◊ The Bank analyzed the Philippine banking sector in 1996, pointing out deficiencies and the need for reform. These assessments were not well received by central bank governor—although others welcomed Bank involvement, and central bank has enacted a few recommendations.
  ◊ The Bank-chaired Consultative Group meeting is scheduled for December 1997.

Outlook and issues

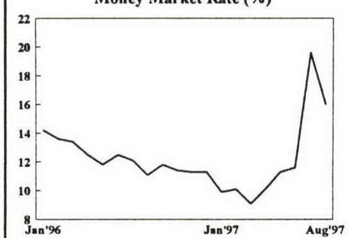
- High interest rates, exchange rate depreciation, and expected weakening of real estate prices will strain bank and corporate balance sheets. The stock market has been weak.
- Export growth however remains robust at 22 percent in first half of 1997.
- Government/IMF have not yet publicly lowered 1997 growth estimate of 7 percent, though these are now too optimistic.

Peso/Dollar, nominal rate

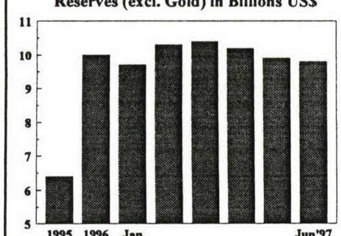


Stock Market Price Index, local currency

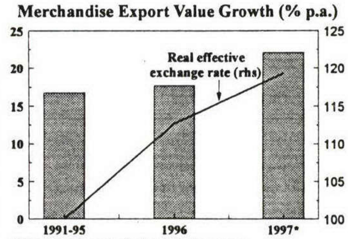
Money Market Rate (%)



Reserves (excl. Gold) in Billions US$

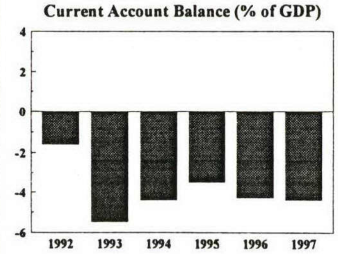


Merchandise Export Value Growth (% p.a.)



* First 6months over similar period a year ago

Current Account Balance (% of GDP)



MALAYSIA

Authorities' policy response

- Selective foreign exchange controls imposed.
- Selective intervention in the foreign exchange markets.
- Some large public investment projects to be deferred, although details on magnitude and fiscal impact not yet available.

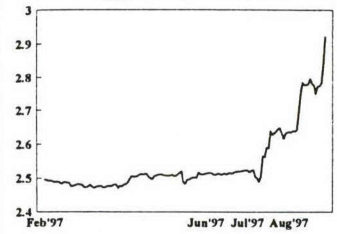
IMF/World Bank position

- No IMF program is in prospect unless the situation deteriorates substantially:
    - ◊ Malaysia staff report/Article IV Consultation is due to be discussed by IMF Board in September.
- The Bank's program has been limited to supervision and responding to demand driven technical assistance.
    - ◊ No lending since FY94.

Outlook and issues

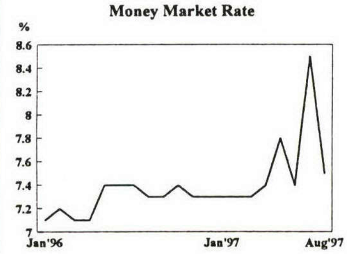
- Currency and stock markets have been under intense pressure since the announcement on August 11 of a June trade deficit of over $1 billion, the largest monthly deficit in 17 years, with export growth slowing to below 2 percent. In recent days, depreciation of the ringgit has amounted to 13 percent.
- Growth is expected to slow significantly from its 1996 rate of 8.2 percent.
- Slower growth and higher interest rates will adversely affect banking profits.
- Prime Minister Mahathir has blamed the recent bout of speculation in the region on "rogue speculators" naming George Soros as a chief culprit.

Ringgit/Dollar, nominal rate

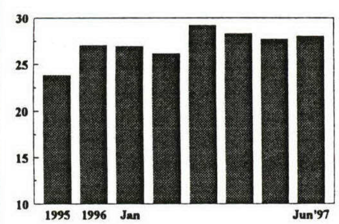


Stock Market Price Index, local currency

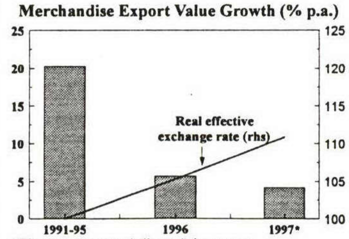
Money Market Rate



Reserves (excl. Gold) in Billions US$

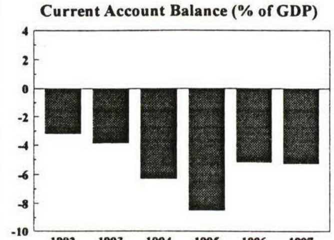


Merchandise Export Value Growth (% p.a.)



* First 6 months over similar period a year ago

Current Account Balance (% of GDP)



INDONESIA

Authorities' policy response

- Rupiah Floated:

  ◊ Bank Indonesia, after initially widening the exchange rate band from 8 to 12 percent, floated the currency on August 14;

- Since July 2, the exchange rate depreciated by 25%, recovered to a level of 11%, and then fell to 16% depreciation when liquidity was eased.
- Tight liquidity and interest rates high:
  - ◊ Because of tight liquidity, overnight inter-bank interest rates were averaging around 75% and are now around 35%.
  - ◊ Liquidity has been somewhat eased in recent days.
  - ◊ Bank Indonesia's discount window, after being closed for several weeks, has now been reopened.
  - ◊ Bank Indonesia is ready to provide emergency credit to solvent banks.

- No Capital Controls:
  - ◊ Government has resisted the pressure to impose capital controls.

- Fiscal Policy:
  - ◊ Ministry of Finance has begun to reduce some components of discretionary spending and to slow down development spending.

IMF program and World Bank position

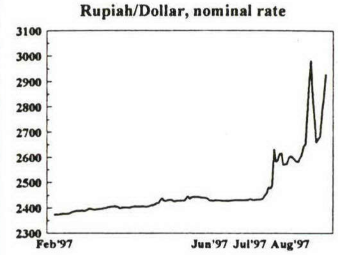
- Indonesia has not requested an IMF program, but is receiving Fund advice, with a potential mission in the near future.
- Bank resident mission is in close contact with the economic Ministers providing technical policy advice.

Issues outstanding

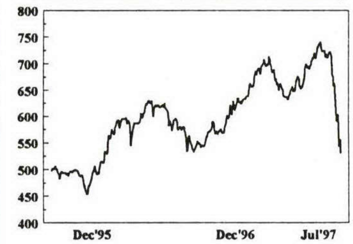
- Interest rates are high and not sustainable for long, but are needed to stabilize the exchange rate.
- Banking Sector:
  - ◊ High interest rates have also impacted the non-banking corporate sector with a confirmed default on commercial paper. Defaults by the corporate sector will further exacerbate the banking sector crisis;
  - ◊ Need for an announcement of a clear and transparent strategy for dealing with the banking sector (e.g., how to deal with insolvent banks).

- Deregulation:
  - ◊ Government is considering introducing a major deregulation package to reassure investors, strengthen market confidence, and increase international competitiveness. To date, discussions have focused on dismantling monopolies (except rice), but internal resistance appears to be very strong.

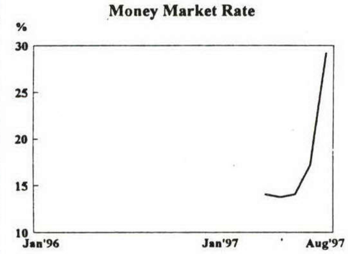
Rupiah/Dollar, nominal rate



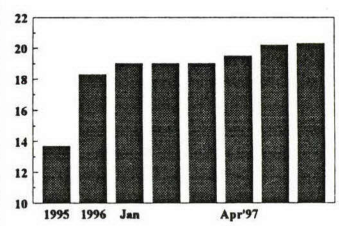
Stock Market Price Index, local currency



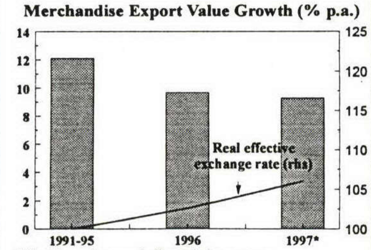
Money Market Rate



Reserves (excl. Gold) in Billions US$

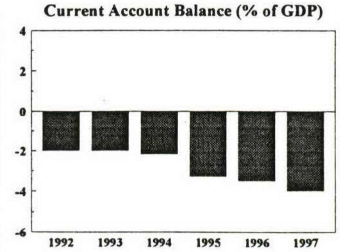


Merchandise Export Value Growth (% p.a.)



* First 5 months over similar period a year ago

Current Account Balance (% of GDP)



CZECH REPUBLIC

Authorities' policy response

Starting in mid-May, the koruna came under sustained attack in which the Czech National Bank (CNB) lost $2 billion, a sixth of its reserves. On May 26, CNB announced the currency would float, thus abandoning its peg to a US dollar-Deutschemark basket.

◊ This resulted in an immediate depreciation of 7% measured against the USD/DM basket, with cumulative depreciation 18% compared to the peak reached by the koruna in mid-February.

- The speculative attacks on the koruna occurred in spite of a package unveiled by the Government in mid-April to address a growing current account deficit, which reached 8.2% of GDP in 1996. The April package included: budget cuts of about $900 million to be partly achieved by a cap on public sector wage growth; a deterrent import deposit scheme (which the EU has attacked); accelerated privatization of banks and companies; and capital markets reform measures.

- On May 28, the governing coalition released a "Stabilization and Recovery Program":

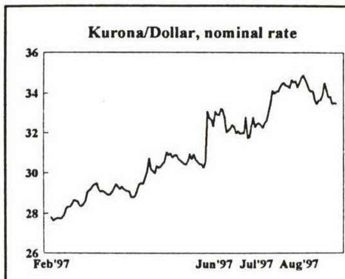
  ◊ attributes the attack on the koruna to the high current account deficit, problems with fiscal balance, and political instability;
  ◊ is remarkably candid in its discussion of "mistakes in economic policy", and recognizes unfinished agenda in banking, capital markets and the enterprise sector;
  ◊ announces economic measures: further fiscal consolidation and a small fiscal surplus for 1998, a reaffirmation of the need for tight monetary policy and a wage freeze.

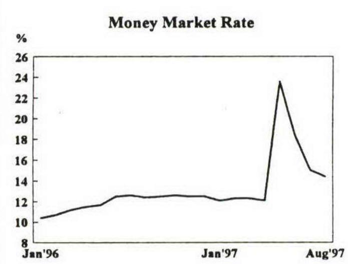
IMF/World Bank position

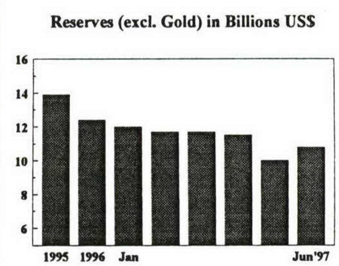
- An IMF mission visited the country in June.
- Earlier this year, the Bank prepared two reports on capital markets development and banking supervision. The Bank has offered support in connection with the flood damage.

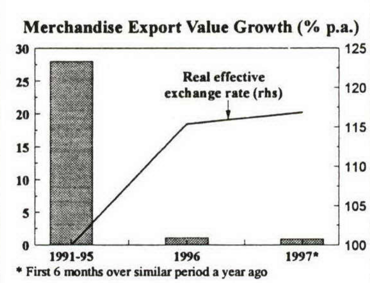
Outlook and issues

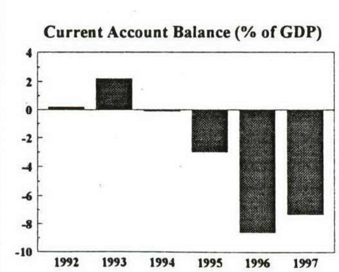
- Stagnant growth, around 0 to 2 percent in 1997, with basic problems to be sorted out in the enterprise and banking sectors, as well as the capital markets.
- Inflation is likely to go up with the devaluation of the koruna.
- Unemployment, which has been extremely low compared to other countries in Central Europe—at 3-4% compared to a peak of over 16% in Poland—is likely to rise significantly.
- The recent devastating floods are bound to put more pressure on the budget.
- The koruna has stabilized in the region of 7% to 12% below its original basket parity, but another attack cannot be ruled out.





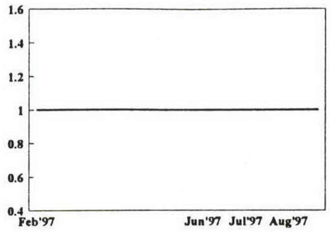






ARGENTINA

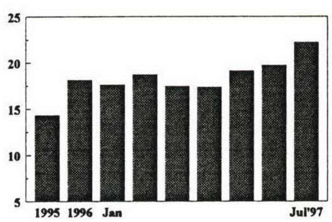
Peso/Dollar, nominal rate



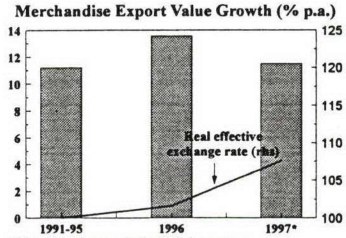
Stock Market Price Index, local currency

Money Market Rate

Reserves (excl. Gold) in Billions US$

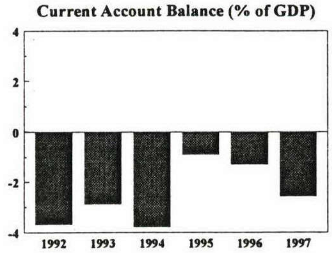


Merchandise Export Value Growth (% p.a.)



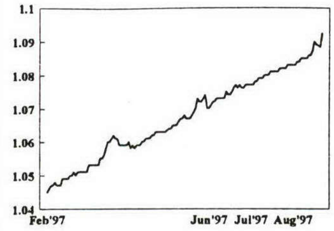
* First 6 months over similar period a year ago

Current Account Balance (% of GDP)



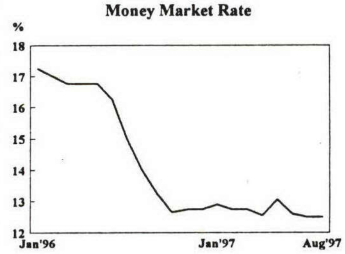
BRAZIL

Real/Dollar, nominal rate

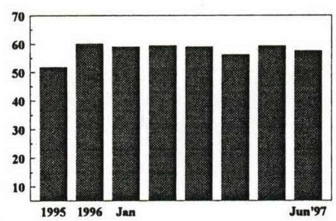


Stock Market Price Index, local currency

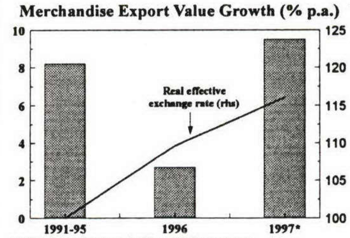
Money Market Rate



Reserves (excl. Gold) in Billions US$

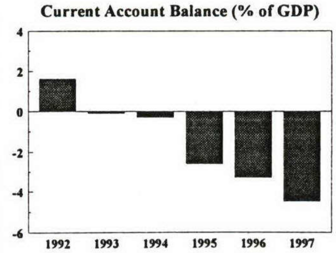


Merchandise Export Value Growth (% p.a.)



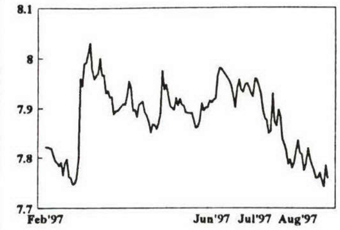
* First 7 months over similar period a year ago

Current Account Balance (% of GDP)

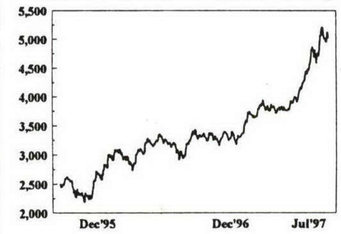


MEXICO

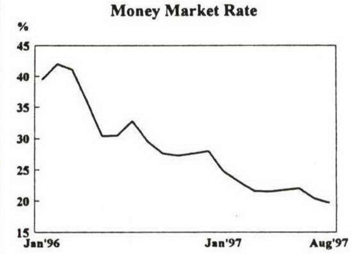
Peso/Dollar, nominal rate



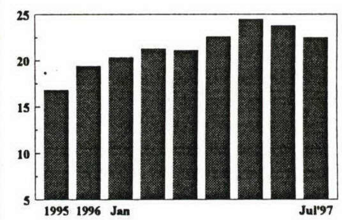
Stock Market Price Index, local currency



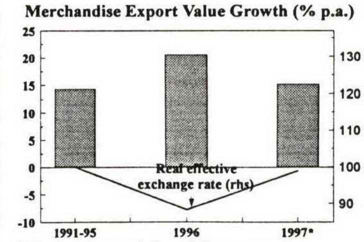
Money Market Rate



Reserves (excl. Gold) in Billions US$

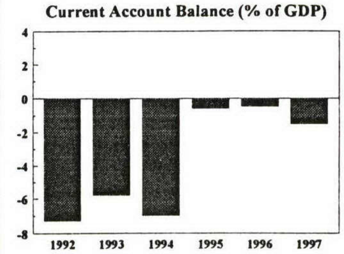


Merchandise Export Value Growth (% p.a.)



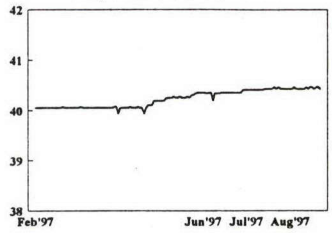
* First 6 months over similar period a year ago

Current Account Balance (% of GDP)



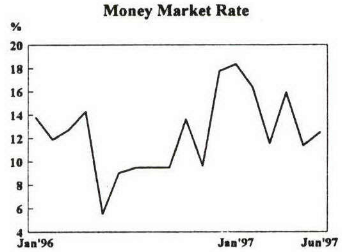
PAKISTAN

Rupee/Dollar, nominal rate

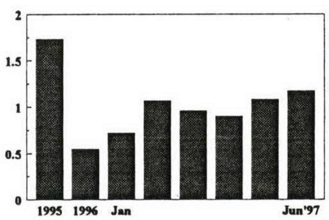


Stock Market Price Index, local currency

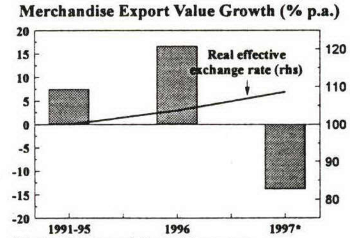
Money Market Rate



Reserves (excl. Gold) in Billions US$

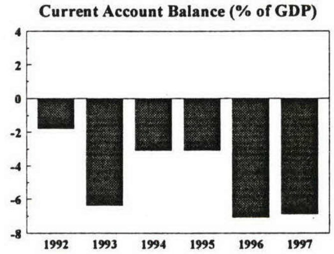


Merchandise Export Value Growth (% p.a.)



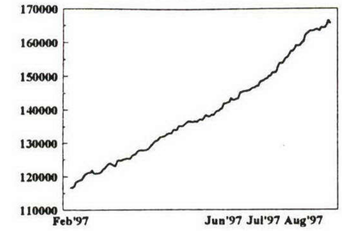
* First 4 months over similar period a year ago

Current Account Balance (% of GDP)

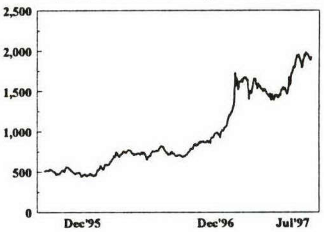


TURKEY

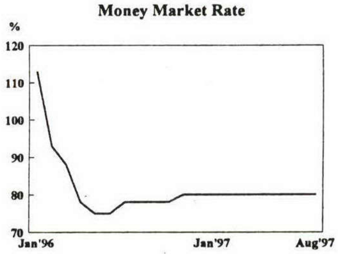
Lira/Dollar, nominal rate



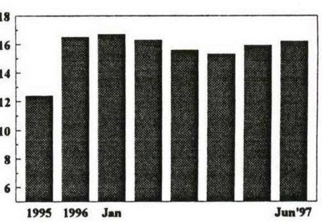
Stock Market Price Index, local currency



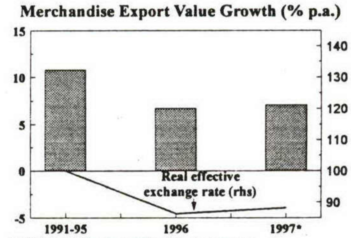
Money Market Rate



Reserves (excl. Gold) in Billions US$

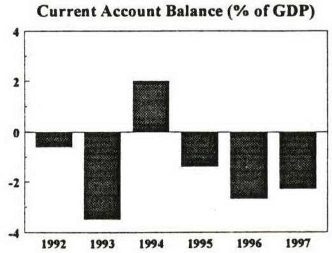


Merchandise Export Value Growth (% p.a.)



* First 3 months over similar period a year ago

Current Account Balance (% of GDP)



Vulnerability of the Financial Sector

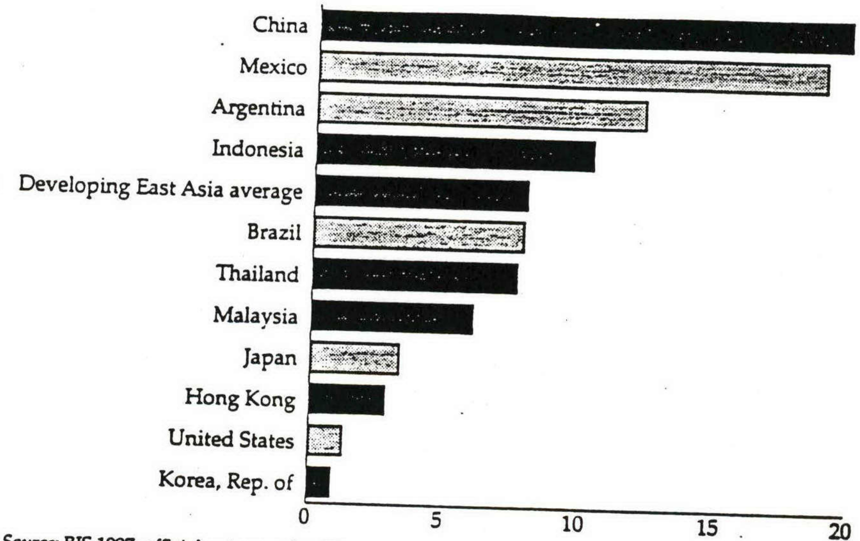
East Asia

- Generally weak and fragmentary information about banks and non-bank financial institutions in most East Asian countries make it difficult to assess the underlying vulnerability of the financial sector and the potential impact of currency depreciation and higher interest rates. The lack of good information has in itself contributed to the prevailing sense of uncertainty and erosion of investor confidence.
- The magnitude of non-performing loans typically understate the fragility of the financial sector (see figure below).
- Thailand has been the most extreme case in terms of the size of the lending boom, the currency and maturity mismatch of the lending, and the concentration of the portfolio in the real estate sector.
- In the other Southeast countries (Indonesia, Malaysia and the Philippines), the magnitude and duration of the lending boom has been smaller and there has not been as much recourse to short-term external financing. Increased lending for real estate, however, has been a common feature in all of these countries.
- So far Indonesia is the only other country where there are clear signs of financial distress (based on confidential information provided by the Government) but the full repercussions of the currency crises on the financial sector is still unclear in all three countries.
- While non-performing loans are large in the case of China, linked to the growing problems of state enterprises, the financial sector remains highly regulated and insulated from external forces so that the risks of an open crisis are low.

South Asia

- The South Asian countries have not experienced credit booms associated with the real estate sector as in East Asia, but the banking systems are generally weak.
- In the case of India, there has been an improvement in non-performing assets (currently around 13%), but most banks still show low profits and are inadequately capitalized.
- In Pakistan, non-performing assets amount to close to 30 percent and few banks are adequately capitalized.
- In Bangladesh, as much as one third of commercial banks' assets are non-performing, with a shortfall of about one-third of the required capital.

Figure 2 Nonperforming Loans, 1995
Percentage of total loans



Source: BIS 1997; official estimates for China.

Required and actual capital ratios

In percentages

	Capital adequacy ratio (national requirements)	Actual risk-based capital ratio (1995)
India	8	9.5[1]
Hong Kong	8[2]	17.5[3]
Korea	8	9.3
Singapore	12[4]	18.7[4]
Taiwan	8	12.2
Indonesia	8	11.9
Malaysia	8	11.3
Thailand	8	9.3
Argentina	12	18.5
Brazil	8[5]	12.9
Chile	8[6]	10.7
Colombia	9	13.5
Mexico	8	11.3
Israel	8	10.5[7]
South Africa	8[8]	10.1
Memorandum:		
United States	8	12.8
Japan	8	9.1

Notes: (1) Several European countries have significantly higher capital ratios.
(2) Definitions sometimes differ from those applied by the Basle Committee.

[1] Relates only to public sector banks. [2] 12% for some banks; 16% for some non-banks. [3] Relates to locally incorporated authorised institutions and is on a consolidated basis. [4] Based only on Tier 1 capital. [5] Plus 1.5% on notional value of swap operations. [6] Legislation at present before Parliament. [7] 1994. [8] For some banks, higher ratios.

Sources: Central banks.

(1)

Asia – were doing public sector & industrial & agriculture
→ intensify with human resources

East Asia:-

Financial crisis – investors began to panic –
→ Banks – finance companies
→
→ Spent 23 Billion of reserves – We have been
pushing with IMF – $17 Billion
$1\frac{1}{2}$ Bill from Bank over 3 years
→ Our loan is for financial sector problem
Financial structural adjustment by Nov –
By Sept a technical assistance loan $20-30
for policy –
Net reserve position 4-5 Bill –
Reserve levels 30 Bill – But forwards
of 23
$40 Bill short term liabilities
(BIS – 60 Bill)

Major problem is capacity of Thais to deliver -

Not only restructuring of financial system

But also looking at competitiveness of exports -

- human skills - higher & secondary education

→ Thailand needs to put more into education

→ ½ our lending this year will be on education

Indonesia - Risk of overshooting -

markets need to look at situation of each individual country

- fear of overshooting of markets

Overs down the market

Will growth continue in Asia - enormous

increase in S of L - Economic fundamentals are strong

High saving rate

Highest participation in education -

Countries in South Asia do not have the international integration -: we suspect much -

Integration gives stability & causes ... -

Contagion of the problem - Thailand caused the problem of Indonesia & SE Asia

— Expansion of capital flows has continued -

Malaysia had a banking crisis in 1983/84 -: used to it -

Kam Thun will go to Oman after Annual Meeting

Thus far only looking at environmental -

(8)

Slowdown — in Electronics throughout Asia
— Automobiles

Parallel Chile in 79-81 — payoff came
later —

Corruption
Strategic Compass

HPIC

China: — Real growth in the
interior — especially in
agriculture
+ proper cost base in the interior

FINANCIAL TIMES
Monday September 1 1997

Malaysian PM attacks IMF and currency speculators

09/01

By James Kynge in Kuala Lumpur and John Ridding in Hong Kong

Asian markets could face increased selling pressure

Dr Mahathir Mohamad, Malaysia's prime minister, launched an angry attack on the International Monetary Fund at the weekend in a move being seen as likely further to destabilise south-east Asia's troubled financial markets.

He also renewed his onslaught on financial speculators, likening the borderless world of business to a "jungle of ferocious beasts".

His remarks, coupled with the imposition of currency controls in Indonesia at the weekend, were expected to contribute to selling pressure on regional currency and stock markets this week.

Further selling was expected in Hong Kong today following last week's sharp falls and a decline in Hong Kong shares trading in London on Friday. A crisis of confidence in Malaysia's financial policy-making has become a source of regional instability.

Economists had been hoping that Dr Mahathir would drop his tirades against foreign speculators and outline new policies to address the country's trade deficit and other fundamental economic ills.

But he lambasted the IMF after a reported suggestion that Malaysia would do well to scale back its more ambitious infrastructure projects.

"The IMF is only interested in saying 'I told you so'," he said. "Even if they have to subvert our economy, they will do so just to prove that they are right."

He urged Malaysians not to cower from the "ferocious beasts" that roam in world business. "If we cannot break their horns, we will tweak their ears," he said.

Such strong language, coming after the sudden imposition of controls on financial markets, has unnerved investors in Malaysia.

One foreign economist in Kuala Lumpur said: "I am afraid the truth is that railing against foreigners is no way to win back their trust or investments."

Malaysia's markets reopen on Tuesday after a holiday. Economists are also pessimistic over a move by Indonesia at the weekend to curb foreign currency speculation by foreigners. The Indonesian central bank ruled that forward foreign exchange selling against the rupiah by domestic banks to foreign customers would be capped at $5m worth of rupiah per customer.

Similar controls imposed by Malaysia and Thailand had a negative effect on local stock markets and failed to halt the fall of the ringgit or baht.

In Hong Kong, selling pressure was expected to continue today, following Friday's fall on Wall Street and a further decline in Hong Kong shares traded in London after the close of the Hong Kong market.

The Hang Seng London Reference Index fell by almost 2 per cent on Friday, following the two-day fall of 9 per cent in the territory.

Asia-Pacific round-up, Page 3
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Olivetti may sell Olsy unit to Wang

Continued from Page 1

as the most likely candidate to

France considers tax breaks to boost job creation

Grief for Diana

Continued from Page 1

sons and the rest of the royal family. William, 15, is second in line to the throne behind his father, the heir apparent.

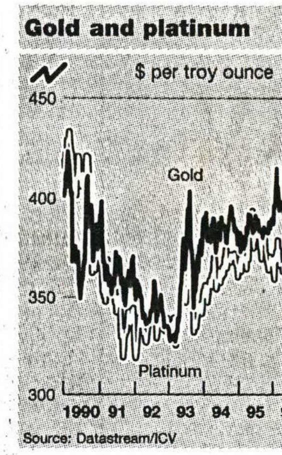
THE LEX CO

Buy-back ki

With the stock market at its current level, should US companies still be buying their own shares? To ask the question does not mean buy-backs' fundamental attractions are in doubt. Companies should return excess cash to shareholders rather than sitting on it or frittering it away. Replacing equity with debt creates real value because interest payments can be deducted against tax. And leverage is a useful discipline on management.

Still, what started as a good idea 15 years ago has been copied so widely and unthinkingly that a few questions are worth asking. Whereas stock repurchases have only recently gained popularity in the UK, and are largely unknown (or illegal) in continental Europe and Japan, they have become an American institution. Last year, US companies bought back a record $116bn of their shares – nearly 20 per cent of their declared earnings. So far in 1997, more than 860 companies have announced repurchases worth $126bn.

Much of this is playing to the Wall Street gallery, which likes the boost to earnings per share of buying back equity with cheap debt, as well as the apparent signal that management considers its stock undervalued. For executives, often incentivised on the basis of earnings growth, a buy-back can bring very tangible gains. Meanwhile, on the scale they are practised in the US, buy-backs have undoubtedly helped fuel the bull market by reducing the supply of equity.



from 38 per cent to 51
With two-thirds of the
the hands of private
either directly or throug
funds, this tax discrepa
much more important con
than in the UK.

There is also, howeve
defensible reason; many
are buying in shares in
reissue them, at a mu
price, as stock options
While incentivising the wo
all very well, this can be
transfer of value from
shareholders to employees
and Microsoft, for exa
number of outstanding s
not fallen, as huge repur
grammes have been ma
similarly huge option gra
many persuasive factors
favour, buy-backs will re
lar. But the next time a

SOME USEFUL NUMBERS

IBRD/IDA Lending by Region: FY96 - FY97 (US$ BILLIONS)							
IBRD FY96		**IDA FY96**		**IBRD FY97**		**IDA FY97**	
Africa:	—	Africa:	$2.7	Africa:	$.056	Africa:	$1.68
E. Asia:	$4.25	E. Asia:	$1.16	E. Asia:	$4.1	E. Asia:	$0.79
S. Asia:	$1.2	S. Asia:	$1.8	S. Asia:	$0.63	S. Asia:	$1.4
Eur.&C.A.:	$3.75	Eur.&C.A.:	$0.48	Eur.&C.A.:	$4.6	Eur.&C.A.:	$3.75
Lat. Am.:	$4.00	Lat. Am.:	$0.40	Lat. Am.:	$4.4	Lat. Am.:	$0.13
MENA:	$1.28	MENA:	$0.32	MENA:	$0.77	MENA:	$0.15
TOTAL:	$14.5	TOTAL:	$6.9	TOTAL:	$14.5	TOTAL:	$4.6

The Emerging Giants of Asia, 1995						
Country	Pop. in millions mid-1995	GNP per capita (US$) 1995	GNP per capita in PPP terms (US$) 1995	GDP average annual percent of growth 1990-1995	Exports of goods and non-factor services $ millions	Net foreign direct investment billions
China	1,201.4	620	2,920	12.8	142,000	38.0
India	929.4	340	1,400	5.8	39,636	1.3
Indonesia	193.3	980	3,800	7.6	51,812	4.5
Vietnam	73.5	250	**	8.3	6,622	.15

World Bank Commitments, 1991-1997 *(millions of US dollars; fiscal years)*								
	China		Indonesia		Vietnam		Total Region	
	1997	1991-1997	1997	1991-1997	1997	1991-1997	1997	1991-1997
Commitments	2,815	19,132	914	8,905	349	1,591	4,866	37,594

Absolute Poverty				
Region/Country	Percentage of population		Millions in Poverty	
	1993	1995	1993	1995
East Asia	27.9	21.2	443.4	345.7
China	29.7	22.2	351.6	269.3
Indonesia	17.0	11.4	31.8	21.9
Vietnam	52.7	42.2	37.4	31.3
South Asia	43.1	43.0	514.7	**
India	35.04	**	312	**

**Data not available

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The World Bank
Washington, D.C. 20433
U.S.A.

MARK MALLOCH BROWN
Vice President
External Affairs

August 26, 1997

Mr. James D. Wolfensohn

Jim:

Briefing for Upcoming Media Roundtable and Business Week Interviews

As you know, we have scheduled you for a two-hour media roundtable on September 3 and a telephone interview with *Business Week's* Leah Nathans on August 31. The roundtable format allows us to select a handful of journalists from among those who have recently requested one-on-one interviews with you in the lead up to the Annual Meetings. Each journalist covers Asia and each, we expect, will get us global coverage. As I mentioned in an earlier note to you, Leah Nathans, who covered you at Wolfensohn Inc., is writing a piece about you as part of the publication's mid-September cover story on China finance. It was with our encouragement that they decided on a cover story linked to the Annual Meetings. I have invited Leah to attend the media roundtable as well. To help you prepare for both interviews, we have compiled the enclosed briefing materials. In addition, we have scheduled a forty-five minute oral briefing for you on September 2 to discuss in greater depth the themes that are likely to come up in the roundtable interview and to answer any questions you might have after reviewing the enclosed.

The briefing material in the binder is primarily focused on East and South Asia. It includes: notes from both Jean-Michel and Mieko outlining the main issues confronting each region followed by country-specific issue and portfolio information; updates on corruption, institutional change and other topics; Annual Meetings information including the latest Seminar Program guide; and background on the eight journalists. In addition, the China Department has prepared a separate, in-depth briefing book -- with a view toward these events -- which will be particularly useful in your telephone interview with Leah Nathans.

The Journalists

The eight journalists are a fairly friendly group from Australia, China (mainland and Hong Kong), India, Italy, Japan and the United States. They will focus on China, the Annual Meetings, the Bank's portfolio in Asia, and the top news stories from the region (e.g., currency instability in Southeast Asia). Other issues that they are likely to raise include the Bank's overall performance, the Strategic Compact, and the steps we are taking to fight corruption.

Key Messages

I suggest you begin by briefly highlighting key messages: the significance of the Meetings being held in Hong Kong; critical issues facing Asia; the Bank's dynamic role in the region's development, and the importance of promoting growth with equity. Below are some of the points you may want to use in shaping your opening remarks.

Significance of the Meetings in Hong Kong

- The Annual Meetings are taking place in the heart of Asia at an historic moment, just a few months after the transfer of Hong Kong. Authorities in Hong Kong attach great importance to the Meetings being held there, and this gives an entirely different stature to the Meetings themselves. They are seen as providing a critical global economic forum for discussion and debate. With the world's attention focused on Hong Kong, the Annual Meetings will highlight the region's major successes and remaining challenges. In recent weeks we have seen that success is still fragile, vulnerable to policy mistakes, weak financial systems and contagion effects. And poverty continues to be a stubborn problem, even in Asia, the fastest growing region on earth. How these huge structural problems are managed affects us all -- from a human point of view, but also because Asian growth has a big and growing impact on the whole world economy.

The Bank in Asia

- The Bank is a long-standing partner in Asian development (we lent $6.88 billion to East and South Asia in FY97). Today, we are a crucial partner in the new Asian development agenda. We are helping countries to manage growth, e.g., strengthening market institutions, getting the private sector involved in solving the infrastructure shortfall and supporting major environmental conservation and recovery programs. At the same time we are working with them to understand and tackle poverty on a continent where the majority of the world's poor live; and we are financing productive investment, health and education for women, children and poor people. [You may want to refer to our work in South Asia on improving the status of women by expanding access to health services and education; see Mieko's note.]

China and Hong Kong

- China has an impressive record of growth and poverty reduction, but the task of eliminating poverty is far from complete and in some ways is getting tougher. The Bank's program in China (about $3 billion annually - China is our largest borrower) focuses on infrastructure, poverty and regional inequality, and sustains the process of economic opening and reform which has been going on for almost two decades.

- The Hong Kong Annual Meetings will symbolize a new phase of China's economic emergence into the global economy. Hong Kong will be a crucial factor in deepening and extending investment in China, and will serve as a major bridge to global capital markets. With its well established financial system, close trade and financial ties to the Mainland and an internationally competitive services sector, China's stake in a stable and confident Hong Kong is enormous.

Annual Meetings

- The Annual Meetings are the first major international showcase of the "new Hong Kong." This is an historic early opportunity for the international community to see the "one country, two systems" arrangements close up. The Annual Meetings are likely to be bigger than the handover; the Hong Kong press are estimating nearly 20,000 visitors and we expect 2,000 international media to attend. This will also be the first real-time, TV-saturated Annual Meetings with broadcasters vying for coverage of the proceedings and the seminars. The Meetings are becoming a vast marketplace for ideas with an atmosphere more like Davos than a dry convocation of central bankers and ministers.

- A flagship feature of the Meetings will be the 1997 Program of Seminars, ***Asia and the World: Capital, Competitiveness, and Community***, from September 20-23. Among the highlights will be a day-long session on China featuring a major Bank report *China 2020*, which provides a comprehensive analysis of all sectors of China's economy and prospects for the next 25 years. Many noteworthy speakers will participate including **Tung Chee-hwa**, the new Chief Executive of Hong Kong SAR; **Zhu Rongji**, Vice Premier of China; **Mahathir Mohamad**, the Prime Minister of Malaysia; **Palaniappan Chidambaram,** the Finance Minister of India; **Trevor Manuel,** the Finance Minister of South Africa; **Paul Volcker; George Soros**; **Jerome Monod**; **Sir William Purves; Dick Cheney**; **Gordon Wu**; and many others.

Hot Button Issues

There are also a few hot-button issues that you should be prepared to respond to in case they come up; these are covered in detail in the briefing materials that follow and we can discuss them during our oral briefing with you on September 2. They include:

- **The crisis in Thailand and its spillover in East Asia -- and beyond.** Here you should emphasize that the short-term crisis has been stabilized, thanks to rapid and effective international action in which the Bank played an active part. Disciplined implementation of the adjustment program will now be absolutely key to Thailand's early resumption of strong growth, and to ensuring this crisis only has an effect in the short term. The same holds true for the other countries in the region that have been affected by the currency crisis. The Bank has moved fast to provide $1.5 billion for Thailand, and we will work with our East Asian partners on the investments in education, technology and industrial productivity which they will need to sustain investment confidence and regain competitiveness over the long term. [As a minor side light, you should be aware that the Mahathir-Soros dispute rumbles on, with Dr. Mahathir getting cross at the suggestion in the media that the Bank might facilitate a meeting between them when they are in Hong Kong to speak in the Annual Meetings Seminar Program. You may get a question on this: I suggest you merely say that the whole point of the seminars is to facilitate dialogue between markets and governments, but that these are experienced leaders who do not need us to arrange meetings for them.] Jean-Michel's note and the country brief on Thailand deal with the regional economic issue.

- **Nam Theun II and Thailand's reaction in the wake of the economic turmoil there.** As you no doubt know, some Thai spokespeople have recently questioned the necessity and price of Nam Theun's power, in the wake of likely downward revision of Thai demand. You could respond, firstly, that Nam Theun II is a long term regional investment, which will only come on stream when the current crisis should be well behind us. Secondly, Nam Theun II is so important for Laos that the Bank has taken quite exceptional steps to examine all aspects of the project before making a decision to go forward. Clearly, we will be looking at any possible impacts which economic developments in Thailand may have -- just as we are examining the other factors needed to realize Nam Theun's potential. Currently we are reviewing the results of a number of studies which we required the Government and the project developers to conduct to examine the project's economic, environmental, and social feasibility. Once the studies, which are also being reviewed by independent international experts, have been fully examined, the Bank will decide whether to continue with the project. Public consultation is continuing and an International Advisory Group has been appointed to advise the Bank on its handling of environmental and social issues related to the project. The note on Nam Theun II give details on the current status.

- **Corruption (to which some of the journalists might give an Asian spin, e.g., Indonesia).** We are not in the business of singling out individual governments to discuss corruption in an interview situation such as this. We cannot, therefore, point a finger at Indonesia or any other country. We are already helping several governments in the region to achieve greater discipline in economic and financial management, and to strengthen public procurement. And we stand ready to work with any government that wants to strengthen its institutions and establish safeguards to resist corruption. We want to promote better governance and help countries stamp out corruption and its negative impact on development effectiveness and economic efficiency. Those governments that are unable to root out corruption face enormous obstacles in their efforts towards economic development and growth. Please see references to corruption in Jean-Michel's and Mieko's notes and in a select number of country briefs that follow; there is also a separate section in the briefing book on corruption.

Klas Bergman
for MMB

EAST ASIA

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: August 26, 1997

TO: Mr. James D. Wolfensohn

FROM: Jean-Michel Severino JS

EXTENSION: 38896

SUBJECT: Annual Meetings and Asia-Focused Media Roundtable

July 2 - devaluation? Baht - Exports had deflated in region - especially in Thailand - Banks were relying on external investors

Jim,

We have prepared for you a complete brief on the major regional and country issues in East Asia. You have also asked for a brief "scene setter". Following are notes on the thorniest questions I imagine you could be asked.

1 - **The financial crisis** in the region has deepened. South East Asia is the core of the problem. We anticipate that economic growth may slow in several important countries. Our analysis is that behind the symptom -- a breakdown of several banking systems -- structural competitiveness and institutional problems created the conditions for the crisis and have to be addressed in depth. This means that the consequences of the crisis may be far-reaching and take a long time to cure in some countries like Thailand, but also the Philippines, Indonesia and, to a lesser extent, Malaysia. The Bank has been very active in talks with these governments, but we have chosen to remain publicly discreet in order to preserve our ties of confidence to our clients. On top of this advisory role in the Region, we are preparing a technical assistance loan and a structural financial sector adjustment loan in Thailand in the framework of the IMF program. This being said, you could add that we remain optimistic on the long term prospects for South East Asia, provided the structural adjustment policies are undertaken in the area of competitiveness, financial sector and governance. We are also encouraged by the developments in China, and hope that Vietnam will deepen its liberalization program. Therefore, our global assessment of East Asia is still very positive.

2 - **Major political issues** in the region are likely to affect Bank operations: (i) We have no operations in **Myanmar,** but could be pushed by part of the Asian public opinion and governments, including Japan, to resume operations. You could underline that we have no request for new interventions from Myanmar, but are open for any assistance, provided we could be really useful in the internal and international context. (ii) The situation in **Cambodia** has improved and somewhat stabilized. You could say that as long there is a legitimate government there is no reason for us not to co-operate. We are aware that working in Cambodia will remain challenging. You could underline that a good political settlement and dealing with corruption issues (especially in the forestry sector) are pre-conditions for efficient economic and development policies in Cambodia. (iii) **North Korea** remains a delicate issue. Japan, the United States and South Korea disagree on the strategy regarding the multilateral institutions and North Korea. North Korea hasn't contacted us to ask for any support, but we remain discreetly active. For instance, North Korea has accepted an IMF fact-finding mission and we are asking to participate in it. You could recognize the apparent great distress of the North Korean people and underline our willingness to help North Korea by any means, while understanding the complexity of the diplomatic situation. To benefit from any financing support from us, North Korea should be part of the Institution, which means first joining the IMF.

3 - **Human rights issues** are getting increasing attention in the international public opinion about Asia, whose track record is far from excellent. You might be asked questions especially about child labor

(Vietnam, for instance), ethnic minorities (China, Vietnam, Indonesia -- East Timor), political opponents (China, Vietnam, but also Indonesia). We are not a political institution but we think that a fair society, participatory processes, human rights and a legitimate government are strong assets for development; we promote the participation of the people and fair treatment of every individual. Be aware that last year we met accusations of being involved in prison camps and forced labor in China: you could restate, if asked, that this is not the case, and will never be the case. This can also be an opportunity to underline our investment in social development in Asia. We are aware that in some countries economic growth has recently led to growing inequalities which may be dangerous for the development process. Urbanization is creating new categories of "laissez-pour-compte." Aggressive economic and social policies must be developed to handle this problem. At the same time, the aging population of the Region and the major changes in the society, especially in the structure of the family, make it necessary to develop more formal social security safety nets.

4 - **Corruption and governance issues** are getting more and more critical in the Region. The financial crisis and a slowdown in the growth will give them even greater importance. (i) We are directly under attack in Indonesia; Mr. Jeffrey Winters, a former Bank consultant and currently U.S. academic, claims that up to 30% of our loans (and those of other donors) are subject to leakage. We have never had any evidence that it happens, despite repeated controls and audits, but we are aware of the wide corruption of the Indonesian society -- and so is the government. Therefore, it is not impossible that some of the procurement procedures under our funds are biased without us having any possibility to prove it or even see it. While making these points, you could mention that we are discussing with the Indonesian Government ways to increase, if possible, our controls on our projects, and to develop more thorough actions against corruption. Our last economic report on Indonesia underlined the growing problems that it was facing in the area of governance (economic rule of law, justice...); this message was strongly sent to the Government by the international community during the last consultative group in Tokyo (mid-July). We are following up on these points which will be key parts of our future strategy; (ii) The problem is similar for many countries in the Region, particularly China and Vietnam. On a general basis for East Asia, we are particularly careful to protect our projects; we are also always available to help our clients in the area of governance. We would suspend or limit our activities in a country if we felt that the extent of corruption was threatening economic growth deeply and would affect broadly our projects. Our analysis is that we haven't come to that point in any country in the Region. We nevertheless will remain vigilant and won't hesitate to take tough decisions if needed.

5 - **Environmental issues** are also on the radar screen of the international community as well as a concern for many local NGOs and citizens of East Asia. You can assure our interlocutors that they are important to us and that they are one of our major areas of development for our operations. Now we also want to strike the right balance between the needs of the people (particularly in energy, transportation and environmental concerns). Our goal is to promote the quality of life for all Asians and not only quantitative growth. In order to address this difficult issue our methodology is transparency and openness. A good example is the Nam Theun Dam Project and the independent International Advisory Group which has been created to screen it. We shall take a decision on this project, probably in October, after a very thorough review.

6 - Finally, you may want to say something on our **change management**. Our broad goal in EAP is to increase the value we bring to our clients in two ways: on the strategic side, we want to go more global (assist better their interaction with the world, transfer to them the best experiences...), go regional (take into account this level of growing importance) and go local (to better incorporate social and cultural dimensions, and improve our strategic focus). On the management side, we want to do things better, cheaper and faster. In order to meet these goals, we have reorganized our Region and chosen a flat, matrixed and deeply decentralized model: five of our seven country units are now located in the field and have major decision powers. This reorganization is only one part of many efforts which should change our culture and bring us closer to our clients, at an even higher level of competence and readiness to help than in the past.

COUNTRY INFO

Cambodia

CAMBODIA

Economic Developments

Cambodia is slowly making the transition to a market economy as it recovers from decades of war and internal strife. Since 1993, the country has made significant progress in stabilizing the economy and restoring economic growth. In 1994, the World Bank and the IMF formulated a macroeconomic reform strategy to maintain economic growth through an emphasis on human resource development and infrastructure investment.

Reforms and substantial external assistance have reduced imbalances and improved economic performance. GDP expanded at an average annual rate of 6 percent between 1991-1995 and reached about 7 percent in 1996; inflation which had averaged about 140 percent in 1990-92 was reduced to 3.5 percent in 1995. Institutional reforms targeting the banking system, exchange rates, and foreign investment and privatization laws were implemented. Prices were freed up, customs and tariff reforms were introduced, and other policy reforms, such as the Central Bank Law and Public Enterprise Law, were enacted.

ISSUES:

Political Stability

The Bank is monitoring the situation in Phnom Penh closely and hopes for a speedy return to stability so the Bank and other donors can continue their assistance to Cambodia to help implement a reform program. At the recent CG Meeting (7/97) in Paris, delegates welcomed the government's announcements scheduling national elections in May 1998 and resuming National Assembly sessions. The Government reconfirmed its commitment to accelerate implementation of key reforms in revenue mobilization, expenditure management, sustainable forestry practices and administrative reform.

Logging

Because forests are one of Cambodia's few developmentally significant natural resources, the Royal Government of Cambodia faces the challenge of establishing a policy and administrative framework for sustainable forestry development.

- **Growing awareness within the Government of the need for change in forest policy** is a major sign of progress on this issue. Efforts in improved cooperation among civilian agencies, diplomatic initiatives and seizures of illegally felled logs and logging equipment have led to apparent declines in logging.
- Reports of **continued granting of awards for forest concessions**, annual harvesting licenses and authorizations for collection of logs outside concession areas are ongoing causes for concern. There have also been reports associating military officials with intimidation and violence against forestry officials and with illegal logging operations.

The **Bank, UNDP and FAO** have been monitoring the progress of the Government on sustainable forestry policy, and have made specific policy recommendations for the Government. These recommendations include: providing incentives and regulations that signal to users the scarcity of forest resources; establishing mechanisms that efficiently and sustainably mobilize forest resources for development; and creating transparent and predictable systems of forest sector governance that provide confidence and legitimacy to the ways in which forests and forest resources are used. In addition, **the Bank will also**

finance a technical assistance program (to be supervised with assistance from UNDP and FAO) which includes four major assignments: Forest Concession Management, Forest Policy Process Development, Legal Review of Forest Concessions and Log Monitoring and Verification.

CAMBODIA AND THE WORLD BANK

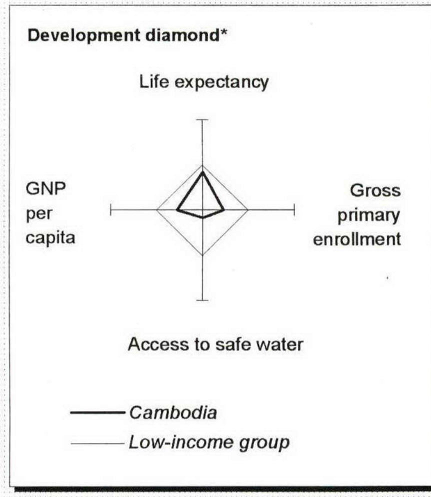
World Bank disbursements to Cambodia in FY97 totaled $28 million, covering 7 projects. Total commitments to Cambodia in FY97 were $57.4 million. Two new social and rural development projects were approved in FY97—the Disease Control and Health Development project ($30.4 million equivalent) will rehabilitate health system infrastructure to improve the delivery of basic health services and help control preventable diseases; and the Agriculture Productivity Improvement project ($27 million equivalent) will promote sustainable agricultural development and help improve economic conditions.

Cambodia joined the IFC on March 26, 1997 in a signing ceremony in Washington, D.C. In May 1997, IFC approved its first and to date only investment of US$7.5 million (US$5.25 million own account) in the tourism sector. Given the smaller-sized Cambodia market, top priority for IFC is to help develop the small and medium enterprise sector through *Mekong Project Development Facility/Mekong Financing Line* and the Extending IFC's Reach initiatives. Following recent incidents, IFC activities in Cambodia are currently on hold, and the IFC will be following the World Bank's lead.

Cambodia at a glance

POVERTY and SOCIAL

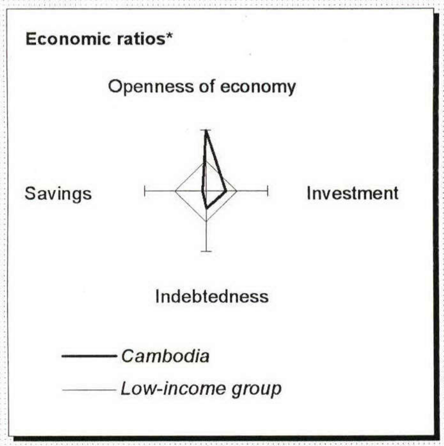
	Cambodia	East Asia	Low-income
Population mid-1995 *(millions)*	10.2	1,709	3,188
GNP per capita 1995 *(US$)*	260	830	460
GNP 1995 *(billions US$)*	2.7	1,418	1,466
Average annual growth, 1990-95			
Population *(%)*	2.9	1.3	1.8
Labor force *(%)*	2.6	1.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	21	31	29
Life expectancy at birth *(years)*	53	68	63
Infant mortality *(per 1,000 live births)*	108	36	58
Child malnutrition *(% of children under 5)*	..	17	38
Access to safe water *(% of population)*	13	77	75
Illiteracy *(% of population age 15+)*	35	17	34
Gross primary enrollment *(% of school-age population)*	47	117	105
Male	48	120	112
Female	46	116	98



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995
GDP *(billions US$)*	..	..	2.4	2.7
Gross domestic investment/GDP	..	..	19.5	19.2
Exports of goods and non-factor services/GDP	..	..	21.5	32.5
Gross domestic savings/GDP	..	..	5.1	4.0
Gross national savings/GDP	..	..	5.8	4.4
Current account balance/GDP	..	..	-13.9	-16.2
Interest payments/GDP	..	..	0.0	0.0
Total debt/GDP	..	..	84.8	71.0
Total debt service/exports	..	..	0.4	3.1
Present value of debt/GDP	..	..	19.8	..
Present value of debt/exports	..	..	91.5	..

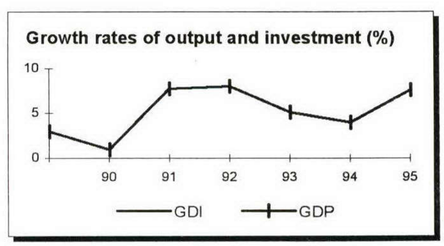
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	..	..	4.0	7.6	6.9
GNP per capita	..	..	1.5	4.6	3.9
Exports of goods and nfs	..	..	..	..	..



STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	..	..	45.2	44.6
Industry	..	..	18.3	18.7
Manufacturing	..	..	7.3	7.4
Services	..	..	36.5	36.7
Private consumption	..	..	83.7	86.3
General government consumption	..	..	11.1	9.7
Imports of goods and non-factor services	..	..	35.8	47.7

	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	..	..	0.0	6.9
Industry	..	..	7.7	9.4
Manufacturing	..	..	7.8	9.0
Services	..	..	7.4	7.5
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and non-factor services	..	..	..	..
Gross national product	..	..	4.0	7.6

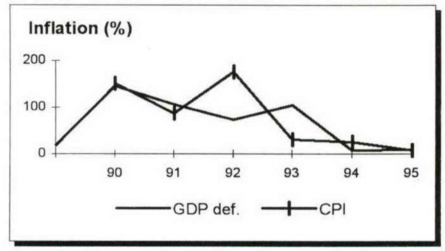


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

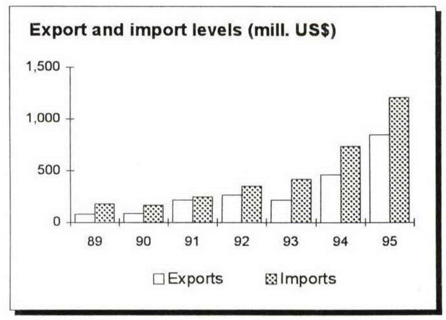
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	..	26.1	7.8
Implicit GDP deflator	..	..	8.9	9.1
Government finance				
(% of GDP)				
Current revenue	..	..	9.6	8.9
Current budget balance	..	..	-1.5	-1.3
Overall surplus/deficit	..	..	-7.0	-8.0



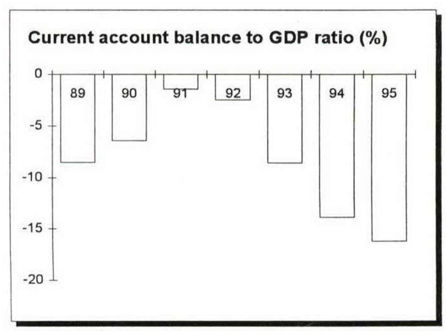
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob) a/	..	..	463	847
Rubber	..	..	26	38
Logs and sawn timbers	..	..	198	184
Manufactures	..	..	11	41
Total imports (cif)	..	..	737	1,213
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index *(1987=100)*	..	..	..	..
Import price index *(1987=100)*	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..



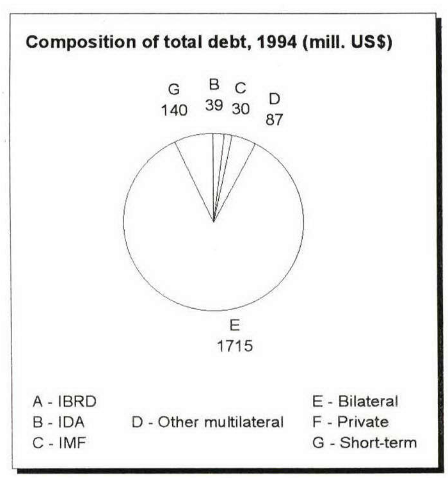
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	..	..	518	949
Imports of goods and non-factor services	..	..	864	1,394
Resource balance	..	..	-346	-445
Net factor income	..	..	1	-9
Net current transfers	..	..	15	20
Current account balance, before official transfers	..	..	-330	-434
Financing items (net)	..	..	300	348
Changes in net reserves	..	..	30	86
Memo:				
Reserves including gold *(mill. US$)*	..	..	100	186
Conversion rate *(local/US$)*	..	..	2,543.0	2,463.0



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	1	7	2,011	1,900
IBRD	0	0	0	0
IDA	0	0	39	65
Total debt service	0	0	9	25
IBRD	0	0	0	0
IDA	0	0	0	0
Composition of net resource flows				
Official grants	44	6	235	270
Official creditors	0	0	54	82
Private creditors	0	0	0	0
Foreign direct investment	0	0	10	100
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	0	17	100
Disbursements	0	0	29	25
Principal repayments	0	0	0	0
Net flows	0	0	29	25
Interest payments	0	0	0	0
Net transfers	0	0	28	24



a. Total exports include re-exports.

IBRD/IDA Lending Summary FY86-96

Cambodia

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	-	-	-	-	-	-	-	-	62.7	37.0	80.0
By Sector											
Agriculture	-	-	-	-	-	-	-	-	-	-	-
Human Resources	-	-	-	-	-	-	-	-	-	-	-
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	40.0
Industry & Finance	-	-	-	-	-	-	-	-	-	20.0	-
Infrastructure & Urban Development	-	-	-	-	-	-	-	-	-	-	-
Transportation Sector	-	-	-	-	-	-	-	-	-	-	-
Urban Development	-	-	-	-	-	-	-	-	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	-	-	-	-	-	-	-	-	62.7	17.0	40.0
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	-	-	-	-	-	-	-	-	62.7	-	40.0
Structual Adjustment Loan	-	-	-	-	-	-	-	-	-	-	40.0
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	62.7	-	-
Investment	-	-	-	-	-	-	-	-	-	37.0	40.0
Technical Assistance Loan	-	-	-	-	-	-	-	-	-	17.0	-
Sector Investment and Maintenance Loan	-	-	-	-	-	-	-	-	-	-	-
Specific Investment Loan	-	-	-	-	-	-	-	-	-	20.0	40.0
Financial Intermediary Loan	-	-	-	-	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

CAS Annex A2
Generated: August 24, 1997

Cambodia - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*	*Planned*[a]		
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	37.0	80.0	57.4	86.0	109.5	0.0	0.0
Sector (%)[b]							
Agriculture	0.0	0.0	47.0	0.0	18.3	0.0	0.0
Education	0.0	0.0	0.0	0.0	31.5	0.0	0.0
Electric Pwr & Engy.	0.0	50.0	0.0	0.0	0.0	0.0	0.0
Multisector	45.9	50.0	0.0	0.0	0.0	0.0	0.0
Popultn, Hlth & Nutn	0.0	0.0	53.0	0.0	0.0	0.0	0.0
Public Sector Mgmt.	0.0	0.0	0.0	46.5	0.0	0.0	0.0
Social Sector	54.1	0.0	0.0	23.3	0.0	0.0	0.0
Urban Development	0.0	0.0	0.0	0.0	50.2	0.0	0.0
Water Supply & Santn	0.0	0.0	0.0	30.2	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	50.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	50.0	100.0	100.0	100.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	22.0	37.0	14.2	0.0	0.0	0.0	0.0
Specific investment loans and others	1.0	5.2	13.7	1.3	31.2	13.8	11.4
Repayments (US$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest (US$m)	.3	.4	.8	0.0	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

China

CHINA

ECONOMIC AND POLITICAL BACKGROUND

China has experienced 20 years of remarkable economic growth, averaging 9% a year, which has led to a quadrupling of per capita incomes, lifting 200 million people out of absolute poverty. Illiteracy has fallen to around 10 percent of the population, while China's life expectancy and low infant mortality rates rival much richer nations. Investments in infrastructure are rapidly knitting together a dynamic economy that was never before integrated, supporting China's transition from a rural and agrarian society to one which is rapidly industrializing and urbanizing. China is now the tenth-largest trading nation in the world, and attracts more foreign direct investment than any country in the world other than the United States. China has already begun to realize the benefits of foreign direct investment and deeper integration with world trade and the international financial system. The stock of foreign direct investment in China is estimated to be about $200 billion, with FDI in 1997 likely to total $30-35 billion.

Several important political events are on the horizon. The 15th Communist Party Congress will convene in September or October, and it is expected to solidify support for China's reform initiatives. President Jiang's visit to Washington in November could improve relations with the U.S. And new national leaders will be elected at the National People's Congress next Spring, where Premier Li Peng could be succeeded by Vice Premier Zhu Rongji (who has worked closely with the Bank in the past).

ISSUES AND THE WORLD BANK'S RESPONSE

Poverty. Despite China's growth, some 270 million Chinese remain below the dollar-a-day poverty standard—one-fifth of the world's poor. With the more rapid development of coastal and urban areas, income and social inequality has increased while, as a result of the greater challenges of reaching the more remote and resource poor areas of the country, the pace of poverty reduction has slowed. The Bank is heavily involved in China's efforts to end poverty. During FY91-97, it lent about $2.1 billion, almost all IDA funds, for poverty alleviation, benefiting more than 104 million people. Four basic **education projects** (totaling $415 million) are sharply focused on the rural poor, including minorities, and with a special emphasis on girls' education; the **Rural Health Workers Development project** focuses on getting health care to a targeted poor area of 160 million people. In particular the Bank's **agricultural programs** (50 investments since 1981, channeling over $7.7 billion to rural development) have helped disadvantaged farm families in rural areas of China's interior marked by *stagnant agricultural growth, insignificant rural enterprise growth, and limited access to education/health.* Examples of these programs are the **Loess Plateau Watershed Rehabilitation Project** which should triple per capita farm incomes for 1.2 million rural people, **Shanxi Poverty Alleviation** which will benefit 3 million people through single sectoral rural development programs, and **Tarim Basin I and II** which will increase agricultural development through irrigation schemes to benefit poor minority farmers in China's remote and desperately poor *Xinjiang Autonomous Region.* Tarim Basin I/Xinjiang was the object of **Harry Wu's allegations** (10/95 and 4/96) that the Bank project had been supporting cotton and grain production in 21 forced labor camps—allegations found to be unsubstantiated after a six-week inquiry that satisfied both the Bank and the US government that Bank projects in Xinjiang and elsewhere in China are being responsibly and correctly implemented.

State enterprise reform. The *inefficient and loss-producing state enterprise system* is a major challenge to China's continued growth and development of a modern enterprise system. In 1996, **50**

percent of China's 305,000 state-owned enterprises had operating losses equivalent to 1 percent of GDP. SOEs **absorb more than three-fourths of domestic credit** and their borrowing accounts for about 60 percent of the total nonfinancial public sector deficit, crowding out investment by nonstate firms and **undermining a weak state-dominated banking system**. The government has avoided radical solutions (such as massive privatization) for the sake of social stability; but is instituting budget constraints on SOEs, reducing subsidies and allowing increasingly widespread privatization of small companies. In 1996, over 6,000 mostly small SOES were closed. Both the President and the Premier have made recent speeches singling out SOE reform as the leading economic challenge for China. The Bank is helping by providing studies and advice on ways of achieving SOE reform in an effective way, for example via the recent report *China's Management of Enterprise Assets: The State as Shareholder*.

Financing infrastructure: China will need about **$700-800 billion over the next 10 years** to meet its infrastructure needs, and this will be vital to overcome serious bottlenecks and backlog of investments. The Chinese are attempting to attract private investment, but despite international interest, results have been disappointing (the high private capital flows going to China—$40 billion in 1996—go mainly to export industries, real estate and other short term opportunities.). The Bank Group (including IFC and FIAS) have been working with the Chinese to review reasons for slow progress and to formulate solutions, including a number of meetings with the international business community and senior policy makers. Our support focuses on three levels: (i) assisting the authorities in *design and implementation of an improved regulatory framework* for private investment—Bank advised in the framework BOT regulations governing among other projects the *Laibin B Thermal Power BOT* (ii) participating in projects sponsored by the private sector; and (iii) continuing support for institutional reforms of public institutions and financing of public projects in sectors (water supply, rural roads, railways) or in *interior provinces of little interest to the private sector.*

The environment: An increasingly serious concern has been the environmental impact of twenty years of rapid growth, industrialization and urbanization. Air pollution alone now condemns almost 300,000 people a year to premature deaths, and overall, the cost of pollution to the economy (by one estimate) is as high as 7-8% of GDP annually. Improving and protecting the environment will require a combination of market-based incentives (e.g., energy pricing), improved enforcement of environmental regulations, and increased investments in pollution control by industries and municipalities. The Bank has assisted with a series of studies that have helped China's policy makers plan ways to reverse environmental deterioration. Based on these studies, the *Bank has channeled almost $3.0 billion to environmental infrastructure improving air and water quality nationwide, implementing programs for urban sanitation, energy conservation, environmental management, and pollution control.* An important Bank dam project, the Yellow River's **Xiaolangdi Multipurpose project** will provide hydropower, flood and sediment control, and irrigation; and decrease the reliance on air-polluting coal for electricity (equivalent to emissions saving of 4.6 million tons of carbon dioxide), decreasing the production of sulphur dioxide and nitrogen oxide gases. The Bank *is not involved in the Three Gorges* Dam, a large multiple purpose project on the Yangtze River, except in a limited capacity in 1986, when the Bank co-chaired and financed a panel of international experts *to assess a feasibility study* that was carried out by a Canadian consortium of consultants under a bilateral arrangement between the Chinese and Canadian Governments.

Food security: Food security is a perennial social (and political) concern, with China trying to feed 22% of the world's population on 7% of the world's arable land. China's aim of grain self-sufficiency, limiting food imports, has curtailed food productivity, and greater integration with international markets would permit food security at a lower cost. The Bank is heavily involved in helping China assure food security; 28 percent of total Bank lending to China has gone to the agricultural sector. For example, the ongoing **Grain Distribution and Marketing Project** is aimed at modernizing grain handling in four major grain corridors spanning the country, including development of modern port terminals.

CHINA AND THE WORLD BANK GROUP

China is an original member of the World Bank, which it joined in 1945 before the establishment of the People's Republic of China in 1949. When the UN recognized ROC/Taiwan as China in 1949, the Bank followed suit and funded 18 projects (4 IDA/14 IBRD) in Taiwan from 1961-1971, the loans and credits totaling $344.7 million. In May 1980 the Bank Group decided to accept the People's Republic of China (PRC) as the representative of its member China. The first loan to the PRC was approved by the Board in June 1981 for a universities project, followed by an agriculture project.

Since 1980, the Bank has helped China to meet the challenges of its reform program through a combination of policy analysis and advice, direct technical assistance and lending for specific development projects. Our financial support has amounted to $28.5 billion, with China having become the largest borrower since 1992. This includes $19.3 billion in IBRD funds and $9.2 from IDA. (IDA resources for China will terminate after FY99.) In terms of performance, the China portfolio is one of the best in the Bank. Our policy analysis and advice, however, and our technical assistance and training programs, have been even more valuable than our money.

IFC has approved 30 projects in China for a total investment of US$1.04 billion (US$577 million own account). In FY 97, IFC financed 10 projects for a total of US$305 million (US$124 million own account) including IFC's first project in the Chinese financial sector (Orient Finance Co.), to which IFC will extend a credit line for small and medium enterprises. Investments were also made in a cement plant, a wood products company, a heavy truck and bus plant, and a flour mill. In FY98 IFC expects to focus on the *financial sector* (including leasing, commercial banking and insurance); *projects in the less developed, interior provinces*; and the *domestic private sector*, including township and village enterprises (TVEs). The IFC is currently looking at ways of assisting some of the recently established private sector financial institutions in China, has invested in one such institution—the Orient Finance Company in Harbin—and in discussions with China Minsheng Bank and other institutions. IFC's assistance would involve: (i) long term equity investments and financing without recourse to government guarantees or backing; (ii) providing technical assistance and access to modern know-how, techniques and technology; (iii) and helping domestic Chinese institutions to mobilize resources from overseas lenders.

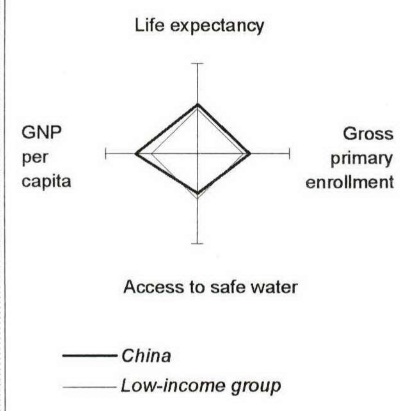
China at a glance

11/27/96

POVERTY and SOCIAL

	China	East Asia	Low-income
Population mid-1995 *(millions)*	1,201.4	1,709	3,188
GNP per capita 1995 *(US$)*	620	830	460
GNP 1995 *(billions US$)*	744.9	1,418	1,466
Average annual growth, 1990-95			
Population *(%)*	1.1	1.3	1.8
Labor force *(%)*	1.1	1.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	22.2	..	..
Urban population *(% of total population)*	30	31	29
Life expectancy at birth *(years)*	69	68	63
Infant mortality *(per 1,000 live births)*	29	36	58
Child malnutrition *(% of children under 5)*	17	19	38
Access to safe water *(% of population)*	46	49	53
Illiteracy *(% of population age 15+)*	10	17	34
Gross primary enrollment *(% of school-age population)*	118	117	105
Male	120	119	112
Female	116	115	98

Development diamond*

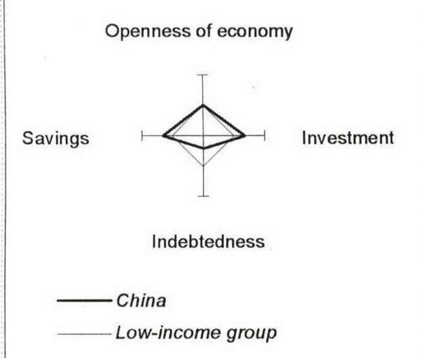


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995
GDP *(billions US$)*	160.3	304.9	540.9	697.6
Gross domestic investment/GDP	30.3	37.8	39.9	40.5
Exports of goods and non-factor services/GDP	5.2	9.9	22.0	21.0
Gross domestic savings/GDP	30.6	33.7	41.2	42.0
Gross national savings/GDP	30.6	34.0	41.2	40.5
Current account balance/GDP	-0.2	-3.9	1.3	0.2
Interest payments/GDP	..	0.2	0.7	0.7
Total debt/GDP	..	5.5	18.6	16.9
Total debt service/exports	..	8.3	8.9	9.9
Present value of debt/GDP	..	..	15.8	..
Present value of debt/exports	..	..	68.5	..

	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	8.0	9.8	12.6	10.5	8.5
GNP per capita	6.6	8.3	11.4	8.0	7.6
Exports of goods and nfs	17.9	13.3	28.1	9.6	8.6

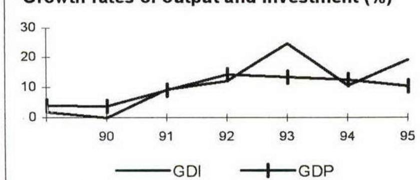
Economic ratios*



STRUCTURE of the ECONOMY

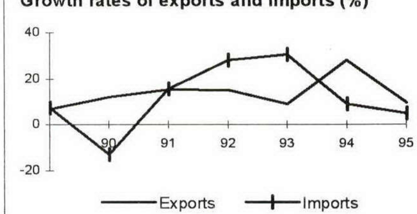
	1975	1985	1994	1995
(% of GDP)				
Agriculture	32.0	28.4	20.3	20.6
Industry	42.8	43.1	48.0	48.4
Manufacturing	31.6	35.4	37.6	37.6
Services	25.2	28.5	31.7	31.1
Private consumption	61.9	53.1	45.9	45.7
General government consumption	7.6	13.2	12.8	12.2
Imports of goods and non-factor services	5.0	14.0	20.6	19.4

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	5.1	4.2	4.0	5.0
Industry	10.0	12.8	18.4	14.1
Manufacturing	13.1	12.3	18.4	13.3
Services	9.6	9.4	9.3	7.9
Private consumption	7.9	8.6	9.7	6.3
General government consumption	8.5	9.5	7.8	-3.4
Gross domestic investment	8.9	9.7	10.5	19.1
Imports of goods and non-factor services	21.1	9.0	9.3	5.0
Gross national product	8.0	9.8	12.6	9.0

Growth rates of exports and imports (%)

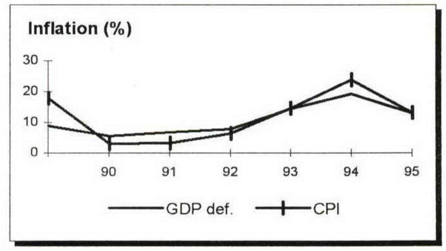


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

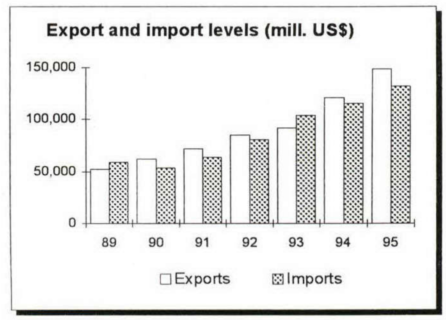
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	9.3	24.1	13.2
Implicit GDP deflator	-0.9	10.1	19.5	13.1
Government finance				
(% of GDP)				
Current revenue	..	25.5	12.0	11.6
Current budget balance	..	6.7	0.4	0.3
Overall surplus/deficit	..	-0.5	-1.6	-1.6



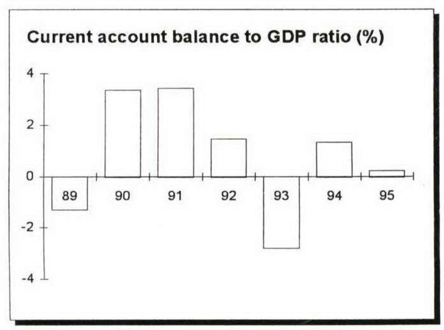
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	27,350	121,038	148,750
Food	..	3,803	10,017	12,828
Fuel	..	7,132	4,061	4,152
Manufactures	..	13,522	101,331	127,638
Total imports (cif)	..	42,252	115,693	132,308
Food	..	1,881	4,996	6,562
Fuel and energy	..	172	4,034	55,758
Capital goods	..	18,694	55,720	55,882
Export price index *(1987=100)*	..	92	124	130
Import price index *(1987=100)*	..	78	122	128
Terms of trade *(1987=100)*	..	117	102	102



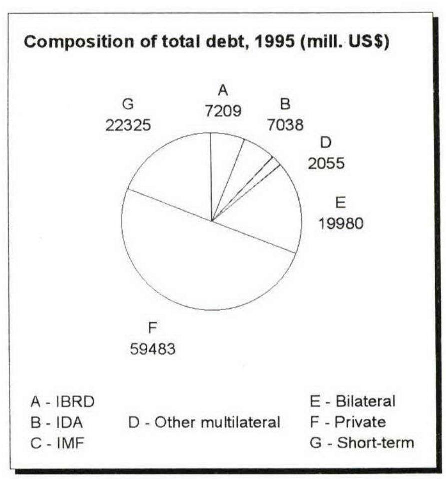
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	7,828	28,163	118,811	142,000
Imports of goods and non-factor services	8,097	41,149	111,472	127,600
Resource balance	-269	-12,986	7,339	14,400
Net factor income	0	932	-1,018	-14,300
Net current transfers	0	171	836	1,400
Current account balance, before official transfers	-269	-11,883	7,157	1,500
Financing items (net)	..	9,443	23,370	20,700
Changes in net reserves	..	2,440	-30,527	-22,200
Memo:				
Reserves including gold *(mill. US$)*	..	16,881	57,794	76,592
Conversion rate *(local/US$)*	1.9	2.9	8.6	8.4



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	..	16,696	100,457	118,090
IBRD	..	498	5,933	7,209
IDA	..	431	6,097	7,038
Total debt service	..	2,478	11,135	15,066
IBRD	..	26	679	810
IDA	..	4	50	63
Composition of net resource flows				
Official grants	..	117	337	326
Official creditors	..	1,117	3,117	7,202
Private creditors	..	2,867	6,691	5,683
Foreign direct investment	..	1,659	33,787	38,000
Portfolio equity	..	0	3,915	2,807
World Bank program				
Commitments	..	1,092	4,020	2,850
Disbursements	..	565	2,060	2,269
Principal repayments	..	0	324	364
Net flows	..	565	1,736	1,905
Interest payments	..	29	405	509
Net transfers	..	536	1,331	1,396



Note: The dollar estimate for China's GNP per capita is taken from the World Development Indicators and is a preliminary figure based on an on-going World Bank study of China's GDP. It was calculated to facilitate inter-country comparisons. Official statistics are used as the basis for all other economic analysis contained in this document.

CAS Annex A2
Generated: August 22, 1997

China - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past		Current		Planned[a]		
Category	1995	1996	1997	1998	1999	2000	2001
Commitments (US$m)	2999.5	2970.0	2815.0	2495.0	3700.0	1915.0	1050.0
Sector (%)[b]							
Agriculture	7.0	16.8	40.1	20.0	22.4	20.9	0.0
Education	10.0	3.4	4.1	0.0	2.7	0.0	0.0
Electric Pwr & Engy.	22.3	28.3	28.4	22.0	8.1	32.1	0.0
Environment	3.7	5.1	0.0	5.8	21.6	0.0	14.3
Finance	0.0	0.0	0.0	14.6	10.0	10.4	19.0
Industry	5.8	5.7	0.0	0.0	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0	2.6	0.0	0.0	0.0
Popultn, Hlth & Nutn	3.9	3.4	0.0	3.4	1.4	0.0	0.0
Public Sector Mgmt.	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Sector	8.3	1.0	0.0	0.0	0.0	0.0	0.0
Transportation	25.3	22.9	24.9	27.5	29.7	28.7	47.6
Urban Development	11.7	13.5	0.0	0.0	0.0	7.8	19.0
Water Supply & Santn	0.0	0.0	2.5	4.0	4.1	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	2214.2	2219.0	2128.2	-2389.5	2036.7	1484.8	744.4
Repayments (US$m)	353.4	364.5	366.4	39.1	0.0	0.0	0.0
Interest (US$m)	459.4	533.7	555.7	64.8	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

China

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**1,137.0**	**1,423.6**	**1,693.6**	**1,348.4**	**590.0**	**1,579.3**	**2,556.3**	**3,172.0**	**3,145.0**	**3,109.6**	**2,970.0**
By Sector											
Agriculture	150.0	280.5	729.9	215.0	510.0	784.0	287.0	952.0	1,275.0	477.5	500.0
Human Resources	200.0	-	50.0	109.0	50.0	131.2	259.6	100.0	110.0	417.0	230.0
Public Sector Management	-	20.7	-	-	-	-	-	110.0	-	60.0	-
Energy	307.0	330.0	165.0	-	-	-	937.0	400.0	615.0	670.0	840.0
Industry & Finance	120.0	497.4	189.7	591.0	-	264.3	82.7	150.0	65.0	265.1	170.0
Infrastructure & Urban Development	**360.0**	**295.0**	**559.0**	**433.4**	**30.0**	**399.8**	**865.0**	**1,160.0**	**920.0**	**1,110.0**	**1,080.0**
Transportation Sector	360.0	150.0	559.0	433.4	-	153.6	655.0	930.0	670.0	760.0	680.0
Urban Development	-	145.0	-	-	30.0	168.4	100.0	110.0	-	350.0	400.0
Water Supply & Sanitation	-	-	-	-	-	77.8	110.0	120.0	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	-	-	250.0	-	-
Environment	-	-	-	-	-	-	125.0	300.0	160.0	110.0	150.0
Multi-Sector	-	-	-	-	-	-	-	-	-	-	-
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**-**	**300.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Structual Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	300.0	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**1,137.0**	**1,423.6**	**1,393.6**	**1,348.4**	**590.0**	**1,579.3**	**2,526.3**	**3,172.0**	**3,070.0**	**2,999.5**	**2,970.0**
Technical Assistance Loan	50.0	20.7	-	-	-	-	-	160.0	-	60.0	-
Sector Investment and Maintenance Loan	200.0	-	50.0	52.0	50.0	209.0	-	100.0	-	-	-
Specific Investment Loan	697.0	1,102.9	1,173.6	842.4	510.0	945.3	2,526.3	2,762.0	3,070.0	2,589.5	2,970.0
Financial Intermediary Loan	190.0	300.0	170.0	454.0	-	425.0	-	150.0	-	350.0	-
Emergency Recovery Loan	-	-	-	-	30.0	-	-	-	-	-	-

Indonesia

INDONESIA

High growth propelled by manufacturing and high domestic savings. Indonesia's GDP growth of 7 percent average a year between 1985 and 1995 **(7.6 percent in 1996)** has been propelled mainly by the **10.7 percent growth rate of the manufacturing sector** over the same period. Both foreign and domestic investment are booming, but Indonesia continues to finance about 90 percent of its investments through domestic savings. In **1996, Indonesia's gross investment rate was 32 percent of gross domestic product (GDP) and its gross national savings rate was 28 percent of GDP**.

Poverty dramatically reduced. Between **1970 and 1996**, the proportion of the population **living below the official poverty** line **declined from 56 percent** to an **estimated 11 percent. Infant mortality** has declined from 145 per thousand live births in 1970 to 51 per thousand in 1995, and **life expectancy** has risen from 46 years to 64 years in the same period. Indonesia has achieved **universal primary education**, reduced the adult illiteracy rate by nearly two-thirds, and significantly increased the percentage of the **labor force** with at least secondary education from 11.5 percent in 1980 to 30.1 percent in 1995.

ISSUES AND THE WORLD BANK'S RESPONSE:

Continuing poverty. Some **22 million people still live in absolute poverty**, with many living in rural areas, the eastern islands, and parts of Java. Most are dependent on low-productivity agriculture and do not have access to basic services. Efforts to reach these poor with special programs of assistance have intensified in recent years. The Bank, supporting the ***government's poverty alleviation program*** targeting those who have been left behind in the development process, has implemented innovative community-based **Village Infrastructure Projects** (VIP) which enable villagers to plan and build public infrastructure themselves, gaining employment and increasing income opportunities while improving overall living standards. *Bank lending for **social development*** has emphasized quality improvements in health and education services, giving importance to decentralization, the private/public sector interface, and greater competition. The Bank's ***Gender Action Plan*** has been supported by an innovative Gender Action Fund to mainstream gender issues in the preparation of Bank projects.

Current threat of monetary crisis. Spill-over effects from the Thai crisis have forced a reassessment of Indonesia's economic strengths and weaknesses. Following the floating of the Rupiah on August 14 its value fell to a low of Rp.3100/US$ on August 19 (from 2433 on July 1), before recovering to about 2750 by August 22. Very tight monetary policies and higher interest rates have been introduced to achieve short term stabilization. The Bank is now working hard with the government's economic team to convince the President that more than macroeconomic adjustment is needed, that *the core issues of bureaucracy, public interference, corruption, favoritism and productivity must now be addressed.*

The environment. Current rates of environmental depletion and growing pollution raise questions about the sustainability of growth. The government has given environmental protection high priority, establishing an environmental impact management agency, a Clean Rivers Program, and preparing a Biodiversity Action Plan. The Bank, in cooperation with GEF, has recently funded ***alternative energy and solar electrification projects*** to meet growing rural electrification demands, and has also helped upgrade power transmission & distribution systems to function in a more efficient, environmentally sustainable manner. **Natural resource management programs** implemented through the Bank and GEF-funded Kerinci-Seblat National Park project, have addressed biodiversity and conservation concerns.

Corruption. Corruption is not a new issue in Indonesia, but a recent statement by Professor Jeffrey Winters (Northwestern University) alleged that **1/3 of Bank loans are "siphoned" off**. The Indonesian government denied the allegations but local media have taken the opportunity to highlight that corruption does exist in Indonesia, and that no one—including the World Bank—is immune. The Bank has responded that procurement of goods and services under Bank loans is conducted through open, transparent and competitive international procedures, and that there is full accountability on the use of Bank funds through a comprehensive system of independent ex-post financial audits of project accounts. The Bank's commitment to stamping out corruption is leading us to work with the government to strengthen already strong procurement and disbursement oversight mechanisms.

East Timor. In accepting the Nobel Peace Prize last year, the Bishop of East Timor raised questions about the Bank's partnership with an Indonesian regime that has reacted with brutality to the 22-year East Timorese campaign for independence. The Bank has responded that it has in fact focused support on reducing poverty through long-term development in impoverished East Timor, through $25.7 million that is part of 10 larger national projects it is financing in Indonesia. This assistance includes finance ($5.5 million), roads ($16.2 million), education ($3.4 million), power ($0.5 million) and human resource development ($0.14 million).

INDONESIA AND THE WORLD BANK GROUP

Bank Portfolio. Cumulative World Bank lending to Indonesia as of June 30, 1997, was approximately $23 billion. IBRD's lending to Indonesia over the past two years, FY96-97, averaged about $1.0 billion, making it IBRD's seventh largest client; The pace of ***disbursements*** has slowed somewhat to a 20 percent disbursement ratio in FY97. This is mostly due to the structure of the ongoing and future portfolio which has a greater concentration in regional and provincial projects, which are generally slower in implementation resulting from lower capacity borrowers. FY97 lending totaled $914.6 million for 11 projects. The lending program included a 30 percent share of ***decentralized projects***, focusing on the constraints of particular regions, emphasizing capacity building and involving local administrations for preparation and execution. Development priorities have changed over the years to reflect a greater awareness of *regional differences, an increased role for the private sector, and greater attention to the quality of health and education, sustainable resource management, the urban environment, and institutional development.*

IFC Portfolio. IFC's held portfolio is US$565.3 million ranking it IFC's seventh largest country exposure. As of June 30, 1997, investments in Indonesia accounted for approximately 5.2% of IFC's total held portfolio. IFC's approvals in FY97 were US$158 million for IFC's own account and US$204 million for the account of participants. FY98 high probability pipeline is strong and includes investments in infrastructure (water utility project), agribusiness, cement and related construction materials industry, as well as health care and hotel projects. Since the recent floating of the Rupiah, the local currency has depreciated 17.8% and the Jakarta Stock Exchange Index has dropped by 22.5%. This will have an adverse impact on the financial system and economy in general, especially the non-export oriented sectors with substantial foreign currency borrowings. IFC is closely monitoring specific impacts on its portfolio and evaluating mechanisms for assisting viable companies through the crisis. IFC has several current initiatives in Indonesia:

- **East Indonesia:** FIAS is studying impediments to private sector investments in East Indonesia and how to mitigate them. IFC is conducting a prefeasibility study as well on a suitable technical assistance vehicle (possibly a Project Preparation Facility) to assist small/medium-size regional entrepreneurs with meritorious projects. These initiatives have the full support of Minister Ginandjar of Bappenas (Planning Ministry) and AusAID is funding both studies.

- **Management Development Initiative:** Proceeding from Mr. Wolfensohn's initiative during his May 1996 visit to Indonesia, IFC - with the assistance of IDP Education Australia and the full support of the business community - is exploring the feasibility of establishing Management Development Programs that would help address the lack of well-trained middle and first line managers in Indonesia. A Needs Survey conducted in July confirmed that an IFC-led entity to facilitate quality management training programs will help enhance the management pool in the country.

- **Infrastructure:** The privatization of the Power and Telecoms sectors is well underway. IFC played a catalytic role in Telecoms by acting as lead financier of the first Telecoms Joint Operating Scheme (Astra-France Telecoms Sumatra) to achieve financial closure. IFC is now actively pursuing water, toll roads and ports projects.

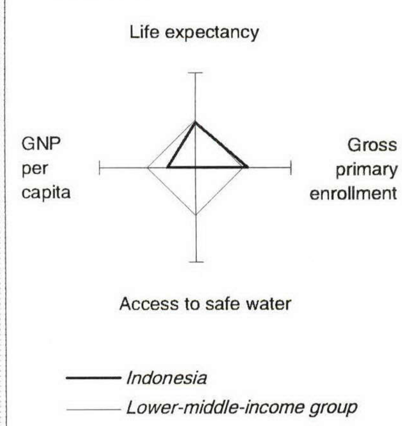
- **Financial Sector:** IFC played a key role in establishing the first asset-backed securitization institution in Indonesia, and is now actively promoting microcredit. IFC is currently advising Bapepam (the Securities Commission) on the promotion of and regulatory framework for securitization.

Indonesia at a glance

3/28/97

POVERTY and SOCIAL	Indonesia	East Asia	Lower-middle-income
Population mid-1995 *(millions)*	193.3	1,706	1,153
GNP per capita 1995 *(US$)*	980	800	1,670
GNP 1995 *(billions US$)*	190.1	1,368	1,930
Average annual growth, 1990-95			
Population *(%)*	1.6	1.3	1.4
Labor force *(%)*	2.5	1.4	1.7
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	34	31	56
Life expectancy at birth *(years)*	64	68	67
Infant mortality *(per 1,000 live births)*	51	40	41
Child malnutrition *(% of children under 5)*	39	..	..
Access to safe water *(% of population)*	63	49	..
Illiteracy *(% of population age 15+)*	16	17	..
Gross primary enrollment *(% of school-age population)*	114	117	104
Male	116	120	105
Female	112	116	101

Development diamond*

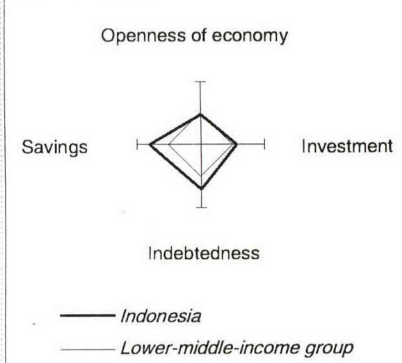


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1995	1996
GDP *(billions US$)*	32.1	87.2	201.2	232.3
Gross domestic investment/GDP	23.7	26.1	31.5	..
Exports of goods and services/GDP	23.2	22.2	26.0	25.8
Gross domestic savings/GDP	25.9	27.8	32.3	..
Gross national savings/GDP	23.4	22.8	28.2	..
Current account balance/GDP	-3.4	-2.2	-2.6	-3.3
Interest payments/GDP	1.0	2.3	2.5	2.2
Total debt/GDP	35.8	42.1	53.6	44.2
Total debt service/exports	15.1	28.8	29.9	30.0
Present value of debt/GDP	..	..	51.3	..
Present value of debt/exports	..	..	187.7	..

(average annual growth)	1975-85	1986-96	1995	1996	1997-05
GDP	7.0	7.9	8.2	7.6	6.6
GNP per capita	4.3	6.1	5.8	6.0	..
Exports of goods and services	-1.0	9.3	8.0	9.7	7.6

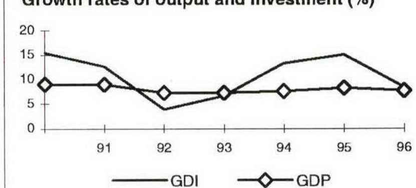
Economic ratios*



STRUCTURE of the ECONOMY

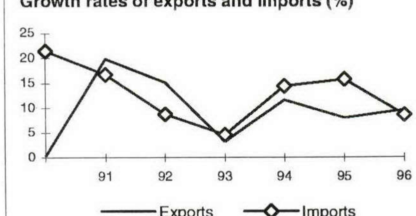
(% of GDP)	1975	1985	1995	1996
Agriculture	30.2	23.2	16.9	15.5
Industry	33.5	35.9	40.9	39.9
Manufacturing	9.8	16.0	23.9	23.3
Services	36.3	40.9	42.2	44.6
Private consumption	65.1	60.4	59.6	..
General government consumption	9.0	11.8	8.1	7.0
Imports of goods and services	21.0	20.5	25.2	25.2

Growth rates of output and investment (%)



(average annual growth)	1975-85	1986-96	1995	1996
Agriculture	4.2	3.4	4.0	3.0
Industry	7.0	9.9	10.3	9.4
Manufacturing	14.5	11.2	11.1	9.9
Services	9.0	8.1	7.9	7.6
Private consumption	9.8	*6.9*	8.7	..
General government consumption	10.5	*4.8*	3.4	..
Gross domestic investment	12.1	10.7	15.0	8.3
Imports of goods and services	8.8	9.4	15.8	8.7
Gross national product	6.5	7.9	7.4	7.5

Growth rates of exports and imports (%)

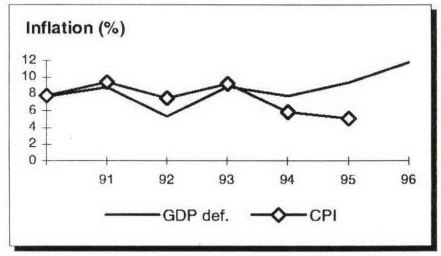


Note: 1996 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

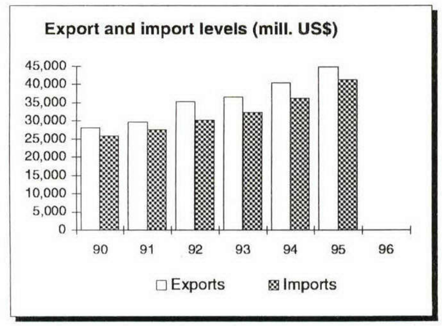
PRICES and GOVERNMENT FINANCE

	1975	1985	1995	1996
Domestic prices				
(% change)				
Consumer prices	19.1	4.7	5.1	..
Implicit GDP deflator	11.2	4.3	9.4	11.8
Government finance				
(% of GDP)				
Current revenue	..	19.2	15.5	..
Current budget balance	..	6.0	6.4	..
Overall surplus/deficit	..	-3.2	-0.2	..



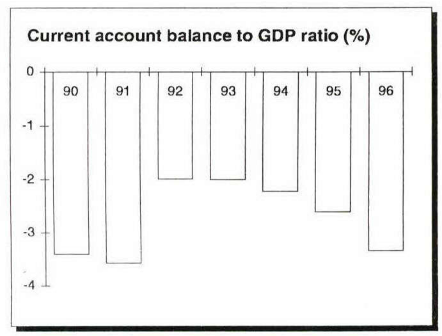
TRADE

	1975	1985	1995	1996
(millions US$)				
Total exports (fob)	..	18,823	44,792	..
Fuel	..	12,804	8,638	..
Rubber	..	714	1,554	..
Manufactures	..	2,287	23,487	..
Total imports (cif)	..	14,056	41,286	..
Food	..	812	868	..
Fuel and energy	..	2,870	3,841	..
Capital goods	..	5,394	16,712	..
Export price index *(1987=100)*	..	121	137	..
Import price index *(1987=100)*	..	85	127	..
Terms of trade *(1987=100)*	..	143	108	..



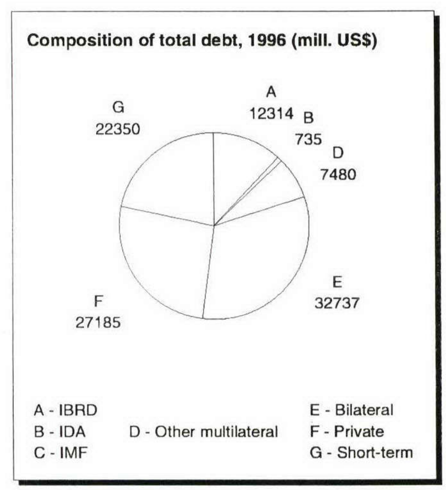
BALANCE of PAYMENTS

	1975	1985	1995	1996
(millions US$)				
Exports of goods and services	6,981	19,371	51,812	59,474
Imports of goods and services	6,775	17,840	50,086	57,967
Resource balance	207	1,531	1,726	1,506
Net factor income	-1,342	-3,542	-7,457	-8,935
Net current transfers	27	88	487	-337
Current account balance, before official capital transfers	-1,108	-1,923	-5,244	-7,766
Financing items (net)	257	962	6,621	..
Changes in net reserves	851	961	-1,377	..
Memo:				
Reserves including gold *(mill. US$)*	592	13,184	26,139	27,519
Conversion rate *(local/US$)*	415.0	1,110.6	2,248.6	2,342.3



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1995	1996
(millions US$)				
Total debt outstanding and disbursed	11,498	36,715	107,831	102,801
IBRD	57	3,590	12,503	12,314
IDA	318	844	756	735
Total debt service	1,060	5,823	16,419	18,238
IBRD	2	384	1,875	2,103
IDA	2	12	26	27
Composition of net resource flows				
Official grants	69	136	249	..
Official creditors	515	980	1,101	2,036
Private creditors	1,749	154	2,428	-7,066
Foreign direct investment	476	310	4,500	..
Portfolio equity	0	0	4,873	..
World Bank program				
Commitments	311	1,068	1,312	0
Disbursements	164	777	1,044	957
Principal repayments	0	133	975	1,167
Net flows	164	644	69	-210
Interest payments	3	262	926	963
Net transfers	160	382	-857	-1,173



Note: Government finance and trade fiscal year (April to March).

Indonesia - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			Current		Planned[a]	
Category	1995	1996	1997	1998	1999	2000	2001
Commitments (US$m)	1417.0	991.7	914.6	1144.5	1380.0	1632.0	1545.0
Sector (%)[b]							
Agriculture	4.4	7.4	0.0	7.4	14.6	14.1	6.5
Education	16.0	22.6	29.9	7.9	12.3	1.8	14.2
Electric Pwr & Engy.	28.1	37.6	9.4	31.3	34.3	18.4	0.0
Environment	5.6	0.0	0.0	.7	0.0	.7	0.0
Finance	0.0	0.0	1.8	0.0	0.0	0.0	0.0
Industry	0.0	4.7	0.0	0.0	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0	23.2	0.0	0.0	0.0
Popultn, Hlth & Nutn	6.2	4.5	3.1	9.0	2.9	9.8	9.7
Public Sector Mgmt.	2.0	0.0	0.0	0.0	7.2	0.0	0.0
Telecommunications	22.9	0.0	0.0	2.2	1.4	0.0	0.0
Transportation	5.1	8.8	11.5	18.3	18.1	28.8	40.5
Urban Development	9.6	14.4	44.3	0.0	9.1	26.3	0.0
Water Supply & Santn	0.0	0.0	0.0	0.0	0.0	0.0	29.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	1143.9	959.0	915.7	39.7	963.9	520.9	256.7
Repayments (US$m)	1312.7	1213.0	1501.0	111.3	0.0	0.0	0.0
Interest (US$m)	935.4	914.5	781.1	66.9	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.
[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.
[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Indonesia

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**1,132.3**	**1,057.5**	**1,375.3**	**1,640.4**	**1,632.8**	**1,637.5**	**1,587.4**	**867.6**	**1,497.0**	**1,434.0**	**1,006.7**
By Sector											
Agriculture	231.0	94.5	268.0	153.5	20.0	140.5	418.7	86.0	292.9	215.5	87.9
Human Resources	184.5	-	253.3	61.9	307.8	254.0	143.1	93.5	86.6	314.5	269.2
Public Sector Management	-	-	-	-	-	30.0	12.0	-	-	28.0	-
Energy	34.0	226.0	-	691.0	415.0	275.0	423.6	104.0	260.5	398.0	373.0
Industry & Finance	64.5	101.5	186.0	384.0	-	346.7	-	307.0	-	-	47.0
Infrastructure & Urban Development	**618.3**	**335.5**	**368.0**	**-**	**890.0**	**341.3**	**590.0**	**277.1**	**800.5**	**461.0**	**229.6**
Transportation Sector	300.0	51.0	368.0	-	350.0	-	215.0	197.1	451.5	-	86.9
Urban Development	275.0	270.0	-	-	-	241.3	-	-	349.0	136.0	142.7
Water Supply & Sanitation	43.3	-	-	-	190.0	100.0	-	80.0	-	-	-
Telecommunications & Informatics	-	14.5	-	-	350.0	-	375.0	-	-	325.0	-
Environment	-	-	-	-	-	-	-	-	56.5	17.0	-
Multi-Sector	**-**	**300.0**	**300.0**	**350.0**	**-**	**250.0**	**-**	**-**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**300.0**	**300.0**	**350.0**	**-**	**250.0**	**-**	**-**	**-**	**-**	**-**
Structual Adjustment Loan	-	-	-	350.0	-	250.0	-	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	300.0	300.0	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**1,132.3**	**757.5**	**1,075.3**	**1,290.4**	**1,632.8**	**1,387.5**	**1,587.4**	**867.6**	**1,489.8**	**1,417.0**	**991.7**
Technical Assistance Loan	-	14.5	28.0	-	-	30.0	12.0	-	-	28.0	-
Sector Investment and Maintenance Loan	575.0	270.0	190.0	-	350.0	180.3	-	-	350.0	-	-
Specific Investment Loan	492.8	371.5	692.3	1,006.4	1,282.8	1,052.2	1,469.3	518.5	1,139.8	1,389.0	991.7
Financial Intermediary Loan	64.5	101.5	165.0	284.0	-	125.0	106.1	307.0	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	42.1	-	-	-

Lao PDR

LAO PDR

Economic Developments

Since the New Economic Mechanism was initiated in 1986, the Government of Lao (GOL) PDR has achieved remarkable success in turning the economy away from central planning toward a market-oriented economy.

The industrial sector in Lao PDR consists of small scale manufacturing, processing, construction and assembly plants, producing mainly for local consumption. Heavy industry is virtually non-existent. The industrial sector contributed an estimated 16 percent of GDP in 1995, a significant increase from 1988 when industry accounted for 11.2 percent. The manufacturing sub-sector remains small and not well diversified, accounting for 12.5 percent of GDP in 1995.

Exports are expected to grow by an average of over 9 percent for the rest of the decade. Sales of electricity will be an increasingly important source of export earnings. Lao hydropower exports to Thailand are about $24.8 million, or over 8 percent of export revenues.

Despite the gains in the economy, per capita income remains below $400 and the distribution of social services is further limited by weak domestic infrastructure. Over half of the population lives in small and scattered villages without regular road transport, electricity or health facilities.

ISSUES: Please see attached Nam Theun 2 project brief.

LAO PDR AND THE WORLD BANK

World Bank disbursements to Lao PDR in FY97 totaled $65 million, covering 13 projects. Total commitments to Lao PDR were $48 million. The only new project approved in FY97 was the Third Highway Improvement Project. The purpose of this project is to reduce transport costs by upgrading roads and improving institutional capacity and effectiveness in managing construction and maintenance activities.

IFC currently has no exposure in Lao PDR but has committed US$1.0 million to finance its first project in the country, the Settha Palace Hotel Project in Vientiane which was identified through the Extending IFC's Reach Program.

Lao PDR is one of sixteen countries chosen to participate in this program which allows IFC staff to focus more resources on smaller economies and to invest in smaller projects. Potential work in the ecotourism, wood products, and financial sectors has been identified. Lao PDR also benefits from the Mekong Project Development Facility.

LAO PEOPLE'S DEMOCRATIC REPUBLIC
PROPOSED NAM THEUN 2 HYDROELECTRIC PROJECT

Context: Nam Theun 2 has been prepared in the context of an ongoing international debate on the viability of NT2 and of large hydropower projects in general. The Bank's external strategy so far has been deliberately low key, predicated on awaiting the outcome of the project studies and public consultations before making a decision, and emphasizing the responsibility of the Government and NTEC to provide information and make the arguments in defense of the project. This has had the desired effect of shifting the debate away from the Bank's role and onto the substantive issues of the project itself.

Annual Meetings: There has been much discussion about Nam Theun 2 in the international community and it seems likely that a subset of the more vocal NGOs will voice their concerns at the Annual Meetings in Hong Kong.

Project Description: The Government has asked a foreign consortium to assist it in constructing and operating the NT2 project which is structured as a BOOT (Build-Own-Operate-Transfer) arrangement. The consortium is called the Nam Theun Electricity Consortium (NTEC) and consists of Transfield Holdings, Ltd (Australia), Electricite de France (France), Ital-Thai Development plc (Thailand), Jasmine International (Thailand), and Phatra Thanakit plc.(Thailand). In 1995 the Government formally approached the Bank Group to provide financial support to the project .

The project consists of a 50 meter high dam on the Nam Theun river, a 450 sq. km reservoir, a 681 MW powerhouse, and transmission lines to connect NT2 to the Thai grid. **The total project cost is estimated at about US$1.3 billion.** Potential Bank Group[1] involvement consists of an (i) IBRD partial-risk guarantee covering US$100 million of debt; (ii) IDA credit of US$20-25 million; and (iii) IFC Type 'A' and Type 'B' loans of US$50 million each[2]. The partial-risk guarantee is considered critical to mobilize the amount of private debt required for NT2 and the credit will finance a subset of project-related social and environmental interventions in the extended project area. The credit is being prepared as the Nam Theun Social and Environmental Project (NTSEP). A power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) and a concession agreement (CA) between the Government and NTEC would be negotiated in conjunction with further Bank processing of NT2.

The objectives of the NT2 project are: (i) to generate long term net revenues and foreign exchange for the Government; (ii) to encourage the use of those revenues in support of economic growth and poverty alleviation through investments in rural and human resource development; (iii) to fulfill the Government's commitment to supply Thailand with 3000 MW

[1] MIGA has also been approached by the project developers to provide political risk insurance but Lao PDR is not yet a signatory to the MIGA convention.

[2] Based on Bank staff estimates of project costs and financing sources.

of electricity by 2006; and (iv) to link hydropower development with environmental and social objectives (e.g. long-term financing for the NNT watershed, a globally significant biodiversity site).

Project Financing Plan: Based on the latest project estimates (1997 prices) total financing of US$1,335 million would need to be mobilized for NT2. This would include construction costs of US$816 million, development expenditures of US$180 million, and financing costs (including interest during construction) of US$339 million. The financing structure and projections[3] (summarized in Attachment 1) are based on assumptions of 30% equity and 70% debt. The equity funding for the project would come from the sponsoring consortium (75% of equity, or $300 million) and the Government (25% of equity, or $100 million). While the proceeds of the IDA credit (approximately $20-25 million) would provide part of the Government's equity, the sources for the remaining Government equity have yet to be secured.

The financing plan maximizes the extent of borrowings obtained from commercial lenders (including Export Credit Agencies) which are secured by the project's expected foreign exchange earnings and are based on the commercial credit of EGAT.

Status: The Government and project developers have now largely completed the work requested in the November 1995 *aide memoire*, and based on the findings and recommendations of this work, the task team has concluded that there is sufficient justification for continuing to prepare the project. The economic and alternative analyses of the project have concluded that real economic returns to Lao PDR are substantial and that the project represents the least-cost alternative to fulfill the Government's power commitment to Thailand. The resettlement plan contains a credible framework to raise resettler incomes well above current levels, and the environmental assessment and management plan is substantially consistent with Bank operational directives at this stage of project preparation.

ISSUES THAT REQUIRE SPECIAL ATTENTION

Tariff for Electricity Sales: A third issue that requires close attention is the negotiation of the PPA between EGAT and NTECo. ***This has become even more sensitive in light of the recent economic downturn in Thailand and reported statements by EGAT officials that they will only accept the most competitively-priced electricity generated from Lao hydropower projects.*** The tariff for electricity sales that is ultimately agreed upon will have a significant impact on the overall project economics[4]. If the private developers require a minimum hurdle rate on their investment, the tariff will also affect the revenues that are available for royalty and levy distribution to the Government. It should be noted, that in these negotiations

[3] The projections are Bank staff estimates based on the Economic Impact Study of Nam Theun 2 Dam project by *Louis Berger International, Inc.* & financial projections made available by NTEC in June 1997.

[4] Note that the economic impact study did use a wide range of tariff estimates in calculating the project's economic and financial returns.

Government and NTEC incentives are well-aligned. Nevertheless, the task team recommends that an initialed PPA is required for appraisal, as this will permit a more precise analysis of the economic and financial viability of NT2. The PPA would be reviewed by the Bank.

Bolisat Phattana Khet Phoudoi (BPKP): Under the Government's current policy, three separate quasi-paramilitary organizations are responsible for provincial development throughout Lao PDR. BPKP is the organization assigned to the NT2 provincial area. By necessity therefore, Nam Theun 2 is being prepared under a partnership strategy that includes BPKP. By most standards, BPKP is not a transparent organization but is involved in a range of activities[5] in the extended project area. It has been clear to the task team and most observers that BPKP cooperation and support will be important to the success of many elements of the project.

To date BPKP has adhered to central Government directives and policies in monitoring and fining logging companies who have encroached on the watershed, maintaining a road building moratorium, and suspending planned resettlement activities. BPKP also hosted a workshop in February 1997 on sustainable watershed management in collaboration with STENO. The good cooperation so far leaves unresolved the formal role, if any, that BPKP should play in the NT2 project. There are important reputational risks to the Bank in some of the more prominent alternative roles and operational risks to the project in rejecting BPKP's participation altogether. Should the RLC endorse continuation of the task team's dialogue with BPKP, these issues will need to be carefully examined and addressed during the next stage of project preparation. Appropriate conditionality would then be incorporated into the legal agreements.

Bank leverage: The long-term nature of the developmental, environmental, and social aspects of NT2 raise the question as to whether the Bank has adequate leverage to influence project outcomes over the long term. The structure of the partial-risk guarantee and credit operations limit the amount of leverage the Bank has to ensure compliance with key project objectives. The counterguarantee required by the Bank does provide some comfort that certain responsibilities will be fulfilled. However, there are important provisions that limit the effectiveness of this instrument including a limited life for the counterguarantee (i.e. approximately 12 to 15 years). The IDA credit also does not provide ample leverage as the credit is expected to be disbursed during the construction period and withholding disbursements would undermine key project interventions (e.g. resettlement, public health, watershed conservation) that the Bank supports.

For these reasons, the issue of inadequate leverage remains a long-term project risk that the Bank needs to examine carefully. To address this risk, the task team has proposed project conditionality that would strengthen the leverage the Bank can wield to ensure Government and NTECo compliance with critical project objectives. One broad measure to address the

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[5] The range of activities includes logging and according to unsubstantiated allegations, certain questionable activities.

lack of leverage has already been specified in the CAS--the link between Government handling of NT2 and the IDA program. The CAS indicates that if the Government pursues NT2 without satisfactory safeguards, such action may have serious repercussions on the IDA program.

Risks to the Bank's reputation:

- **International NGOs[6] and media** will certainly monitor the use of increased Government revenues and progress of resettlement, environmental mitigation, and watershed conservation over the long term. Inability to deliver will erode the credibility of the Bank to adhere to its own operational directives and may draw sharp criticism from influential NGOs and the media. A few NGOs may also the criticize the Government's ongoing logging in the proposed reservoir prior to a Bank decision to support the project and the validity of the Study of Alternatives--given the Government's strong intention to proceed with Nam Theun 2. These issues together pose the most important reputational risk to the Bank at a sensitive time when the merit of Bank assistance in hydropower development is being openly questioned. On the other hand, a weakly-justified 'no-go' decision may lead some NGOs to criticize that the Bank is not adequately supporting critical environmental and social objectives such as conservation of the ecologically-rich watershed[7].

- The **Government of Lao PDR** views Nam Theun 2 as critical--if not essential--to the country's development. For this reason alone, Nam Theun 2 represents arguably the most important project to date in the Bank/Lao PDR relationship. The rigorous process in which NT2 has been and will continue to be evaluated (as perceived by the Government), coupled with strong project conditionality tied to environmental and social issues and institutional capacity-building, have already raised questions among senior Government officials as to the wisdom of engaging the Bank in NT2. If the Bank decides not to proceed after the long and expensive preparation process, it can be expected that the Government's relations with the Bank would deteriorate significantly.

- The **private power industry** will be highly sensitive to any perceived Bank misjudgments in the handling of Nam Theun 2. Implementation failures, poorly executed project preparation, or a weakly justified withdrawal from the project might convince the hydropower sector to avoid future Bank involvement in such projects--especially in light of recent Bank Group experience with other large dam projects (e.g. Arun, Narmada, and Pangue). This would severely restrict the Bank's ability to promote environmentally and socially sustainable hydropower development over less environmentally-friendly alternatives (e.g. fossil fuels) in meeting global energy demands.

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[6] It should be noted that there are no Lao NGOs operating in Lao PDR.

[7] This risk may be reduced if NTSEP is reconfigured to support a set of critical environmental and social objectives; however, it remains highly unclear whether the Government would accept Bank support in these initiatives without direct Bank support for NT2.

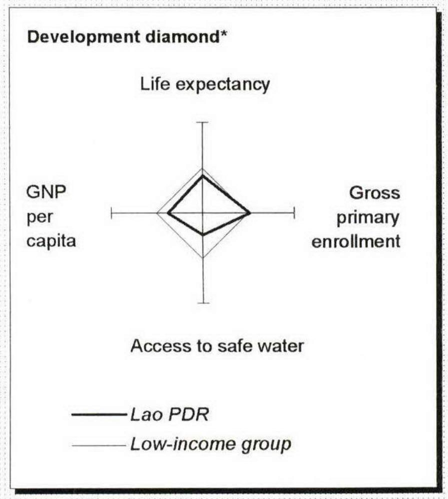
Strategy: If the Bank decides to proceed with project preparation, the strategy will continue to emphasize the leading role of the Government and developers in building support for NT2, while taking a more active role in two broad directions. First, the Bank would assist the Government and developers in their consensus-building initiatives (e.g. provide advice on contacts in the NGO and press communities, etc.) Second, the Bank would itself be more proactive in disseminating information on project preparation and on the extent of Bank involvement in the preparation of NT2. The strategy would be to emphasize the important endorsements provided by the two external panels, the findings of the technical studies, the provisional and conditional nature of the Bank decision, conditions and next steps required before a move to the appraisal stage, and the likely timing of future decisions.

If the Bank declines to proceed, the external strategy will involve outreach to affected constituencies to explain the rationale for this decision and how the Bank will continue to work with the Government to achieve their broader development objectives. Moreover, a decision not to proceed would necessitate a rapid restructuring of the proposed NTSEP; however, Government willingness to accept a restructured NTSEP without Bank support for NT2 is unclear.

Excerpted from Nam Theun project document
Contact Nicki Marrian, ext. 32186, 8/26/97

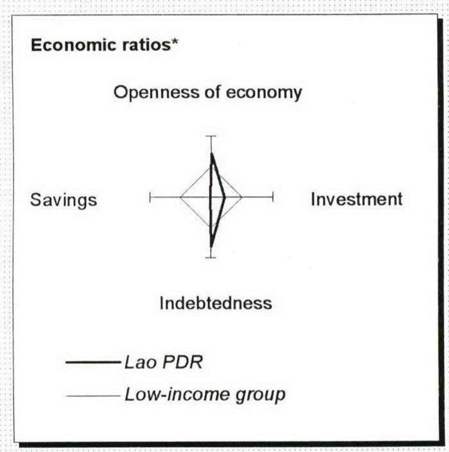
Lao PDR at a glance

POVERTY and SOCIAL	Lao PDR	East Asia	Low-income
Population mid-1995 *(millions)*	4.9	1,709	3,188
GNP per capita 1995 *(US$)*	350	830	460
GNP 1995 *(billions US$)*	1.7	1,418	1,466
Average annual growth, 1990-95			
Population *(%)*	3.0	1.3	1.8
Labor force *(%)*	2.6	1.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	46	..	..
Urban population *(% of total population)*	22	31	29
Life expectancy at birth *(years)*	52	68	63
Infant mortality *(per 1,000 live births)*	90	36	58
Child malnutrition *(% of children under 5)*	40	17	38
Access to safe water *(% of population)*	36	77	75
Illiteracy *(% of population age 15+)*	43	17	34
Gross primary enrollment *(% of school-age population)*	107	117	105
Male	123	120	112
Female	92	116	98

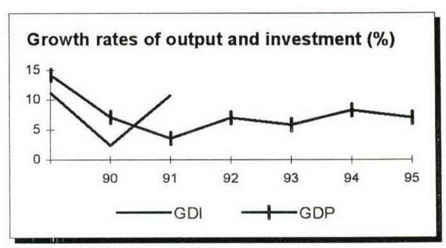


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	..	2.4	1.5	1.7
Gross domestic investment/GDP	..	7.0	14.8	13.0
Exports of goods and non-factor services/GDP	..	4.1	22.7	23.0
Gross domestic savings/GDP	..	1.3	3.2	1.5
Gross national savings/GDP	..	0.6	4.0	2.0
Current account balance/GDP	..	-4.1	-15.0	-11.7
Interest payments/GDP	..	0.0	0.0	0.0
Total debt/GDP	..	26.1	128.2	121.0
Total debt service/exports	..	12.2	7.7	8.9
Present value of debt/GDP	..	..	44.3	..
Present value of debt/exports	..	..	262.5	..

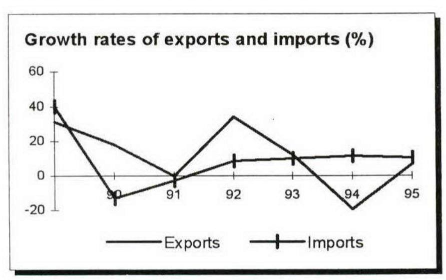
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	..	5.6	8.3	7.0	6.3
GNP per capita	..	*2.5*	5.0	4.6	3.4
Exports of goods and nfs	..	9.8	-19.3	6.7	7.6



STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	..	..	56.4	54.3
Industry	..	..	17.8	18.8
Manufacturing	..	..	12.7	12.5
Services	..	..	25.8	26.9
Private consumption	..	89.9	86.0	88.6
General government consumption	..	8.8	10.8	9.9
Imports of goods and non-factor services	..	9.7	34.2	34.4



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	..	*3.5*	8.3	4.9
Industry	..	*10.8*	10.7	11.4
Manufacturing	..	*13.3*	7.0	11.7
Services	..	*5.5*	5.5	8.5
Private consumption	..	*6.6*	..	..
General government consumption	..	*-7.2*	..	..
Gross domestic investment	..	*-0.2*	..	..
Imports of goods and non-factor services	..	5.8	11.7	10.5
Gross national product	..	*5.8*	8.3	..

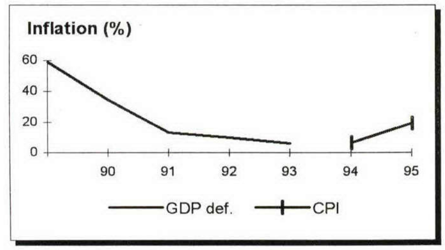


Note: 1995 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

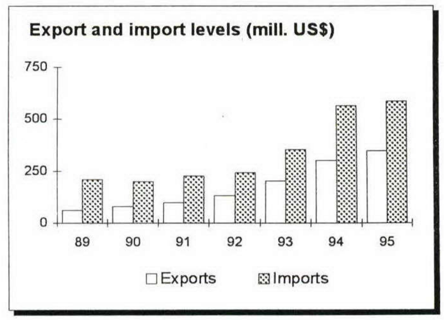
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	..	6.8	19.4
Implicit GDP deflator	..	..	..	..
Government finance				
(% of GDP)				
Current revenue	..	9.7	12.5	12.6
Current budget balance	..	-0.2	1.7	2.3
Overall surplus/deficit	..	-6.7	-9.7	-9.2



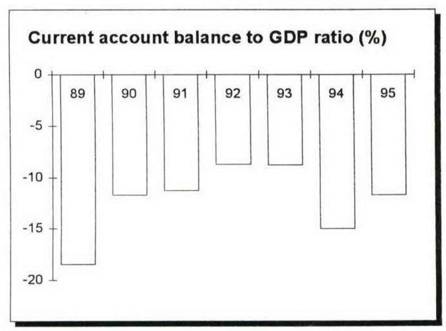
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	..	300	348
Timber	..	..	96	88
Electricity	..	..	25	24
Manufactures	..	..	95	155
Total imports (cif)	..	..	564	587
Food	..	..	105	116
Fuel and energy	..	..	21	31
Capital goods	..	..	146	189
Export price index *(1987=100)*	..	..	..	..
Import price index *(1987=100)*	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..



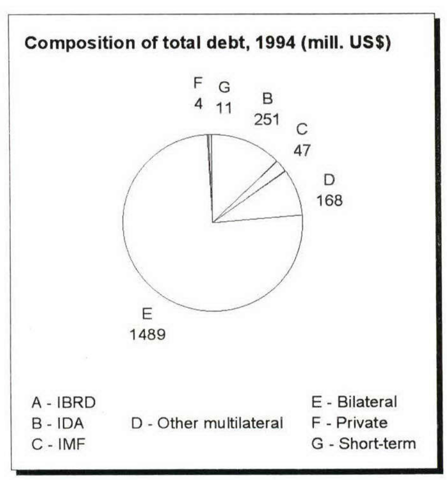
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	..	58	386	445
Imports of goods and non-factor services	..	138	625	661
Resource balance	..	-80	-239	-217
Net factor income	..	-18	-2	-6
Net current transfers	..	0	10	22
Current account balance, before official transfers	..	-98	-231	-200
Financing items (net)	..	118	219	215
Changes in net reserves	7	-21	13	-14
Memo:				
Reserves including gold *(mill. US$)*	..	25	158	191
Conversion rate *(local/US$)*	0.4	45.0	728.5	821.1



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	44	619	1,970	2,069
IBRD	0	0	0	0
IDA	0	27	251	285
Total debt service	6	7	13	16
IBRD	0	0	0	0
IDA	0	0	2	3
Composition of net resource flows				
Official grants	16	15	125	109
Official creditors	5	37	56	91
Private creditors	1	0	0	0
Foreign direct investment	0	0	42	77
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	0	48	19
Disbursements	0	6	45	28
Principal repayments	0	0	1	1
Net flows	0	6	44	27
Interest payments	0	0	1	2
Net transfers	0	6	43	25



IBRD/IDA Lending Summary FY86-96

Lao People's Democratic Republic

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**3.9**	**25.8**	**14.1**	**53.5**	**44.7**	**45.0**	**40.0**	**55.0**	**48.5**	**19.2**	**60.7**
By Sector											
Agriculture	-	-	-	-	20.2	-	-	-	8.8	-	20.7
Human Resources	-	-	-	3.5	-	-	-	19.0	9.7	19.2	-
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	-	25.8	-	-	-	-	-	36.0	-	-	-
Industry & Finance	-	-	-	10.0	-	-	-	-	-	-	-
Infrastructure & Urban Development	**3.9**	**-**	**14.1**	**-**	**24.5**	**45.0**	**-**	**-**	**30.0**	**-**	**-**
Transportation Sector	-	-	14.1	-	-	45.0	-	-	30.0	-	-
Urban Development	-	-	-	-	-	-	-	-	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	3.9	-	-	-	24.5	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**-**	**-**	**-**	**40.0**	**-**	**-**	**40.0**	**-**	**-**	**-**	**40.0**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**-**	**-**	**40.0**	**-**	**-**	**40.0**	**-**	**-**	**-**	**40.0**
Structual Adjustment Loan	-	-	-	40.0	-	-	40.0	-	-	-	40.0
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**3.9**	**25.8**	**14.1**	**13.5**	**44.7**	**45.0**	**-**	**55.0**	**48.4**	**19.2**	**20.7**
Technical Assistance Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Investment and Maintenance Loan	-	-	-	-	24.5	-	-	-	-	-	-
Specific Investment Loan	3.9	25.8	14.1	3.5	20.2	45.0	-	55.0	48.4	19.2	20.7
Financial Intermediary Loan	-	-	-	10.0	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

Lao Peoples Democratic Republic - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past		*Current*		*Planned*[a]		
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	19.2	60.7	48.0	40.0	25.0	0.0	45.0
Sector (%)[b]							
Education	0.0	0.0	0.0	0.0	40.0	0.0	0.0
Electric Pwr & Engy.	0.0	0.0	0.0	100.0	0.0	0.0	0.0
Environment	0.0	34.1	0.0	0.0	0.0	0.0	0.0
Multisector	0.0	65.9	0.0	0.0	0.0	0.0	0.0
Popultn, Hlth & Nutn	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation	0.0	0.0	100.0	0.0	60.0	0.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	65.9	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	34.1	100.0	100.0	100.0	0.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	0.0	19.6	0.0	0.0	0.0	0.0
Specific investment loans and others	31.4	28.6	45.7	3.9	33.1	26.2	13.5
Repayments (US$m)	.6	.6	.6	0.0	0.0	0.0	0.0
Interest (US$m)	1.9	2.1	2.3	.2	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

This item appeared on page A1 of the August 12, 1997 issue of

THE WALL STREET JOURNAL

Electrical Storm

Dam Proposed for Laos Is of Immense Meaning To an Array of Interests

Bankers, Business, the Poor, Wildlife and Government Have Stakes in Decision

World Bank Mulls It Over

By PETER WALDMAN
Staff Reporter of THE WALL STREET JOURNAL

NAKAI PLATEAU, Laos – In the Annamite mountains east of here lives a species of hoofed mammal that is so rare scientists aren't sure whether it is a cow, sheep, deer or some bovid unknown. In a valley below, a tribe of hunter-gatherers not found anywhere else speaks a language all its own.

Man and beast roam the backwoods of this backwater state, unwitting players in one of nature's last stands in Southeast Asia. This summer, the World Bank in Washington has agreed to consider providing $100 million of political-risk insurance that would enable a consortium of foreign companies to build a massive hydroelectric project on this remote mountaintop.

The $1.4 billion Nam Theun Two Dam, which is being eagerly promoted by Laos's government–itself a 25% equity partner in the consortium – would wreak the usual havoc of big dam projects. Plans call for altering two major tributaries of the Mekong River, flooding an area the size of Singapore, disrupting an ecosystem renowned for its biodiversity, and uprooting about 4,500 village dwellers.

Quick Start

Yet if the project worked as planned by its Australian-led developers, Nam Theun Two would help lift Laos from the bottom rung of the world's poorest nations. With just five million people but with rivers and mountains galore, Laos wants to become the Kuwait of hydroelectricity.

Revenue from the sale of Nam Theun Two power to energy-starved Thailand is projected to add at least $40 million a year to state coffers over the first 25 years, then jump to as much as $100 million after Laos assumes full ownership of the project under a so-called build-own-transfer contract. If spent to alleviate poverty, as the World Bank would require, these proceeds would equal more than 40% of Laos's 1996 budget for social services.

Put another way, every $1 million received from the Nam Theun Two project could pay for vaccinating about 67,000 Lao children or finance construction of 25 miles of rural roads. Funds pledged by the developers–$1 million a year for 30 years–would create a special conservation area to protect the dam's watershed from hunting, logging and other encroachment–a tradeoff that has persuaded some environmentalists to support the dam.

Without Money, 'No Hope'

"Without such funds, I and my colleagues see no hope for the long-term survival of much of the wildlife" in the Nakai area, says Alan Rabinowitz, Asia program director for the Wildlife Conservation Society in New York.

On the horns of this dilemma – to dam or not to dam – is the World Bank, which has been badly burned by recent hydroelectric fiascoes. Chastened bank officials vow they will do Nam Theun Two right, or not at all. The 680-megawatt project has become the test case of bank President James Wolfensohn's drive to remake the august development bank into a more democratic, ecosensitive and entrepreneurial force. In the past two years, the bank has spent millions of dollars, and compelled the developers to spend many millions more, on studies of every aspect of Nam Theun Two–from the possible effects of ghosts (the people believe in) on resettlement, to what grasses might thrive on the edge of the reservoir.

"What's being done here has never been done before," says Stuart Chape of the World Conservation Union. "In the past, one guy would come out from Washington and say, 'OK, do it.' "

Now it is crunch time. Either the World Bank plows ahead with Nam Theun Two because the expected gain for Laos is worth the environmental grief. Or the bank walks away, and, for similar reasons, shuns big hydro projects in the future.

A Needed Victory

"The bank needs a victory here if it wants to stay in big hydro," says an official with the United Nations, which financed early feasibility studies but is neutral now. "The rigor of their assessment has been extraordinary."

Laos would seem to be an odd place for the World Bank to try to redeem itself. The sheer size of Nam Theun Two–its price tag equals roughly 75% of the country's gross domestic product–threatens to overwhelm Laos's meager administrative resources, World Bank consultants warn. And what are Lao officials to do about the conflict of interest this project poses between Laos's role as both shareholder and regulator?

That the developers' environmental promises depend largely on the cooperation of an autonomous, military-run logging company – the same company that has clear-cut Lao forests for years – casts additional doubt on the novel claim that the dam will help the environment. And with Thailand the sole buyer of Lao electricity, critics have also questioned the economic wisdom of Nam Theun Two.

But Laotians haven't, at least not publicly. Laos remains a one-party state run by the aging Communists who, from deep inside their caves along the Vietnamese border, helped repel the Americans from Indochina. Dissent isn't tolerated. Thus only foreigners have joined the debate over Nam Theun Two, making a mockery of the World Bank's directive to seek "public participation" in the project's deliberations at every level of Lao society.

No Consultation Allowed

"If the bank wants to create a model of public consultation, why start here?" asks one Lao intellectual who opposes Nam Theun Two on environmental and economic grounds but dares not say so openly. "Consultation is great, but everybody knows it isn't allowed in Laos."

Rather, hydropower is state gospel. Besides opium and tropical timber, hydroelectricity is considered Laos's most promising export. A tentative agreement with Thailand calls for Laos to supply 3,000 megawatts of power to the Thai electric grid by 2006. To achieve that, Lao officials have gone on a deal-making frenzy, signing memorandums of understanding with foreign investors to develop 25 different hydroelectric projects. All those agreements, including Nam Theun Two, were struck in secret, without any public bidding, prompting the World Bank itself to warn that Laos is "in danger" of being ripped off by foreign developers.

"You find us the money, we'll give you a river," Lao officials have reportedly told investors. Says German economist Hans Luther, senior adviser to the Lao government: "They believe hydropower will solve all their problems."

Laos's capital, Vientiane, for years the sleepiest in Southeast Asia, is perking up. A decade of free-market reforms, and an economic growth rate above 7% a year, have flooded the French-built city with

Thai, Chinese and Japanese imports. Bikes and motorcycles are slowly giving way to automobiles on the narrow, unpaved streets. At night, residents flock to the bank of the Mekong River, to sip coffee and Lao beer and ruminate on the neon lights just across the water in Thailand, light-years away.

What's In It for Foreigners

This is a boom town of sorts, though the boom remains largely in thin blue lines cascading down mountains on topographical maps. The hydro dreams, and deals, are cooked up at a small building behind the Ministry of Industry and Handicrafts called the Hydropower Office. There, Australian and European consultants work with Lao engineers plotting projects to harness the estimated 23,000 megawatts of potential electricity in Laos's rivers. Their plans are the closest thing Laos has to a national development strategy. Its essence: Consign foreigners to build dams, sell electricity, make money.

"After you sign the power-purchasing agreement with Thailand, there isn't much to worry about," says Engelbertus Oud, the Hydropower Office's top foreign adviser and a senior engineer with Lahmeyer International GmbH, a consulting giant in Frankfurt, Germany. "The money will flow."

The 1,800-foot-high Nakai Plateau, first pegged for hydropower development by the U.S. Army Corps of Engineers in the 1960s, forms a shallow, sandstone flood plain that hydroengineers say is ideal for a so-called transbasin dam. Plans call for damming the Nam Theun River at the basin's northwestern edge, flooding an area of about 180 square miles, or 40% of the plateau. A tunnel 25 miles upstream from the dam would shoot water through a 1,100-foot drop to a powerhouse at the base of the escarpment. The plateau's level topography would allow more than 75% of the reservoir's capacity to remain above the minimum operating level, which is unusually efficient for a project so large.

In 1993, Laos granted Transfield Corp. exclusive rights to develop Nam Theun Two. The Australian engineering firm formed Nam Theun 2 Electricity Consortium, or NTEC, (known as "n-tech,") with partners Electricite de France, the French utility; Italian-Thai Development PCL, a Bangkok construction firm; Jasmine International, a Thai telecommunications giant; Phatra Thanakit, a Thai investment company and the government of Laos. Several commercial banks pledged financing, provided the World Bank guarantee their loans against unexpected interference by the Lao government.

Dam Trouble

At first, progress was brisk, with groundbreaking set for 1996. The World Bank, which had funded studies on Nam Theun Two, was encouraging. Then, suddenly, dams became a four-letter word.

Large dams – and the World Bank's pivotal role in funding many of them – have been criticized for years by some environmentalists. But dam opponents made little headway against the bank until 1993, when the bank succumbed to international protests and ordered India to redress human and ecological effects of its massive dam complex on India's Narmada River. Rather than comply, India rejected further bank funding for the project.

Similarly, one of Mr. Wofensohn's first acts after being named World Bank chief in June 1995, was to cancel the bank's involvement in the controversial $1 billion Arun Dam in Nepal. That decision set the stage for a visit by World Bank experts to Laos that summer. The upshot was a series of scorching letters from bank officials rejecting NTEC's draft environmental-impact report and conditioning the bank's consideration of loan guarantees for Nam Theun Two on the outcome of five major studies: on resettlement plans, watershed conservation, environmental effects, macroeconomic effects and alternatives to Nam Theun Two.

Bank staff also insisted those studies be conducted in "an open, transparent, participatory process" – unheard-of in Laos.

Pushy Guests

"It was like a guest walking into your house and telling you to rearrange your furniture," says a senior Lao hydropower official. "You in the West have built hydropower plants and developed your countries, and now you have some regrets. You want more green space, so you're coming to Laos. It's not fair."

In Vientiane, the bureaucracy shook. Communist hard-liners argued that the bank's intrusive demands proved it was an American stooge. Lao technocrats urged counterparts at the bank to adapt their requirements to Laos's "social and political reality." Businessmen from South Korea, Thailand and Taiwan goaded Lao officials to reject the affront to Laos's sovereignty and to let their companies build the dam without all the fuss.

NTEC countered that the World Bank's involvement would ensure Laos got the best, independent advice, and, by lowering the cost of financing, would yield an extra $100 million to $200 million to the government in the project's first eight years. Still, the World Bank demands "were a tough sell," says Transfield's David Iverach, NTEC's chief.

Lao officials froze the project for eight months before finally acceding to the bank's requests. Then the heavy lifting began. Dozens of consultants were hired; public meetings were set; and delegations of World Bank staffers, panels of experts and a specially formed "International Advisory Group" visited the Nakai Plateau. In Washington, World Bank executives, eager to showcase the bank's new emphasis on private infrastructure development, cleared the way for Nam Theun Two by rescinding bank rules that had barred using political-risk insurance to support projects in very poor countries.

Anthropological Perspective

The 4,500 villagers slated for uprooting were polled, publicly consulted and analyzed by a Norwegian anthropologist, who wrote a 93-page report. Recommendations for resettlement include provisions for sacrificial buffaloes and chickens. Special mapping was undertaken to relocate as many villages as possible within the traditional bounds of their guardian spirits. NTEC employees tried putting villagers at ease with what turned out to be the most common concern: the prospect that electric lights in the new homes might make nocturnal activities uncomfortable for parents, who share tight sleeping quarters with their many children.

A whole new "livelihood system" was developed, stressing the latest in sustainable development. The system's goal is to wean villagers from using the forest for foraging and slash-and-burn rice cultivation and to incorporate them into the cash economy instead. For five years before the planned resettlement, and three years afterward, NTEC is paying villagers, mostly in rice, to learn about organic fencing, fertilizers and pesticides, to raise livestock for sale, and to grow cash crops on farm lots. Because of the plateau's poor soil quality, NTEC's consultants proposed abolishing rice farming entirely. They backed off when villagers complained.

One Goal Easy to Achieve

Even opponents of Nam Theun Two say they are impressed with the diligence of NTEC and the World Bank. NTEC has already spent $30 million planning the project, much of it on environmental and social worries. The developers have earmarked another $30 million for resettlement, to fulfill the World Bank's edict that uprooted villagers improve their lives. That shouldn't be hard. Logging, hunting and slash-and-burn farming have steadily depleted the food supply. Many villagers see NTEC, with its promised roads, electricity and cash crops, as a savior.

"We thank the foreigners for helping us," says a villager named Budentai, whose family moved to NTEC's demonstration farm this year after losing several rice harvests to floods made worse by logging.

Comfortably resettling 4,500 dam refugees begs larger questions, critics say. Most important: Is Nam Theun Two the best use of Laos's scarce resources? Will the dam's revenue ever find its way back to the people? Could the $100 million Laos wants to invest in NTEC help more Laotians if invested otherwise?

Much still depends on the terms of NTEC's final contract with the Lao government, World Bank consultants say. The initial deal, which NTEC's Mr. Iverach agrees must be renegotiated, gives Laos zero financial consideration for its in-kind contribution of water and mountains and heavily favors foreign partners by ensuring them an earlier return on their investments than the Lao government.

Is It Good for Laos?

These issues, at least, can be negotiated, dam opponents say; more fundamental questions can't. At one public meeting, Tatsuya Watanabe, who runs several rural-development programs in Laos for a Japanese organization, asked Lahmeyer International's Mr. Oud, the Hydropower Office adviser, whether the government's study of alternatives to Nam Theun Two included any analysis of whether hydropower is the best investment for Laos's overall development. No such query had been made, Mr. Oud said, because the alternatives study was meant only to explore Laos's options for exporting 3,000 megawatts of electricity to Thailand by 2006.

"I'm not saying Laos shouldn't build dams," Mr. Watanabe says. "Hydropower is one natural resource that should be developed. But it's not the only one. At the moment, this country is putting all its eggs in one basket. What happens if it breaks?"

Malaysia

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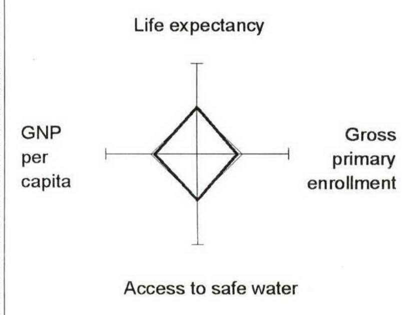
Malaysia at a glance

POVERTY and SOCIAL	Malaysia	East Asia	Upper-middle-income
Population mid-1995 *(millions)*	20.1	1,709	440
GNP per capita 1995 *(US$)*	4,000	830	4,300
GNP 1995 *(billions US$)*	80.4	1,418	1,892
Average annual growth, 1990-95			
Population *(%)*	2.4	1.3	1.7
Labor force *(%)*	2.7	1.4	2.1
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	16	..	..
Urban population *(% of total population)*	54	31	74
Life expectancy at birth *(years)*	71	68	69
Infant mortality *(per 1,000 live births)*	12	36	36
Child malnutrition *(% of children under 5)*	23	17	..
Access to safe water *(% of population)*	90	77	89
Illiteracy *(% of population age 15+)*	17	17	13
Gross primary enrollment *(% of school-age population)*	93	117	107
Male	93	120	..
Female	93	116	..

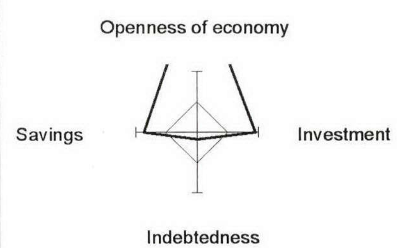
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	9.7	31.2	70.8	85.5
Gross domestic investment/GDP	25.3	27.6	38.6	40.7
Exports of goods and non-factor services/GDP	43.7	54.9	89.6	95.5
Gross domestic savings/GDP	25.8	32.7	37.6	37.3
Gross national savings/GDP	22.3	25.5	32.7	32.4
Current account balance/GDP	-5.3	-2.1	-6.2	-8.3
Interest payments/GDP	0.9	4.6	1.4	1.5
Total debt/GDP	21.7	65.0	35.0	36.0
Total debt service/exports	5.1	30.4	7.7	4.5
Present value of debt/GDP	..	..	31.2	..
Present value of debt/exports	..	..	33.6	..

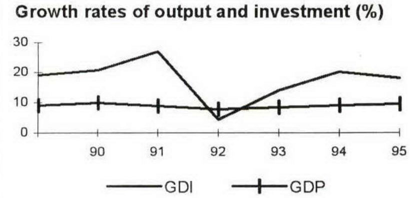
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	7.5	8.2	9.2	9.5	7.5
GNP per capita	4.6	5.8	6.6	7.1	5.4
Exports of goods and nfs	8.4	14.6	20.6	19.0	13.3

Economic ratios*



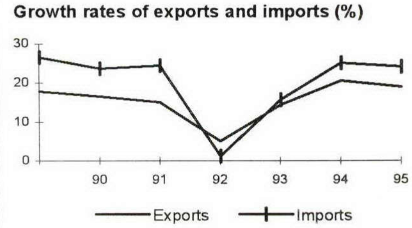
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	28.0	19.3	14.5	13.6
Industry	31.3	35.5	43.3	44.9
Manufacturing	16.9	18.5	31.7	33.1
Services	40.7	45.2	42.2	41.5
Private consumption	56.5	52.0	52.2	53.1
General government consumption	17.7	15.3	10.2	9.6
Imports of goods and non-factor services	43.1	49.8	90.6	98.9

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	3.7	3.2	-1.0	4.2
Industry	8.9	10.5	12.4	13.5
Manufacturing	9.0	13.5	14.7	14.7
Services	8.4	8.1	9.9	7.1
Private consumption	7.9	9.0	8.3	14.0
General government consumption	9.2	6.6	10.3	7.0
Gross domestic investment	13.9	14.8	20.3	18.1
Imports of goods and non-factor services	13.4	17.9	25.1	24.2
Gross national product	7.2	8.5	9.1	9.3

Growth rates of exports and imports (%)

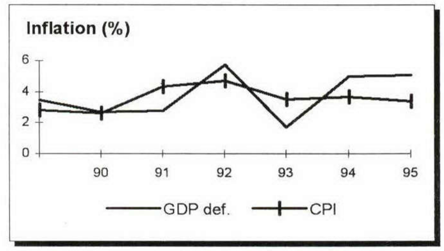


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

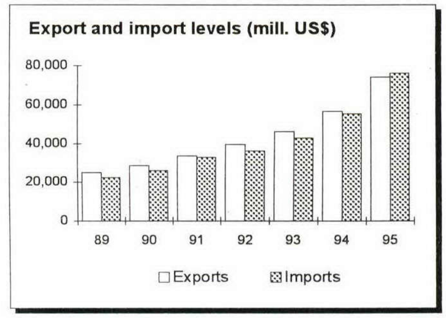
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	4.5	0.4	3.7	3.4
Implicit GDP deflator	-3.1	-1.5	5.0	5.1
Government finance				
(% of GDP)				
Current revenue	..	27.3	26.8	23.9
Current budget balance	..	1.4	7.3	5.5
Overall surplus/deficit	..	-7.4	2.8	0.9



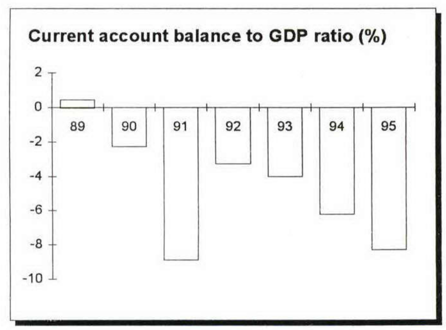
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	15,311	56,593	73,973
Fuel	..	3,503	2,477	2,523
Rubber	..	1,157	1,105	1,473
Manufactures	..	5,023	45,803	61,963
Total imports (cif)	..	12,259	55,246	76,038
Food	..	1,326	2,757	3,212
Fuel and energy	..	1,916	3,128	3,766
Capital goods	..	5,341	32,444	47,507
Export price index *(1987=100)*	..	78	210	220
Import price index *(1987=100)*	..	100	252	260
Terms of trade *(1987=100)*	..	77	83	85



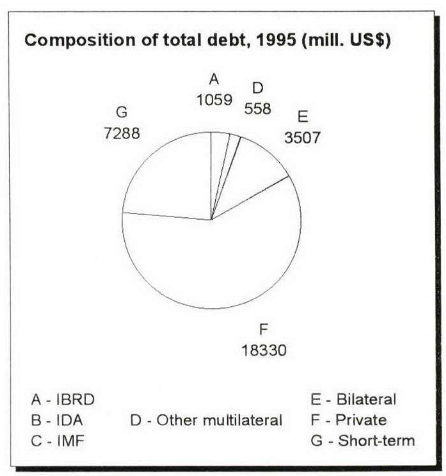
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	4,236	17,185	63,433	81,610
Imports of goods and non-factor services	4,399	15,604	64,544	86,610
Resource balance	-163	1,581	-1,111	-5,000
Net factor income	-300	-2,188	-3,389	-2,200
Net current transfers	-48	-46	76	100
Current account balance, before official transfers	-511	-653	-4,424	-7,100
Financing items (net)	576	1,804	2,580	13,695
Changes in net reserves	-65	-1,151	1,844	-6,595
Memo:				
Reserves including gold *(mill. US$)*	1,689	5,677	26,339	25,000
Conversion rate *(local/US$)*	2.4	2.5	2.6	2.5



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	2,104	20,269	24,767	30,742
IBRD	271	776	1,118	1,059
IDA	0	0	0	0
Total debt service	222	5,399	5,042	3,805
IBRD	30	127	268	277
IDA	0	0	0	0
Composition of net resource flows				
Official grants	6	9	36	45
Official creditors	132	65	185	-20
Private creditors	624	91	993	4,197
Foreign direct investment	351	695	4,348	5,800
Portfolio equity	0	0	1,320	2,118
World Bank program				
Commitments	64	157	70	0
Disbursements	53	76	144	88
Principal repayments	10	72	185	194
Net flows	43	4	-41	-106
Interest payments	20	56	83	83
Net transfers	23	-52	-124	-189



Malaysia - Bank Group Fact Sheet
IBRD/IDA Lending Program

Category	Past			Current	Planned[a]		
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sector (%)[b]							
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	128.9	86.0	69.1	15.5	27.0	8.0	0.0
Repayments (US$m)	188.3	184.1	144.1	6.0	0.0	0.0	0.0
Interest (US$m)	83.6	77.9	63.5	1.2	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Malaysia

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	331.1	229.0	170.2	130.3	154.2	-	294.0	248.0	120.0	-	20.0
By Sector											
Agriculture	50.0	64.0	66.0	71.5	71.0	-	94.0	-	70.0	-	-
Human Resources	200.3	-	48.2	58.8	-	-	-	248.0	50.0	-	-
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	-	100.0	56.0	-	-	-	200.0	-	-	-	-
Industry & Finance	-	65.0	-	-	-	-	-	-	-	-	20.0
Infrastructure & Urban Development	**80.8**	**-**	**-**	**-**	**83.2**	**-**	**-**	**-**	**-**	**-**	**-**
Transportation Sector	18.8	-	-	-	83.2	-	-	-	-	-	-
Urban Development	-	-	-	-	-	-	-	-	-	-	-
Water Supply & Sanitation	62.0	-	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	-	-	-	-	-	-	-	-	-	-	-
Structual Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	331.1	229.0	170.2	130.3	154.2	-	294.0	248.0	120.0	-	-
Technical Assistance Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Investment and Maintenance Loan	-	100.0	-	-	-	-	200.0	141.0	-	-	-
Specific Investment Loan	331.1	129.0	170.2	130.3	154.2	-	94.0	107.0	120.0	-	-
Financial Intermediary Loan	-	-	-	-	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

Papua New Guinea

Papua New Guinea

Status Report

Following recent national elections a new coalition Government headed by Prime Minister Bill Skate, former mayor of Port Moresby, assumed office one month ago. Mr. Skate's coalition comprises four parties and 7 independents which together give him a majority of 71 in the 109 member Parliament.

The Skate Government has moved ahead to re-open an inquiry into the Sandline (Mercenary) Affair which is widely believed to have contributed to the down fall of Sir Julius Chan, the previous Prime Minister. The Deputy Prime Minister in the previous government, Chris Haiveta, has survived the fallout from the Sandline Affair and is currently Deputy Prime Minister and Minister for National Planning and Implementation in the new Government.

A Bank mission has visited PNG since the elections to hold technical discussions and to assess the Government's commitment to continue with economic reform.

Mr. Skate has shown a keen interest in improving public accountability and has moved forward rapidly to establish an independent commission on corruption for which he has requested Bank funding. The Government is anxious to continue working with the Bank especially with regard to the next phase of PNG's reform program.

The Government has reiterated its commitment to continue with the reform process initiated under the first phase of the reform program, including putting forestry sector operations on a sustainable basis and improving the share of revenues going to resource owners. It has also expressed a strong interest in working with NGOs and other elements of civil society to improve delivery of basic services.

Mr. Skate has taken several tangible steps towards the restoration of peace on strife torn Bougainville Island, in the form of a cease fire initiative spear-headed by the New Zealand Government and supported by the Government of Australia as well. The Government has indicated that Bank assistance would be sought in the reconstruction effort once the prospects for peace are more promising.

Mr. Skate has indicated that his Government's reform program would have a number of inter-related themes—delivering public services, private sector-led employment generation, enhancing governance and accountability and, enhancing accountability and sustainable management of natural resources especially in forestry and fisheries.

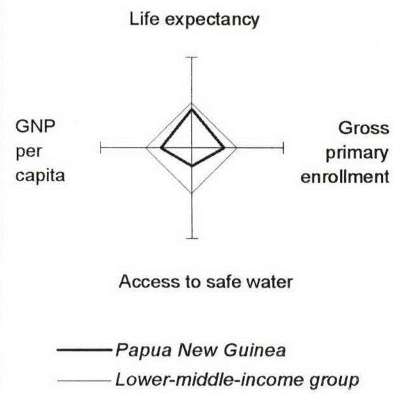
Demonstrable improvements in service delivery and program implementation are a pre-condition for further lending. The Bank has indicated to the PNG Government its readiness to consider a second policy-based loan in December this year to support key elements of the Government's reform program.

EACNI
August 25, 1997

Papua New Guinea at a glance

POVERTY and SOCIAL	Papua New Guinea	East Asia	Lower-middle-income
Population mid-1995 *(millions)*	4.3	1,709	1,154
GNP per capita 1995 *(US$)*	1,160	830	1,700
GNP 1995 *(billions US$)*	5.0	1,418	1,962
Average annual growth, 1990-95			
Population *(%)*	2.3	1.3	1.4
Labor force *(%)*	2.3	1.4	1.8
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	16	31	56
Life expectancy at birth *(years)*	57	68	67
Infant mortality *(per 1,000 live births)*	64	36	36
Child malnutrition *(% of children under 5)*	..	17	..
Access to safe water *(% of population)*	31	77	78
Illiteracy *(% of population age 15+)*	28	17	..
Gross primary enrollment *(% of school-age population)*	74	117	104
Male	80	120	105
Female	67	116	101

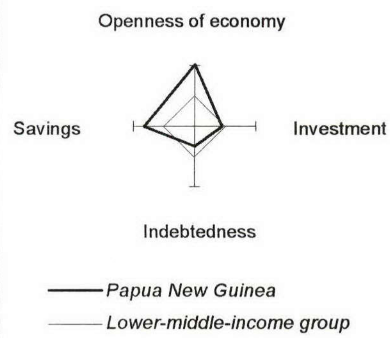
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	1.4	2.4	5.5	5.3
Gross domestic investment/GDP	20.0	19.8	15.2	24.5
Exports of goods and non-factor services/GDP	40.0	42.1	53.1	61.4
Gross domestic savings/GDP	13.9	9.5	32.8	40.0
Gross national savings/GDP	8.0	11.2	22.6	30.7
Current account balance/GDP	-10.2	-8.1	7.4	5.7
Interest payments/GDP	2.4	5.4	2.6	2.1
Total debt/GDP	37.3	87.1	52.4	49.1
Total debt service/exports	18.1	25.3	30.2	23.0
Present value of debt/GDP	..	..	41.9	..
Present value of debt/exports	..	..	77.0	..

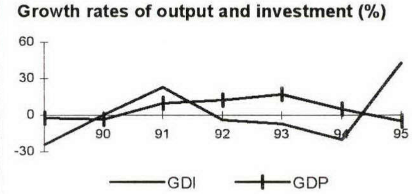
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	1.2	4.9	5.6	-4.7	2.4
GNP per capita	-1.2	2.2	3.6	-5.5	0.2
Exports of goods and nfs	1.9	6.8	-0.5	-6.3	-1.4

Economic ratios*



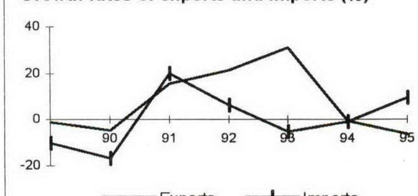
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	29.7	33.8	27.9	26.4
Industry	28.5	26.2	38.4	42.3
Manufacturing	8.1	10.9	8.2	8.2
Services	41.8	40.0	33.7	31.2
Private consumption	52.6	67.0	52.2	47.4
General government consumption	33.6	23.5	15.1	12.6
Imports of goods and non-factor services	46.2	52.4	35.6	45.9

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	2.8	3.2	5.8	-1.3
Industry	..	8.8	1.8	-5.8
Manufacturing	..	1.6	7.2	2.5
Services	..	2.2	9.6	-6.7
Private consumption	2.7	1.7	13.2	-14.7
General government consumption	-2.7	1.0	4.9	-20.7
Gross domestic investment	5.2	6.8	-19.6	42.8
Imports of goods and non-factor services	3.2	1.3	-0.9	9.8
Gross national product	1.2	4.4	5.9	-3.2

Growth rates of exports and imports (%)



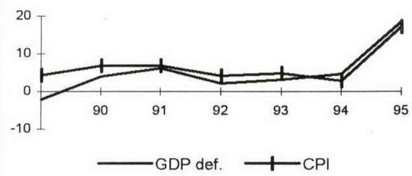
Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	10.5	3.7	2.9	17.3
Implicit GDP deflator	2.3	1.3	4.7	18.6
Government finance				
(% of GDP)				
Current revenue	..	30.5	26.2	27.5
Current budget balance	..	2.0	-0.6	2.4
Overall surplus/deficit	..	-2.0	-2.8	-1.4

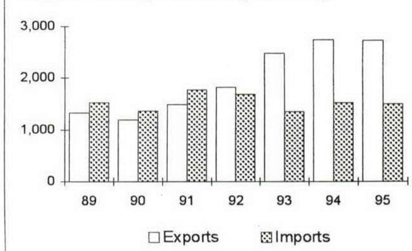
Inflation (%)



TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	972	2,745	2,732
Gold	..	335	695	656
Copper	..	209	455	632
Manufactures	..	..	..	..
Total imports (cif)	..	1,043	1,520	1,505
Food	..	166	209	204
Fuel and energy	..	184	139	146
Capital goods	..	304	453	407
Export price index *(1987=100)*	..	..	..	..
Import price index *(1987=100)*	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..

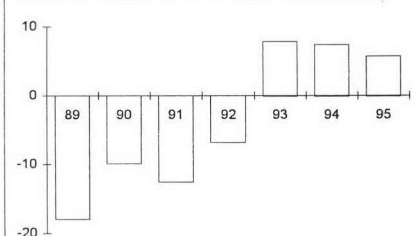
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	543	980	2,927	2,965
Imports of goods and non-factor services	626	1,179	1,955	2,217
Resource balance	-83	-199	973	749
Net factor income	-48	-127	-414	-342
Net current transfers	-7	129	-149	-105
Current account balance, before official transfers	-138	-197	410	301
Financing items (net)	120	221	-435	-148
Changes in net reserves	18	-24	26	-153
Memo:				
Reserves including gold *(mill. US$)*	180	463	96	270
Conversion rate *(local/US$)*	0.8	1.0	1.0	1.3

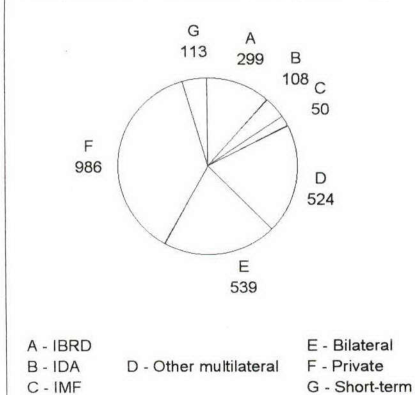
Current account balance to GDP ratio (%)



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	506	2,112	2,889	2,619
IBRD	43	75	281	299
IDA	21	109	109	108
Total debt service	102	340	907	623
IBRD	3	9	45	49
IDA	0	1	3	3
Composition of net resource flows				
Official grants	230	227	234	236
Official creditors	16	43	-33	117
Private creditors	-7	186	-262	-294
Foreign direct investment	0	83	4	15
Portfolio equity	0	0	0	500
World Bank program				
Commitments	0	37	11	50
Disbursements	18	17	21	34
Principal repayments	0	4	26	29
Net flows	18	13	-5	5
Interest payments	3	6	21	23
Net transfers	15	6	-26	-18

Composition of total debt, 1995 (mill. US$)



IBRD/IDA Lending Summary FY86-96

Papua New Guinea

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**74.9**	**45.5**	**-**	**19.6**	**67.2**	**50.8**	**27.0**	**41.9**	**11.0**	**-**	**50.0**
By Sector											
Agriculture	46.4	-	-	19.6	-	-	27.0	-	-	-	-
Human Resources	-	-	-	-	-	20.8	-	41.9	-	-	-
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	28.5	-	-	-	-	-	-	-	11.0	-	-
Industry & Finance	-	-	-	-	-	-	-	-	-	-	-
Infrastructure & Urban Development	**-**	**45.5**	**-**	**-**	**17.2**	**30.0**	**-**	**-**	**-**	**-**	**-**
Transportation Sector	-	45.5	-	-	-	-	-	-	-	-	-
Urban Development	-	-	-	-	-	30.0	-	-	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	17.2	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**-**	**-**	**-**	**-**	**50.0**	**-**	**-**	**-**	**-**	**-**	**50.0**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**-**	**-**	**-**	**50.0**	**-**	**-**	**-**	**-**	**-**	**50.0**
Structural Adjustment Loan	-	-	-	-	50.0	-	-	-	-	-	50.0
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**74.9**	**45.5**	**-**	**19.6**	**17.2**	**50.8**	**27.0**	**41.9**	**11.0**	**-**	**-**
Technical Assistance Loan	-	-	-	-	-	-	-	-	11.0	-	-
Sector Investment and Maintenance Loan	-	-	-	-	-	-	-	-	-	-	-
Specific Investment Loan	56.1	45.5	-	19.6	17.2	50.8	27.0	41.9	-	-	-
Financial Intermediary Loan	18.8	-	-	-	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

Papua New Guinea - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*		*Planned*[a]	
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	0.0	50.0	0.0	92.1	65.0	55.0	0.0
Sector (%)[b]							
Agriculture	0.0	0.0	0.0	0.0	30.8	0.0	0.0
Multisector	0.0	100.0	0.0	54.3	23.1	0.0	0.0
Popultn, Hlth & Nutn	0.0	0.0	0.0	0.0	0.0	45.5	0.0
Social Sector	0.0	0.0	0.0	0.0	0.0	54.5	0.0
Transportation	0.0	0.0	0.0	0.0	46.2	0.0	0.0
Urban Development	0.0	0.0	0.0	45.7	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	100.0	0.0	54.3	0.0	54.5	0.0
Specific investment loans and others	0.0	0.0	0.0	45.7	100.0	45.5	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	25.0	25.0	0.0	0.0	0.0	0.0
Specific investment loans and others	23.2	14.0	16.9	3.1	4.2	.7	0.0
Repayments (US$m)	27.3	30.4	31.6	1.1	0.0	0.0	0.0
Interest (US$m)	21.7	22.4	19.7	.3	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

Philippines

PHILIPPINES

ECONOMIC AND POLITICAL BACKGROUND

Economic recovery. The Philippines is in the **midst of a promising economic recovery**—early 1990s reforms program including deregulation; privatization; and price, trade, and investment liberalization helped to contribute to a recovery led by expansion of exports and foreign investment, with merchandise **exports rising by 17.7 percent in 1996**, after a 29.4 percent increase in 1995. In **1996, GNP per capita growth was 3.6 percent** and unemployment gradually fell to 8.6 percent.

Macroeconomic and financial instability. *Thailand's recent economic and financial difficulties* have added to foreign investor concern towards the Philippines. The stock market was first to feel the impact and it subsequently spilled over to the foreign exchange market. In response, the Bangko Sentral ng Pilipinas (BSP) announced that it would **allow greater exchange rate flexibility** by no longer intervening as actively in the foreign exchange market as in the past. The government also entered into an agreement with the International Monetary Fund (IMF) in July 1997 to extend the existing **Extended Financing Facility** to the end of 1997; coupled with an augmentation of this Arrangement, $1.05 billion was made available from the IMF.

Politics. President Fidel V. Ramos is now in the last year of his six-year term. Likely contenders are already positioning themselves, if not openly campaigning. They include Vice President, Joseph Estrada; Secretary of Finance, Roberto de Ocampo; recently resigned Secretary of National Defense, Renato de Villa, and Subic Bay Metropolitan Authority (SBMA) Chair, Richard Gordon. A key issue is the possibility that Congress will amend the Constitution so that President Ramos could seek another term.

ISSUES AND THE WORLD BANK'S RESPONSE:

Continuing poverty. Although the proportion of people living in poverty fell by 13 percent between 1971 and 1991, **36 percent of families continued to live in poverty** as of 1994. The government's poverty strategy includes sharply increasing public investment in health, education, and agriculture; enabling local governments to take a more active role in the delivery of poverty alleviation programs, and focusing on rural poverty and productivity programs to reach the majority of the nation's poor. **The World Bank is heavily involved in helping the government reduce poverty.** In FY97, the Philippines received $281.4 million in IBRD loans for four projects—**Third Elementary Education** project ($113.4 million) is helping to improve the quality of primary education especially in remote and poor areas, and for children from poor families; the **Water Resources Development** project ($58 million) is strengthening the national irrigation system and fostering better water resources planning and management to benefit 20,000 small-farmer families; the **Agrarian Reform Communities** project ($50 million) is improving rural infrastructure, agriculture and enterprise development; and the **Second Subic Bay** Project ($60 million) is improving infrastructure, administration and environmental management of the Subic Bay Freeport and is **expected to create 40,000 to 50,000 new jobs** over the next five years.

Protecting the Environment. Over-exploitation of natural resources, pressures from a growing population, and rapid urbanization have placed increasing pressures on upland agriculture, forestry, and fisheries. About 18 million people live in upland areas, of which 8 to 10 million farmers have been driven by poverty to occupy officially designated forest land. **The per capita income of upland farmers is estimated at less than half the official poverty line for rural residents**. Illegal logging is being handled through government-led sustainable farming techniques and vigilance against logging through community-based efforts in coordination with local governments and NGOs. The Bank has assisted the Philippines in protecting the environment through both its project work (watershed management and erosion control, ozone depleting phase-out investment, sewerage and sanitation, geothermal (GEF) and sector studies to provide policy advice (*Greening of Economic Policy Reform, Decentralization and Biodiversity Conservation, Best Practices for Photovoltaic Household Electrification Programs).*

Mindanao. There is now hope for an end to decades of armed conflict between the Moro National Liberation Front (MNLF) and the national government in Mindanao. In September 1996 the **GRP-MNLF Peace Agreement was signed**, which established the Southern Philippines Council for Peace and Development, the Consultative Assembly, and the **Special Zone of Peace and Development (SZOPAD)**. **SZOPAD**, which includes 13 provinces and eight cities in Mindanao, would be the focus of intensive peace and development efforts of both the Government and the private sector over the next three years. Partly because of prolonged periods of instability, growth in **SZOPAD** has lagged behind the rest of the country—development indicators compare poorly with the national average: poverty is 51%, (36% national avg); literacy is 90% (95% national avg); health indicators, irrigation, access to water, telephone and road density rates are also lower than national average. **The World Bank** is supporting Government initiatives by fast-tracking existing projects with targeted areas in the **SZOPAD**, covering agro-industry, vocational training, elementary education, and water resource development, all estimated to cost $25 to $35 million. Future proposed projects which would have a positive impact on **SZOPAD** are the **Mindanao Social Fund,** (a $10 million quick-disbursing fund for economic and social infrastructure), the **Community Based Resource Management, Water Districts Development**, **Early Childhood Development**, and the **Local Government Finance and Development Projects**. The World Bank will also continue to help Government coordinate other donors' efforts for Mindanao in the upcoming Consultative Group Meeting this December 1997.

THE PHILIPPINES AND THE WORLD BANK GROUP

Bank portfolio. The World Bank has extended about **$9 billion in commitments** to the Philippines, as of June 30, 1997. 28 projects have been financed to benefit nearly all sectors of the economy, particularly infrastructure and urban development (56%), agriculture and environment (28%), population and human resources (14%), and macro-economic management (2%). It has pledged up to $1.3 billion in loan assistance over the next three years to support the government's effort to sustain growth with equity.

IFC has approved over $1 billion for its own account and arranged $850 million in loan syndication and has done over 50 projects in the Philippines in power, hotels, construction materials, capital markets, infrastructure and agribusiness. IFC financed the **first Build, Operate and Transfer (BOT) project** which served as a model for subsequent BOT projects that *became instrumental in resolving the severe power crisis in the early 1990s*. IFC recently completed an advisory assignment on the *successful privatization of Manila's Metropolitan*

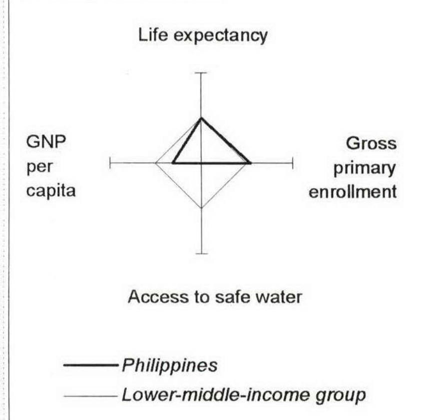
Water and Sewerage System (MWSS) to improve the operating efficiencies and ensure sufficient capital investments for system rehabilitation/expansion. In FY97, IFC approved 4 projects with a total project cost of US$660 million and a gross IFC financing of US$380 million—for transport (Magsaysay Shipping-$44 million), petrochemicals (Bataan Polyethylene-$337 million), telecoms (PT&T-$204 million) and Capital Markets Credit line (Far East Bank-$75 million).

Philippines at a glance

11/27/96

POVERTY and SOCIAL	Philippines	East Asia	Lower-middle-income
Population mid-1995 *(millions)*	67.5	1,709	1,154
GNP per capita 1995 *(US$)*	1,070	830	1,700
GNP 1995 *(billions US$)*	72.0	1,418	1,962
Average annual growth, 1990-95			
Population *(%)*	1.9	1.3	1.4
Labor force *(%)*	2.4	1.4	1.8
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	41	..	..
Urban population *(% of total population)*	54	31	56
Life expectancy at birth *(years)*	66	68	67
Infant mortality *(per 1,000 live births)*	39	36	36
Child malnutrition *(% of children under 5)*	30	19	..
Access to safe water *(% of population)*	84	49	..
Illiteracy *(% of population age 15+)*	5	17	..
Gross primary enrollment *(% of school-age population)*	111	117	104
Male	113	119	105
Female	111	115	101

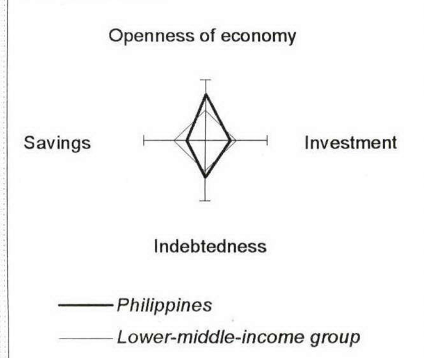
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	15.0	30.7	64.1	74.2
Gross domestic investment/GDP	30.9	15.3	24.1	22.5
Exports of goods and non-factor services/GDP	21.0	24.0	33.8	36.3
Gross domestic savings/GDP	24.8	17.4	17.8	14.7
Gross national savings/GDP	26.6	15.9	21.8	19.3
Current account balance/GDP	-6.2	-0.1	-4.4	-4.2
Interest payments/GDP	0.8	3.1	2.6	2.6
Total debt/GDP	27.8	86.6	62.4	53.2
Total debt service/exports	14.4	31.6	18.9	17.4
Present value of debt/GDP	..	..	54.6	..
Present value of debt/exports	..	..	143.1	..

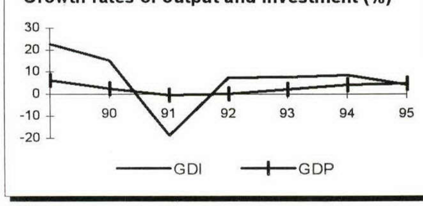
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	3.9	3.2	4.4	4.8	5.5
GNP per capita	1.3	1.6	3.1	4.7	3.6
Exports of goods and nfs	9.5	8.4	19.8	11.9	10.6

Economic ratios*



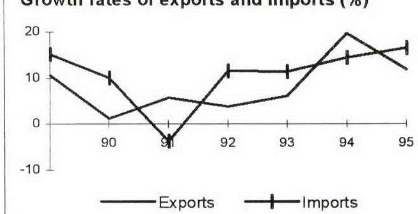
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	30.3	24.6	22.0	21.7
Industry	34.6	35.1	32.5	32.1
Manufacturing	25.7	25.2	23.3	23.0
Services	35.0	40.4	45.5	46.2
Private consumption	64.5	75.0	71.5	74.0
General government consumption	10.7	7.6	10.8	11.2
Imports of goods and non-factor services	27.1	21.9	40.1	44.0

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	2.7	2.0	2.6	0.9
Industry	4.2	3.2	5.8	7.2
Manufacturing	2.9	3.1	5.0	6.8
Services	4.4	3.9	4.2	4.9
Private consumption	3.8	3.6	1.5	8.5
General government consumption	1.0	4.1	6.1	3.6
Gross domestic investment	2.8	7.4	8.7	4.4
Imports of goods and non-factor services	6.1	12.1	14.5	16.6
Gross national product	3.7	3.8	5.2	5.5

Growth rates of exports and imports (%)

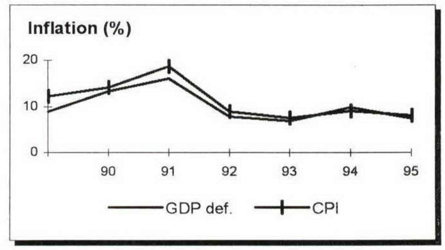


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

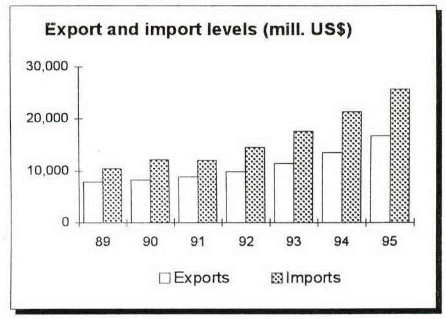
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	6.8	23.1	9.1	8.1
Implicit GDP deflator	9.4	17.6	10.0	7.4
Government finance				
(% of GDP)				
Current revenue	..	12.1	20.2	18.8
Current budget balance	..	2.4	3.2	3.4
Overall surplus/deficit	..	-1.9	-0.3	-0.1



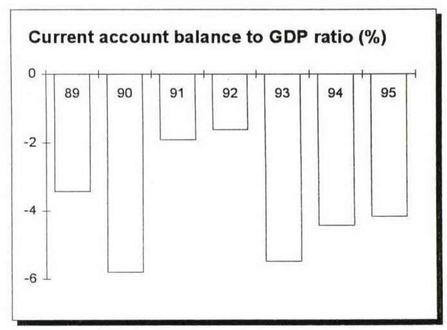
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	4,629	13,483	16,720
Coconut oil	..	347	475	467
Sugar	..	185	61	63
Manufactures	..	2,539	10,615	13,305
Total imports (cif)	..	5,111	21,333	25,696
Food	..	256	815	1,035
Fuel and energy	..	1,452	2,040	2,278
Capital goods	..	769	6,868	8,013
Export price index *(1987=100)*	..	81	120	124
Import price index *(1987=100)*	..	63	117	124
Terms of trade *(1987=100)*	..	127	103	100



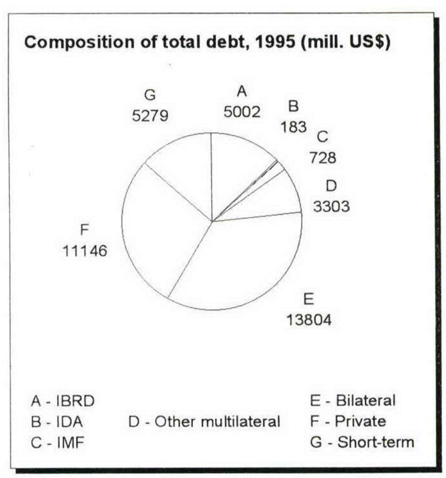
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	3,000	6,864	20,044	25,095
Imports of goods and non-factor services	4,116	5,961	25,712	31,203
Resource balance	-1,116	903	-5,668	-6,108
Net factor income	-126	-1,317	1,892	2,023
Net current transfers	318	379	936	1,003
Current account balance, before official transfers	-923	-35	-2,840	-3,082
Financing items (net)	912	867	4,642	5,169
Changes in net reserves	11	-832	-1,802	-2,086
Memo:				
Reserves including gold *(mill. US$)*	1,463	1,098	7,121	8,954
Conversion rate *(local/US$)*	7.2	18.6	26.4	25.7



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	4,171	26,639	39,996	39,445
IBRD	238	2,420	4,855	5,002
IDA	17	84	174	183
Total debt service	457	2,534	4,637	5,328
IBRD	26	285	717	790
IDA	0	1	3	3
Composition of net resource flows				
Official grants	72	139	284	274
Official creditors	185	381	213	-647
Private creditors	348	776	1,748	1,166
Foreign direct investment	98	12	1,000	1,200
Portfolio equity	0	0	1,407	1,961
World Bank program				
Commitments	114	104	478	168
Disbursements	94	276	304	403
Principal repayments	12	110	360	415
Net flows	82	166	-56	-12
Interest payments	14	176	360	378
Net transfers	68	-10	-416	-390



Philippines - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*	*Planned*[a]		
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	18.0	457.0	281.4	180.0	670.0	270.0	0.0
Sector (%)[b]							
Agriculture	0.0	32.8	38.4	25.0	7.5	0.0	0.0
Education	0.0	0.0	40.3	0.0	7.5	0.0	0.0
Electric Pwr & Engy.	0.0	54.7	0.0	0.0	37.3	0.0	0.0
Finance	0.0	0.0	0.0	22.2	0.0	0.0	0.0
Industry	0.0	0.0	21.3	0.0	0.0	0.0	0.0
Multisector	0.0	0.0	0.0	5.6	0.0	0.0	0.0
Popultn, Hlth & Nutn	100.0	0.0	0.0	22.2	0.0	7.4	0.0
Transportation	0.0	0.0	0.0	0.0	0.0	92.6	0.0
Urban Development	0.0	0.0	0.0	0.0	38.8	0.0	0.0
Water Supply & Santn	0.0	12.5	0.0	25.0	9.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	100.0	100.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	91.8	6.5	7.5	.7	0.0	0.0	0.0
Specific investment loans and others	306.7	370.3	320.8	36.6	281.9	188.1	94.3
Repayments (US$m)	388.0	430.9	414.3	33.9	0.0	0.0	0.0
Interest (US$m)	369.6	367.1	325.6	22.7	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Philippines

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**151.0**	**342.0**	**505.0**	**495.6**	**941.8**	**935.2**	**430.3**	**628.3**	**518.0**	**32.8**	**457.0**
By Sector											
Agriculture	-	-	45.0	-	121.8	420.2	-	51.3	20.0	-	150.0
Human Resources	-	-	-	70.1	-	200.0	121.0	70.0	-	18.0	-
Public Sector Management	-	10.0	-	-	-	-	-	63.0	-	-	-
Energy	-	-	100.0	65.5	390.0	-	91.3	110.0	458.0	-	250.0
Industry & Finance	-	-	-	360.0	65.0	190.0	-	-	-	14.8	-
Infrastructure & Urban Development	**151.0**	**32.0**	**160.0**	**-**	**165.0**	**-**	**218.0**	**134.0**	**40.0**	**-**	**57.0**
Transportation Sector	82.0	32.0	-	-	-	-	150.0	-	40.0	-	-
Urban Development	-	-	160.0	-	40.0	-	68.0	-	-	-	-
Water Supply & Sanitation	69.0	-	-	-	125.0	-	-	-	-	-	57.0
Telecommunications & Informatics	-	-	-	-	-	-	-	134.0	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**-**	**300.0**	**200.0**	**-**	**200.0**	**125.0**	**-**	**200.0**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**300.0**	**200.0**	**300.0**	**200.0**	**224.0**	**-**	**200.0**	**-**	**-**	**-**
Structual Adjustment Loan	-	-	200.0	-	-	-	-	200.0	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	200.0	-	-	-	-	-	-
Sector Adjustment Loan	-	300.0	-	300.0	-	224.0	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**151.0**	**42.0**	**305.0**	**195.6**	**741.8**	**711.2**	**430.3**	**428.3**	**478.0**	**18.0**	**457.0**
Technical Assistance Loan	-	10.0	-	-	-	-	-	-	-	-	-
Sector Investment and Maintenance Loan	-	-	45.0	-	390.0	200.0	91.3	134.0	-	-	250.0
Specific Investment Loan	151.0	32.0	260.0	135.6	286.8	61.2	339.0	294.3	478.0	18.0	207.0
Financial Intermediary Loan	-	-	-	60.0	65.0	325.0	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	125.0	-	-	-	-	-

Thailand

THAILAND

$ 250 mill for [illegible]

ECONOMIC BACKGROUND

Current financial crisis. After decades of impressive economic development, Thailand now confronts a major financial crisis. A large build up of short-term external debt over the last few years financed a large current account deficit and fueled a boom in domestic consumption and real estate. When the property boom began to slow, concerns over the soundness of the financial system grew and led in **1997** to two speculative attacks on the Thai baht as financial markets viewed its pegged exchange rate as unsustainable. The Central Bank finally abandoned the peg to the dollar to the dollar on July 2, after at first defending the currency and losing reserves of about $4 billion. To support the necessary balance of payments adjustment, **a stand-by program with the IMF** was arranged in August 1997, which provides a **$17 billion emergency international** financing package. The World Bank contribution would amount to $1.5 billion. Uncertainties remain over the total liabilities of central bank in forward swap contracts coming due over the next 12 months as well as the exact detail of the program's design.

One consequence of the Thai economic crisis and expected economic slowdown is that Laos's proposed dam project, **Nam Theun II**, may lose its biggest prospective customer (Electricity Generating Authority of Thailand). Slower projected growth will reduce energy demand (nearly half of the original forecast) of an economy in recession.

ISSUES AND THE WORLD BANK'S RESPONSE

Response to the crisis. The Bank has pledged US1.5 billion in support Thailand's adjustmernt program. It is preparing on an accelerated basis a Technical Assistance Loan for the financial sector for possible Board consideration as early as September 11. In addition, the Bank is preparing two adjustment operations, with a focus on the financial sector and competitiveness.

Infrastructure and Human Resources. For Thailand to regain **its export competitiveness** as it transforms from an economy based on labor-intensive manufacturing to one of high-skilled, technologically sophisticated production, the *quality of infrastructure and labor is critical.* Future growth is being threatened by infrastructure bottlenecks and the shortage of skilled labor trainable in high-tech industry. **The Bank is assisting** the government meet the demands of a growing economy by investing in **power infrastructure** projects, helping with power sector restructuring, and increasing its efforts to expand and improve the quality of and access to primary, secondary, vocational, and higher education. The Bank is also providing **technical assistance** in *formulating long-term strategies for developing physical infrastructure* (particularly energy and transport) with an emphasis on greater private sector participation; improving income distribution; and bolstering environmental management. In the last two years, the **Bank has funded three education projects**—secondary, technical, and universities science and engineering—totaling $256.9 million, and representing a renewal of Bank assistance to education after a 14-year lull, reflecting the seriousness of the Thai commitment to human resource investment. Future lending to education is expected to continue.

Environment. The government is also facing environmental problems of congestion, pollution, and hazardous waste disposal brought on by three decades of rapid industrial and commercial growth. Environmental control plans include increasing subsidies and investment in pollution control facilities, streamlining regulations, and improving enforcement mechanisms. The Bank's project work in power sector reform, transmission & distribution upgrades, highway improvements and clean fuel/refinery upgrades has assisted the government in improving energy efficiency and savings, decreasing traffic congestion, and improving air quality. Numerous studies on roads, population, and deforestation, pollution abatement from paper mills, and energy efficiency have helped advise the government on further environmental reform, though much more work is needed.

THAILAND AND THE WORLD BANK GROUP

Cumulative World Bank financing in Thailand amounts to approximately **$5.5 billion**. The majority of Bank lending has gone to the energy, agriculture and rural development, and transport sectors. In FY97, Thailand received $388.4 million in IBRD loans for three projects—Universities Science and Engineering Education Project and two loans to the energy and power sector (totaling $245 million).

IFC's portfolio in Thailand consists of 34 investments for total commitments of $2.4 billion ($688 million own account). In FY96, it financed 7 projects totaling $1.08 billion ($217 million own account), including 3 chemicals/ petrochemicals projects, 3 finance sector projects and one infrastructure project. In FY97, IFC approved $26 million ($13 million own account) in one finance sector project. The total project cost supported by these IFC investments in FY96/97 is US$3.0 billion. *An issue of concern is the impact of the financial crisis—difficult economic environment, tight liquidity and declining stock market—on IFC's investment in Finance One*, one of 58 finance and securities companies suspended by the authorities pending approval of a rehabilitation plan. Finance One could be recapitalized by a foreign entity or merge with or sell certain assets to one of the healthier local finance companies. Although potentially adverse effects can occur for other operations in IFC's portfolio, the most immediate impact of the Thai financial crisis is on Finance One (approved by IFC's Board 11/94),. The project consists of the provision of a six-year $30 million A loan and $150 million B loan from the proceeds of a three-year, fully credit-supported, rated U.S. commercial paper program to FinOne, Thailand's largest finance company.

September 1997

Richard Newfarmer
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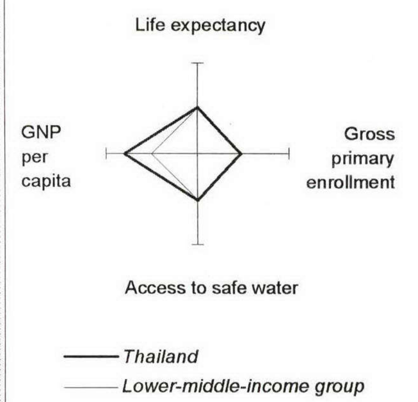
Thailand at a glance

POVERTY and SOCIAL	Thailand	East Asia	Lower-middle-income
Population mid-1995 *(millions)*	58.7	1,709	1,154
GNP per capita 1995 *(US$)*	2,720	830	1,700
GNP 1995 *(billions US$)*	159.8	1,418	1,962
Average annual growth, 1990-95			
Population *(%)*	1.0	1.3	1.4
Labor force *(%)*	1.5	1.4	1.8
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	13	..	..
Urban population *(% of total population)*	20	31	56
Life expectancy at birth *(years)*	69	68	67
Infant mortality *(per 1,000 live births)*	35	36	36
Child malnutrition *(% of children under 5)*	13	17	..
Access to safe water *(% of population)*	81	77	78
Illiteracy *(% of population age 15+)*	6	17	..
Gross primary enrollment *(% of school-age population)*	98	117	104
Male	98	120	105
Female	97	116	101

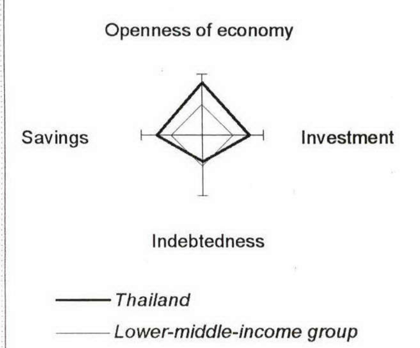
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	14.9	38.9	143.0	167.2
Gross domestic investment/GDP	26.7	28.2	41.2	43.1
Exports of goods and non-factor services/GDP	18.4	23.2	38.4	41.5
Gross domestic savings/GDP	22.1	25.5	36.2	36.2
Gross national savings/GDP	22.5	23.9	33.2	34.3
Current account balance/GDP	-4.2	-4.3	-5.5	-7.9
Interest payments/GDP	0.7	2.3	1.3	1.4
Total debt/GDP	12.5	45.1	42.6	42.5
Total debt service/exports	12.0	31.9	15.6	12.6
Present value of debt/GDP	..	..	42.0	..
Present value of debt/exports	..	..	101.5	..

	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	6.6	9.8	8.8	8.7	7.4
GNP per capita	4.0	8.5	7.4	7.4	6.5
Exports of goods and nfs	9.7	16.8	14.6	15.8	9.9

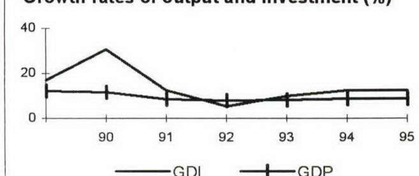
Economic ratios*



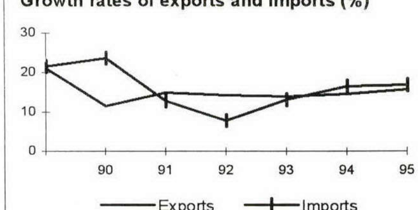
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	26.9	15.8	10.5	10.9
Industry	25.8	31.8	37.0	37.6
Manufacturing	18.7	21.9	28.5	29.2
Services	47.3	52.3	52.5	51.5
Private consumption	67.6	61.0	54.1	54.1
General government consumption	10.3	13.5	9.7	9.7
Imports of goods and non-factor services	23.0	25.9	43.4	48.4

	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	4.1	2.9	4.2	3.3
Industry	8.3	13.2	11.2	11.3
Manufacturing	7.6	13.7	12.0	12.3
Services	6.6	9.2	8.1	7.8
Private consumption	5.4	8.9	8.5	8.5
General government consumption	9.6	4.9	4.5	2.9
Gross domestic investment	6.6	15.4	12.4	12.6
Imports of goods and non-factor services	7.2	18.9	16.6	16.9
Gross national product	6.3	9.8	8.6	8.3

Growth rates of output and investment (%)



Growth rates of exports and imports (%)

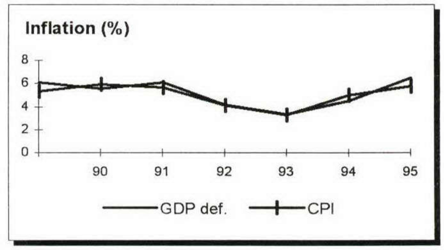


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

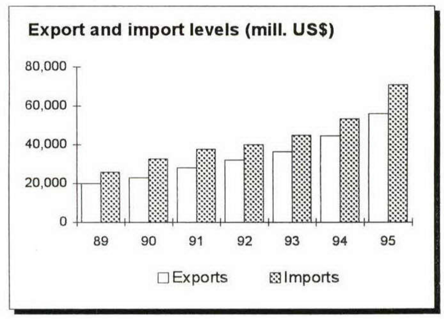
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	5.3	2.4	5.0	5.8
Implicit GDP deflator	3.5	2.1	4.5	6.5
Government finance				
(% of GDP)				
Current revenue	..	15.2	18.3	18.3
Current budget balance	..	-0.6	7.4	7.8
Overall surplus/deficit	..	-3.7	1.7	2.5



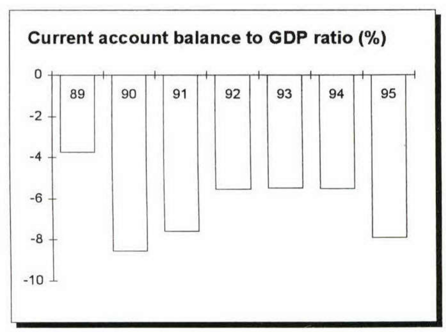
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	7,120	44,650	56,036
Fuel	..	829	2,005	7,372
Rubber	..	..	738	1,765
Manufactures	..	2,920	30,222	36,461
Total imports (cif)	..	9,248	53,379	70,881
Food	..	348	2,525	2,920
Fuel and energy	..	2,696	6,544	7,731
Capital goods	..	2,598	24,904	29,333
Export price index *(1987=100)*	..	73	171	180
Import price index *(1987=100)*	..	72	188	194
Terms of trade *(1987=100)*	..	101	91	93



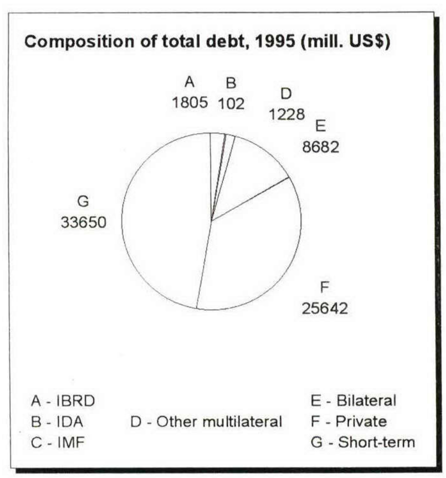
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	2,780	9,100	56,298	71,115
Imports of goods and non-factor services	3,465	10,160	63,495	82,668
Resource balance	-685	-1,060	-7,197	-11,553
Net factor income	-2	-643	-1,732	-2,200
Net current transfers	56	47	1,128	626
Current account balance, before official transfers	-631	-1,656	-7,801	-13,127
Financing items (net)	580	1,738	11,976	20,363
Changes in net reserves	51	-82	-4,175	-7,236
Memo:				
Reserves including gold *(mill. US$)*	2,007	3,003	30,279	37,027
Conversion rate *(local/US$)*	20.4	27.2	25.1	24.9



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	1,865	17,552	60,990	71,109
IBRD	270	2,202	1,782	1,805
IDA	4	105	103	102
Total debt service	357	3,263	9,237	8,401
IBRD	32	232	559	336
IDA	0	1	3	3
Composition of net resource flows				
Official grants	11	120	105	103
Official creditors	93	556	369	1,184
Private creditors	107	956	4,037	4,440
Foreign direct investment	22	163	640	2,300
Portfolio equity	0	44	-538	1,498
World Bank program				
Commitments	95	113	323	190
Disbursements	44	285	128	146
Principal repayments	13	75	417	203
Net flows	31	210	-289	-57
Interest payments	20	158	145	136
Net transfers	12	51	-434	-193



Thailand - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			Current	Planned[a]		
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	513.1	263.5	388.4	110.9	385.0	235.0	0.0
Sector (%)[b]							
Agriculture	0.0	0.0	0.0	45.1	5.2	10.6	0.0
Education	0.0	43.1	36.9	54.9	26.0	0.0	0.0
Electric Pwr & Engy.	29.2	0.0	63.1	0.0	57.1	0.0	0.0
Environment	23.0	0.0	0.0	0.0	11.7	0.0	0.0
Oil & Gas	47.7	0.0	0.0	0.0	0.0	21.3	0.0
Transportation	0.0	56.9	0.0	0.0	0.0	0.0	0.0
Urban Development	0.0	0.0	0.0	0.0	0.0	42.6	0.0
Water Supply & Santn	0.0	0.0	0.0	0.0	0.0	25.5	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	100.0	100.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	145.1	175.4	97.6	13.4	242.7	154.5	81.0
Repayments (US$m)	193.2	203.4	195.0	25.3	0.0	0.0	0.0
Interest (US$m)	137.7	137.7	114.0	8.6	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Thailand

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	93.0	21.0	173.0	177.0	144.0	62.0	271.5	214.0	-	553.1	263.5
By Sector											
Agriculture	60.0	-	-	-	-	30.0	-	-	-	118.1	
Human Resources	-	-	-	-	-	-	-	-	-	-	113.5
Public Sector Management	-	-	-	-	-	32.0	-	-	-	-	-
Energy	33.0	-	110.0	90.0	94.0	-	94.0	214.0	-	395.0	-
Industry & Finance	-	-	-	-	-	-	-	-	-	40.0	-
Infrastructure & Urban Development	-	**21.0**	**63.0**	**87.0**	**50.0**	-	**177.5**	-	-	-	**150.0**
Transportation Sector	-	-	63.0	87.0	50.0	-	177.5	-	-	-	150.0
Urban Development	-	21.0	-	-	-	-	-	-	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	-	-	-	-	-	-	-	-	-	-	-
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	-	-	-	-	-	-	-	-	-	-	-
Structual Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	93.0	21.0	173.0	177.0	144.0	62.0	271.5	214.0	-	513.1	263.5
Technical Assistance Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Investment and Maintenance Loan	60.0	-	160.0	-	144.0	-	40.0	-	-	-	-
Specific Investment Loan	33.0	21.0	13.0	177.0	-	62.0	231.5	214.0	-	513.1	263.5
Financial Intermediary Loan	-	-	-	-	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

Vietnam

VIETNAM

ECONOMIC BACKGROUND

Economic Growth. Vietnam's "doi moi" adjustment and reform program has turned its economy around dramatically. The program has restored stability, accelerated growth and attracted public and private foreign capital commitments unprecedented in Vietnam's history. The program of reform, stabilization, and liberalization yielded **growth rates of 9.3 percent GDP in 1996**, industrial output of 15.6 percent, and exports of 25.6 percent. National savings rose from 7.4 percent in 1990 to 16.6 percent in 1995, while investment rose to 27.8 percent of GDP in 1996 from 27.1 percent in 1995. **Inflation has been reduced from close to 400 percent in 1988, to 19 percent in 1995, to about 5 percent in 1996** due to tight fiscal and monetary policies, as well as to falling food prices. **Industry has been the real engine of growth**, averaging **13.8 percent growth a year** since 1992. **Trade has flourished** as merchandise exports expanded from $5.2 billion in 1995 to $7.3 billion in 1996, and imports grew from $7.5 billion in 1995 to $10.5 billion in 1996. There are economic risks to growth, however, including external shocks, a growing current account deficit (11 percent of GDP in 1996), and possible policy inconsistencies or slowing of structural reforms.

Recent economic slowdown has raised concerns about long-term growth prospects, and reflects the need for deeper reforms to encompass taxation, international trade, private enterprise development and state enterprise, legal, and financial sector. According to press reports, *political interference, corruption, protectionism and over-regulation* underline the difficulties associated with combining economic reform with political stasis, and the pace of reform is unlikely to accelerate in the near future. Two members of the ruling troika are expected to be replaced when the National Assembly reconvenes in September—as the new leaders seek to establish themselves, they are unlikely to confront the vested interests in the party, which are blocking further reforms to state industry and further opening of the financial sector.

Despite Vietnam's high level of poverty incidence, at nearly 50 percent, social indicators are encouraging. With 91 percent of children between the ages of 5 and 10 enrolled in school and 88 percent of the working-age population reported to be literate, Vietnam compares with many economies at higher income levels. Infant mortality fell from 104 per 1000 live births in 1970 to 41 per 1000 live births in 1995, and access to healthcare increased from 75 percent of the population in 1980 to 97 percent in 1995.

ISSUES AND THE WORLD BANK'S RESPONSE

Poverty. The *doi moi* program has put the country on the path to achieving the **labor-intensive broad-based growth needed to eliminate poverty**, and the government is determined to improve on past performance to continue its recent run of strong export-led growth. The Bank's ***Vietnam: Poverty Assessment and Strategy*** study gave the government comprehensive, updated information about the poor to assist in designing effective policies for attacking poverty in the 1990s—sustaining economic growth, better targeting of social services, and improving the social safety net. Bank project work in **agricultural, highway, and irrigation rehabilitation** has promoted growth and raised incomes, while its work in **improving access** to primary **education, health and population services** has raised levels of well-being—all have contributed to Bank and government poverty reduction efforts.

Private Sector Development. With doi moi allowing private ownership and activity, the private sector has grown rapidly, largely through the creation of small-scale household enterprises, but also as a result of some incorporated private enterprises. In **1994, over half of the 25,912 registered enterprises in the formal sector were private**, which does not reflect the estimated 350,000 unregistered household enterprises engaged in trade and manufacturing. Between 1989-93 private sector **employment rose by**

4.7 million. Rapid private sector *growth has been helped by Vietnam's well-educated and low-cost labor force, its strategic location, strong macroeconomic management, and the opening of the economy under doi moi.* Private sector growth has, however, lagged behind overall growth of the economy, and the growth of the state enterprise sector, particularly in the industrial subsectors such as oil, gas, steel, cement, and fertilizer. And, the *expansion of foreign investment and trade* has had less affect on the growth of private enterprises, most of which are oriented to the domestic market and rarely partners of foreign investors—most foreign investors (including the IFC) have formed partnerships with state, not private, enterprises.

These limitations of private enterprise development indicate that much remains to be done to establish a policy framework addressing such key constraints including a lengthy and *complicated investment approval* process, an *uneven playing field* between private companies and state-owned enterprises, and the *inability of foreign lenders to take mortgage security*. Through its economic studies and sector work, the Bank is offering technical assistance and policy advice to support Vietnam's transition to a market economy and to help the government address important issues such as **commercial debt restructuring negotiations**, **state enterprise reform**, development of **legal framework** for procurement, structuring of public **bidding on BOT (build operate transfer)** for the private sector, **institutional strengthening**, **public accounting, resettlement** and **water law.**

The IFC has helped with private sector development through its investments in ports, hotels, cement, steel, agribusiness, and leasing. It has established the $25 million, donor-funded, *Mekong Project Development Facility* (MPDF) to provide technical assistance to non-state small and medium sized enterprises (SMEs) in Vietnam, Lao PDR and Cambodia and a complementary US$5 million Mekong Financing Line (MFL), which will invest in domestic SMEs. IFC's program, which does little business with primarily state-owned domestic banks, has not been affected by the recent defaults of local banks on international letters of credit except in terms of the damage defaults will have on foreign investors perception of the risks of doing business in Vietnam.

VIETNAM AND THE WORLD BANK GROUP

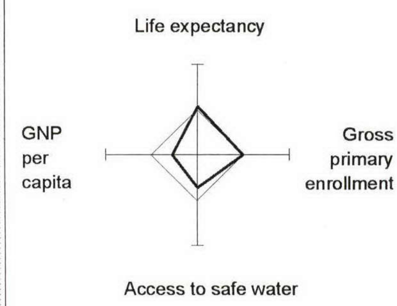
The World Bank has been active in a policy dialogue with the government since the late 1980s and resumed lending program in 1993. It has since provided about **$1.6 billion in commitments for 14 operations** financed by its concessionary lending arm, the International Development Agency (IDA); disbursements as of June 30, 1997 were $447.49 million, or 28% of the total approved. Bank operations support structural adjustment, and the rehabilitation of education, population and health, agriculture and irrigation, rural finance and bank modernization, transport, power, and water resource sectors. In FY97, Vietnam received **$349.2 million for projects** upgrading rural road infrastructure, rehabilitating highways, and improving water supply systems. The Bank's provision of **Institutional Development Fund (IDF) grants to improve project implementation have** helped Vietnam develop public procurement procedures and accounting and information management, as well as resettlement policies. **IFC** commenced operations in Vietnam in 1994 and as of July 30, 1997, had approved a total investment of $468 million (with $217 million for its own account and $251 million for participants' account) in 18 projects with a total cost of $1.33 billion. IFC commitments total $257 million (with $130 million for its own account) of which $147 million has been disbursed (with $74 million for its own account).

Vietnam at a glance

11/27/96

POVERTY and SOCIAL	Vietnam	East Asia	Low-income
Population mid-1995 *(millions)*	73.5	1,709	3,188
GNP per capita 1995 *(US$)*	250	830	460
GNP 1995 *(billions US$)*	18.4	1,418	1,466
Average annual growth, 1990-95			
Population *(%)*	2.1	1.3	1.8
Labor force *(%)*	1.9	1.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	51	..	..
Urban population *(% of total population)*	21	31	29
Life expectancy at birth *(years)*	68	68	63
Infant mortality *(per 1,000 live births)*	41	36	58
Child malnutrition *(% of children under 5)*	45	19	38
Access to safe water *(% of population)*	38	49	53
Illiteracy *(% of population age 15+)*	6	17	34
Gross primary enrollment *(% of school-age population)*	103	117	105
Male	101	119	112
Female	103	115	98

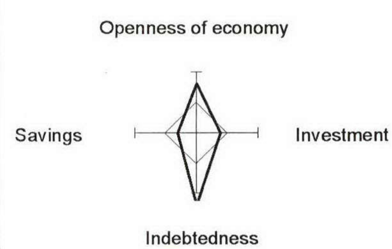
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	..	17.0	15.5	20.4
Gross domestic investment/GDP	..	..	24.2	23.4
Exports of goods and non-factor services/GDP	..	..	23.3	30.2
Gross domestic savings/GDP	..	..	13.5	19.2
Gross national savings/GDP	..	..	15.1	22.9
Current account balance/GDP	..	-2.8	-8.6	-9.9
Interest payments/GDP	..	0.0	0.6	0.5
Total debt/GDP	..	0.4	164.6	130.2
Total debt service/exports	..	..	7.3	5.8
Present value of debt/GDP	..	..	135.3	..
Present value of debt/exports	..	..	391.2	..

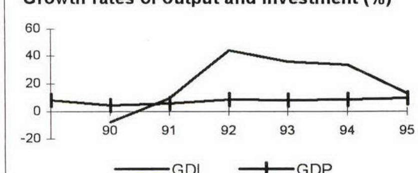
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	..	6.5	8.8	9.5	8.0
GNP per capita	..	..	6.7	7.4	6.2
Exports of goods and nfs	..	..	31.7	..	..

Economic ratios*



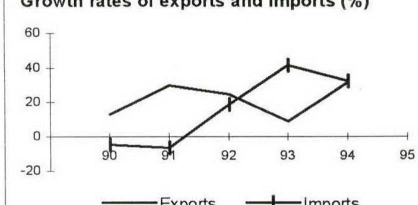
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	..	..	27.7	28.1
Industry	..	..	29.6	27.7
Manufacturing	..	..	22.0	..
Services	..	..	42.7	44.2
Private consumption	..	..	77.4	..
General government consumption	..	..	9.1	..
Imports of goods and non-factor services	..	..	34.0	34.5

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	..	4.7	3.9	3.5
Industry	..	..	14.0	13.0
Manufacturing	..	..	12.9	..
Services	..	..	10.0	12.5
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	33.7	12.8
Imports of goods and non-factor services	..	..	32.5	..
Gross national product	..	..	8.8	9.5

Growth rates of exports and imports (%)

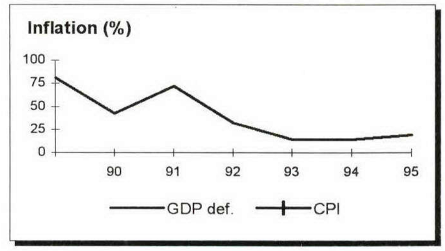


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

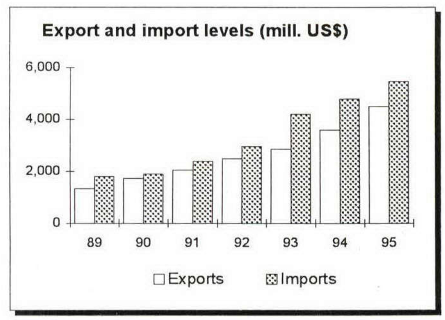
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	..	..	..
Implicit GDP deflator	..	94.2	14.5	19.5
Government finance				
(% of GDP)				
Current revenue	..	..	24.7	23.4
Current budget balance	..	..	5.2	4.7
Overall surplus/deficit	..	..	-1.7	-2.2



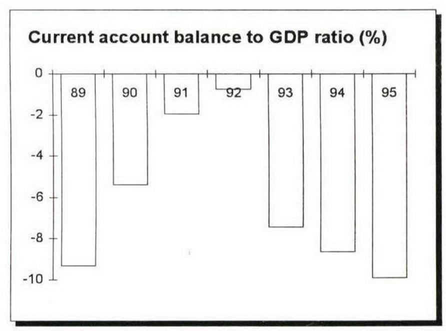
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	507	3,600	4,499
Rice	..	..	429	..
Fuel	..	..	866	..
Manufactures	..	..	..	..
Total imports (cif)	..	930	4,804	5,448
Food	..	..	101	..
Fuel and energy	..	..	799	..
Capital goods	..	..	1,717	..
Export price index *(1987=100)*	..	..	..	..
Import price index *(1987=100)*	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..



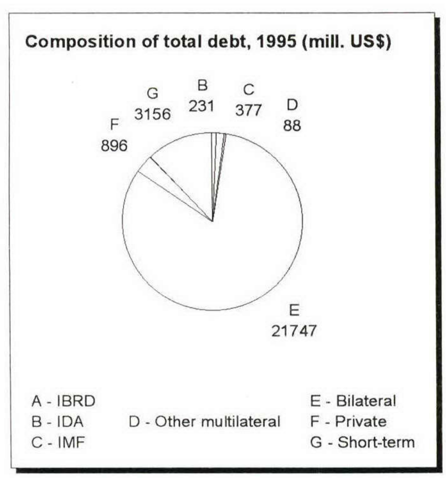
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	..	..	5,337	6,622
Imports of goods and non-factor services	..	..	6,427	8,843
Resource balance	..	..	-1,090	-2,221
Net factor income	..	-90	-501	-568
Net current transfers	..	32	251	770
Current account balance, before official transfers	..	-473	-1,340	-2,019
Financing items (net)	..	204	1,457	1,843
Changes in net reserves	..	269	-117	176
Memo:				
Reserves including gold *(mill. US$)*	..	225	16	..
Conversion rate *(local/US$)*	..	8.3	10,962.1	10,950.0



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	..	61	25,570	26,495
IBRD	..	0	0	0
IDA	..	54	181	231
Total debt service	..	2	393	386
IBRD	..	0	0	0
IDA	..	0	1	2
Composition of net resource flows				
Official grants	249	38	449	345
Official creditors	..	7	264	298
Private creditors	..	0	-115	-67
Foreign direct investment	..	0	100	150
Portfolio equity	..	0	283	155
World Bank program				
Commitments	..	0	246	265
Disbursements	..	7	126	47
Principal repayments	..	0	1	1
Net flows	..	7	125	46
Interest payments	..	0	1	2
Net transfers	..	7	124	44



Note: Debt includes non-convertible currency debt.

Viet Nam - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*		*Planned*[a]	
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	415.0	502.2	349.2	642.9	345.0	550.0	0.0
Sector (%)[b]							
Agriculture	24.1	24.3	0.0	9.9	29.0	0.0	0.0
Education	0.0	0.0	0.0	12.4	4.3	9.1	0.0
Electric Pwr & Engy.	39.8	35.8	0.0	26.4	0.0	0.0	0.0
Environment	0.0	0.0	0.0	3.7	0.0	0.0	0.0
Finance	0.0	9.8	0.0	5.4	14.5	0.0	0.0
Multisector	36.1	0.0	0.0	23.3	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0	0.0	0.0	27.3	0.0
Popultn, Hlth & Nutn	0.0	30.1	0.0	0.0	8.7	10.9	0.0
Transportation	0.0	0.0	71.8	18.8	0.0	27.3	0.0
Urban Development	0.0	0.0	0.0	0.0	14.5	0.0	0.0
Water Supply & Santn	0.0	0.0	28.2	0.0	29.0	25.5	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	36.1	0.0	0.0	23.3	14.5	0.0	0.0
Specific investment loans and others	63.9	100.0	100.0	76.7	85.5	100.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	90.7	0.0	59.6	0.0	0.0	0.0	0.0
Specific investment loans and others	75.4	35.1	187.0	5.5	228.4	179.6	98.2
Repayments (US$m)	.6	.6	.6	.3	0.0	0.0	0.0
Interest (US$m)	1.1	1.7	2.7	.2	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Viet Nam

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	-	-	-	-	-	-	-	-	**324.5**	**415.0**	**502.2**
By Sector											
Agriculture	-	-	-	-	-	-	-	-	96.0	100.0	122.0
Human Resources	-	-	-	-	-	-	-	-	70.0	-	151.2
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	165.0	180.0
Industry & Finance	-	-	-	-	-	-	-	-	-	-	49.0
Infrastructure & Urban Development	-	-	-	-	-	-	-	-	**158.5**	-	-
Transportation Sector	-	-	-	-	-	-	-	-	158.5	-	-
Urban Development	-	-	-	-	-	-	-	-	-	-	-
Water Supply & Sanitation	-	-	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	-	-	-	-	-	-	-	-	-	**150.0**	-
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	-	-	-	-	-	-	-	-	-	**150.0**	-
Structual Adjustment Loan	-	-	-	-	-	-	-	-	-	150.0	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	-	-	-	-	-	-	-	-	**324.5**	**265.0**	**502.2**
Technical Assistance Loan	-	-	-	-	-	-	-	-	-	-	49.0
Sector Investment and Maintenance Loan	-	-	-	-	-	-	-	-	-	165.0	-
Specific Investment Loan	-	-	-	-	-	-	-	-	324.5	100.0	453.2
Financial Intermediary Loan	-	-	-	-	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

SOUTH ASIA

Mieko Nishimizu
Vice President
South Asia Region

August 25, 1997

Mr. James D. Wolfensohn

September 3 Asia-focused Media Roundtable

Jim,

Please find attached a set of briefing notes for the Asia-focused Rountable on September 3. These notes contain political and economic background, important issues facing each country, and key information about our portfolio.

As you know, 1997 is an important anniversary for the two largest countries in the region, India and Pakistan. You may wish to set a positive tone by expressing the importance of the social and economic progress that has occurred in this period, while drawing attention to the imperative necessity of attacking ongoing problems, most notably the deeply entrenched poverty in the region. (The attached briefing materials provide both in narrative and numerical format the basic information that will assist you in driving home these points.)

Improving the status of women is a key challenge in South Asia. Social indicators for women are alarmingly poor, women are restricted from income-earning activities, and families tend to invest less in their daughters. You may wish to emphasize that Bank-financed projects are working to improve the status of women by opening the educational process to millions of women and young girls, expanding women's access to health services and family planning, targeting malnourished women and girls, and empowering women through micro-credit and income-generating programs. Examples (such as the Bangladesh Female Secondary Schools Project, the Rural Women's Development and Empowerment Project, the Reproductive and Child Health Project and the Child Survival and Safe Motherhood Project in India, and the Sindh and Balochistan Primary Education Projects in Pakistan) are included in the country briefs.

Another cross-country concern is the banking sector. The nature of banking sector problems varies from one country to another, with India working down the volume of non-performing loans at the cost of high spreads, Pakistan experiencing widespread insolvency among the state-owned banks, and Bangladesh facing an embarrassing contrast between the excellent repayment record of the micro-borrowers and the "default culture" of wealthy borrowers. Solutions are likely to include widespread privatization of banks and strengthening of supervision concentrated in central banks with greater autonomy.

Pakistan
Bangladesh
Pressure on currency - us.

Recent developments in Thailand and other East Asian countries, and some minor turbulences last week in India's foreign exchange market, may lead to questions on South Asia's vulnerability to currency turmoil. You may wish to indicate that the Region's major economies have thus far not been affected by developments in East Asia. The Region's major economies are generally well managed. Where stabilization issues exist, as in the case of Pakistan, they are in the process of being corrected (a program for Pakistan is expected to be presented to the IMF Board in the next few weeks).

In addition, I highlight below "current" issues that may be directed to you in the reporters' questions.

- Region-wide, *corruption* is a burning issue in public debate. It thus presents an opportunity for you to clarify the Bank's position and work on the issue. (The briefs identify some of the actions we have undertaken in Pakistan and India to address corruption in the context of our work.)

- *Child Labor* is another burning topic. Here, too, there is an opportunity for you to show that we care deeply about the issue, and shed light on the Bank's approach. (The brief on India highlights some specific examples of how the issue is being addressed in our operations.)

- In *Pakistan*, there is a public perception that the World Bank is controlling economic policy, a perception that was deepened by Moeen Qureshi's and Javed Burki's roles in interim governments. The Roundtable may provide an opportunity to clarify that this is not the case with any soverign members including Pakistan.

- In *India*, continued access to IDA and concessional flows more generally is an issue of some public concern. Should it arise, you could respond that IDA is doing all it can to ensure continued availability of this kind of support. You may also wish to indicate that India has the creditworthiness to borrow a great deal more from IBRD (up to over $2 billion per year), hitherto underutilized.

- In *Afghanistan* we are working closely with UN agencies and other partners to prepare for peace and resumption of development assistance. This Roundtable may also be an opportunity to highlight the Bank's approach to post-conflict situations.

- Across the region, there is a growing concern about the environmental impact of projects and the trade-off between infrastructure and the environmental and social impacts of these projects. You should be aware of some of the projects where these concerns have generated some public controversy, including the National Thermal Power Corporation (NTPC) Project and the Coal Sector Projects in India, and the Jamuna Bridge Project in Bangladesh.

Lastly, should any questions arise, you may want to flag the regional renewal effort and the extent to which their underlying purpose is to be more fully responsive to client needs. You may wish to allude to our placement of five country directors in the field and management delayering. In addition, you will recall we have merged two country and one technical departments in the interest of greater efficiency and fostering a regional and international perspective.

If you have any questions, concerning this briefing package, please do not hesitate to contact Roberto Zagha directly.

Mieko

cc: Roberto Zagha

COUNTRY INFO

Bangladesh

BANGLADESH

Economic growth but slow investment. GDP growth has remained at or around 4.5 percent in the past five years and rose to 5.3 percent in FY96, thanks to improved agricultural performance. Although FDI has risen quickly, reaching $125 million in 1995, private investment in general has been increasing slowly and still remains around 10 percent of GDP–well below the level of neighboring South Asian countries.

Political troubles affect economic performance. The election of Prime Minister Sheikh Hasina's government in June 1996 has quelled two years of civil unrest. However, the Islamic fundamentalist parties are moving closer to the opposition, which recently led a nationwide strike to oppose a fuel price hike, making political stability even more fragile.

ISSUES AND THE WORLD BANK'S RESPONSE:

Poverty reduction and human development. Despite efforts to alleviate poverty, half of Bangladesh's population of nearly 120 million entered the 1990s living below the poverty line. The country has recorded strong progress in reducing its fertility rate from more than seven births per woman in 1975 to fewer than four in 1995. Infant mortality rates have fallen from 140 per 1,000 live births in 1970 to 79 per 1,000 in 1995. But population growth remains a concern. At 920 persons per square kilometer, Bangladesh is one of the world's most densely populated countries. To help alleviate the severe economic and social pressures created by the extremely high and increasing population density, the Bank is working with the government to develop and implement population, health, nutrition strategies. Bank projects such as the **Bangladesh Integrated Nutrition Project** (FY96, IDA $59.8 million) targets high-risk mothers and children while the **Population and Health IV Program** (FY91, IDA $180 million) is helping improve and expand access to the national family planning program and basic health infrastructure. In view of Bangladesh's high illiteracy rates, the Bank's lending strategy in education focuses on primary education and non formal education. Follow-on operations, emphasizing increased efficiency in spending for education, are being prepared. The ongoing **Female Secondary Schools Project** (FY93 IDA, $68 million) supports increased female school enrollment in secondary school and the **Non-Formal Education Project** (FY96, IDA $10.5 million) targets children, especially girls, who have been by-passed by the formal system.

Governance and administrative reforms. Political intervention, red tape, misplaced management incentives, and excess employment are among the problems that continue to slow efficiency of public sector agencies. The government has formed a commission to examine administrative reforms, but the work of the commission has not gained momentum. The Bank has been advising the government on administrative reforms through a major study, Bangladesh *Government that Works,* and has held numerous workshops on the subject with government, the private sector, NGOs, and the media. To provide greater transparency and competition, work on improving procurement practices is about to get underway.

Expanding the role of the private sector. Progress on privatization has been slow due to the government's inability to muster support and strong opposition from labor unions. The government aims to improve the environment for private investment throgh measures such as rationalizing and restructuring state-owned enterprises as a prelude to privatization. The Head of the Privatization Board recently announced that 82 public enterprises would be put on sale this fiscal year. There has been recent progress in encouraging private-sector participation in gas exploration and development. In the wake of these reforms, the Bank approved a **Gas Infrastructure Development Project (FY95, IDA $120.8)** to promote further improvements in gas sector management. In infrastructure, Bank projects such as **Rural Roads and Markets Project (FY97, IDA $133 million)** works to improve both inland water and road transportation. Infrastructure projects under preparation include a **Private Sector Infrastructure Fund** scheduled to go to the Board in October 1997, a **Dhaka Urban Transport Project,** and an additional **Road Rehabilitation and Maintenance Project**. The Bank helps finance Bangladesh's largest infrastructure project, the **Jamuna Bridge** (FY94, IDA $200 million), which will provide the first direct transportation link between eastern and western Bangladesh, as well as support infrastructure for future power transmission and a possible gas pipeline. The Inspection Panel received a Request for Inspection from an NGO representing some of the inhabitants of the Char (Islands) Dwellers, claiming that the dwellers have not been included in the resettlement action plan. The Panel felt that an investigation of the matters alleged in the Request was not warranted at this time because the Erosion and Flood Policy issued after the Request was filed constituted an adequate and enforceable framework that would allow the Bank to comply with the policies and procedures relevant to the Requesters' concerns. The Board and the Inspection Panel will review the project in the next 12-14 months.

Water issues. Bangladesh's topography makes it highly vulnerable to devastating cyclones and floods which, combined with high population densities, makes the damage and loss of life from natural disasters particularly great. The severe floods of 1988, and the cyclone of 1991, prompted an international effort to reduce the effects of future flooding which resulted in a multi-donor funded program led by the Bank, known collectively as the **Flood Action Plan** (FAP). IDA is providing a $53.0 million equivalent credit for a **Coastal Embankment Rehabilitation Project** and a credit of $121.9 million to mitigate damage caused by cyclones and floods to help operationalize the FAP. In 1993, the first traces of **arsenic** which occurs naturally in alluvial and deltaic sediments were detected in numerous shallow and deep wells in various parts of the country. Today an estimated 1.2 million people are exposed to arsenic poisoning which is ultimately cancerous. Wells in 28 out of Bangladesh's 64 districts are estimated to be contaminated. The Bank and other donors are working with the Government of Bangladesh to support a "fast track" IDA Arsenic Control Project expected to go to the Board in February to address the crisis.

BANGLADESH AND THE WORLD BANK GROUP

Bank Portfolio. Today, the Bank's lending portfolio for Bangladesh includes 29 projects for which IDA has lent more than US$2.6 billion. Infrastructure constitutes the largest share of the portfolio in value terms, accounting for just over 30 percent, followed by lending to social sectors (18 percent), finance and industry (15 percent), agriculture (13 percent), and energy (12 percent). Lending for projects in the environmental sector now accounts for 5 percent of the total portfolio. In FY97, Bank lending to Bangladesh in FY97 totaled US$321.2 million for four projects.

IFC Portfolio. IFC's held portfolio is US$3.4 million, which is 0.03% of IFC's total held portfolio as of June 30, 1997. Gross approvals in FY97 totaled US$43.9 million, a significant improvement over gross approvals of US$25.4 million in FY96, and US$3 million in FY95. IFC established a local presence in Bangladesh in FY95. IFC's strategy is focusing on infrastructure and other large scale projects such as: (i) gas development and power projects to address the energy deficit, (ii) rural and urban telecommunication projects, (iii) capital markets, i.e. leasing, developmental financing, housing finance, and (iv) social sector development. IFC's role is also to provide comfort to FDI, encourage local entrepreneurs, and often act as matchmaker between local and foreign sponsors.

An issue of concern is the Jalalabad Gas Project (Estimated Project Cost, US$100.0 million; Equity Investment Approved: US$15 million; project approved by IFC's Board in December 1996). The project will be carried out through an unincorporated joint venture consisting of Occidental (Oxy) (42.5%), the operator, Unocal (42.5%) and IFC (15%). However, since the assignment of IFC's 15% stake is pending final approval from GOB, IFC is not yet officially a partner in the project and has not disbursed funds. On June 15, 1997, a gas well blow-out occurred in northeast Bangladesh, while drilling at Magurcherra (Block 14, near Moulavi Bazar). Although there were no casualties, a few houses (6 of 40) in a nearby village were destroyed, and neighboring tea estates incurred loss of business due to disconnection of gas supply. While a GOB Inquiry is underway, Oxy has started paying compensation to tea estates, and is engaged in resettlement of the villagers whose houses were destroyed. Oxy and the local government have made temporary arrangements for road and rail transport through the area. Oxy is preparing a site for a relief well to be drilled which will allow them to plug and abandon the original well. An IFC team visited the blow-out site during July 3-6. The environmental and social impacts from the blow-out are considered manageable. Regarding the project plan, the exploration program will be delayed as a result of the incident but the Jalalabad field development is expected to proceed on schedule.

Another issue is the **Lafarge Cement project** (in the pipeline; estimated Project Cost, US$200.0 million; proposed IFC Investment: US$45 million). Two NGO groups, the Bank Information Center and Friends of the Earth, wrote to Mr. Lindbaek in July 1997 referring to the fact that IFC had not declared it a Category A project, despite the fact that it involved resettlement. IFC replied that this was not the case. IFC has assigned it environment Category A[1]. The Environmental Assessment is being updated, the public disclosure will be enhanced, and a resettlement action plan developed. Lafarge is fully conscious of its social obligations and indicated its commitment to satisfy Category A requirements. IFC will ensure that Category A requirements are fully complied with by the sponsors.

MIGA Portfolio. Bangladesh was a founding member of MIGA in 1988. MIGA has issued four contracts in Bangladesh consisting of two projects in the manufacturing sector for a total maximum aggregate liability of US$51.9 million (FY91), and one contract in the banking sector for a total maximum aggregate liability of US$9.0 million (FY97). In addition, approximately 22 Preliminary Applications are pending for projects in the infrastructure, financial and oil and gas sectors. MIGA is also expecting definitive applications for several projects in the power sector.

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[1] At Initial Project Summary stage a preliminary categorization of B had been applied, however on site visit it became clear that the resettlement required was more extensive than previously envisaged and the Environment Memorandum categorized the project A.

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World Bank Group Annual Meetings - Press Conference
IFC Brief for Mr. Wolfensohn
Bangladesh - IFC Portfolio/Pipeline/Strategy

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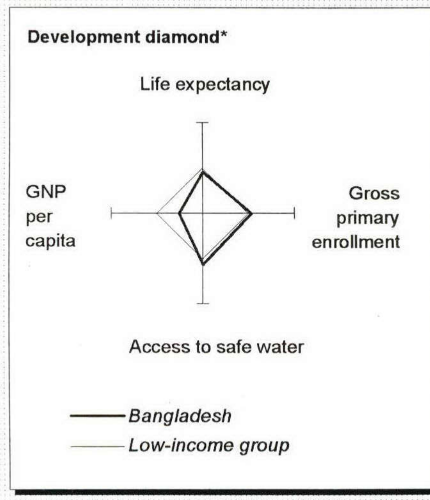
Diego Hernández	July 24, 2025

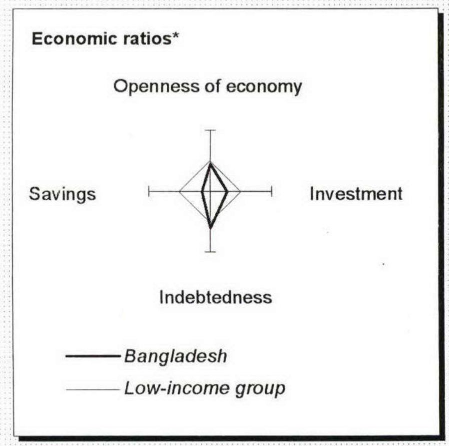
Bangladesh at a glance

POVERTY and SOCIAL	Bangladesh	South Asia	Low-income
Population mid-1995 *(millions)*	119.8	1,243	3,188
GNP per capita 1995 *(US$)*	240	350	460
GNP 1995 *(billions US$)*	28.6	435	1,466
Average annual growth, 1990-95			
Population *(%)*	1.6	1.9	1.8
Labor force *(%)*	2.7	2.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	48	..	..
Urban population *(% of total population)*	18	26	29
Life expectancy at birth *(years)*	58	61	63
Infant mortality *(per 1,000 live births)*	79	73	58
Child malnutrition *(% of children under 5)*	84	62	38
Access to safe water *(% of population)*	84	81	75
Illiteracy *(% of population age 15+)*	62	50	34
Gross primary enrollment *(% of school-age population)*	111	98	105
Male	128	110	112
Female	105	87	98

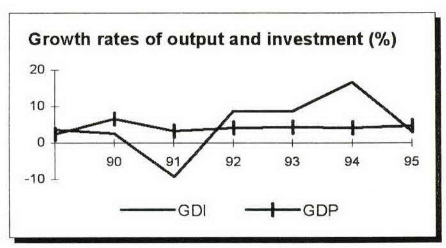


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	14.3	15.7	25.8	29.1
Gross domestic investment/GDP	6.1	12.9	15.4	16.6
Exports of goods and non-factor services/GDP	2.9	7.4	11.9	14.2
Gross domestic savings/GDP	0.9	2.0	9.1	8.3
Gross national savings/GDP	1.1	4.5	13.8	13.1
Current account balance/GDP	-7.0	-8.4	-1.6	-3.5
Interest payments/GDP	0.1	0.6	0.8	0.7
Total debt/GDP	12.9	46.5	64.3	58.3
Total debt service/exports	23.3	22.7	15.2	12.4
Present value of debt/GDP	..	..	32.6	..
Present value of debt/exports	..	..	195.7	..

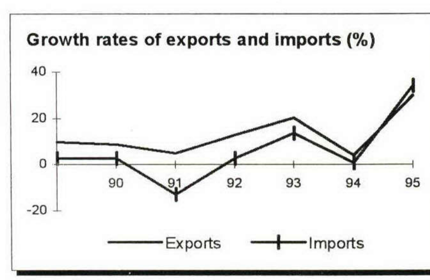
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	4.9	4.1	4.2	4.7	4.8
GNP per capita	2.3	2.1	2.8	2.6	2.5
Exports of goods and nfs	6.8	10.2	4.1	30.1	8.4



STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	62.0	41.8	29.7	30.9
Industry	11.6	16.0	17.7	17.6
Manufacturing	7.0	9.9	9.8	9.6
Services	26.4	42.3	52.6	51.5
Private consumption	95.9	90.6	76.6	77.9
General government consumption	3.2	7.3	14.3	13.7
Imports of goods and non-factor services	8.1	18.3	18.2	22.5



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	3.5	2.2	0.3	-1.0
Industry	4.7	6.2	7.8	8.4
Manufacturing	3.1	5.5	7.8	8.6
Services	6.5	5.0	5.8	6.9
Private consumption	..	..	5.1	14.2
General government consumption	..	..	8.3	1.0
Gross domestic investment	9.5	3.4	16.7	3.1
Imports of goods and non-factor services	7.9	2.8	0.9	34.1
Gross national product	4.8	4.2	4.7	4.5

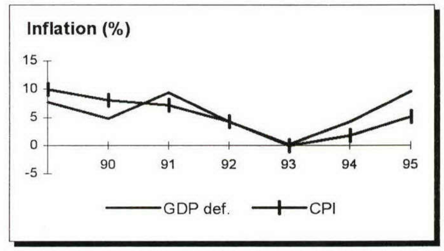


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

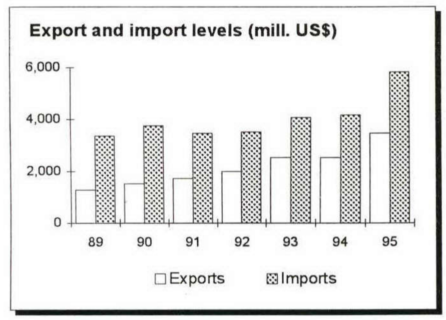
	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	21.9	10.7	1.8	5.2
Implicit GDP deflator	..	11.1	4.3	9.7
Government finance				
(% of GDP)				
Current revenue	..	8.5	12.2	12.1
Current budget balance	..	1.3	6.1	6.4
Overall surplus/deficit	..	-9.1	-6.0	-6.8



Inflation (%)

TRADE

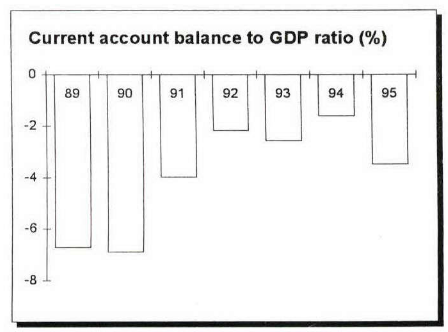
	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	940	2,534	3,473
Other agriculture	..	151	57	..
Shrimp, fish and froglegs	..	70	211	306
Manufactures	..	506	1,737	2,356
Total imports (cif)	..	2,647	4,191	5,834
Food	..	601	131	500
Fuel and energy	..	359	323	407
Capital goods	..	691	1,300	1,303
Export price index *(1987=100)*	..	74	101	..
Import price index *(1987=100)*	..	104	101	..
Terms of trade *(1987=100)*	..	71	99	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

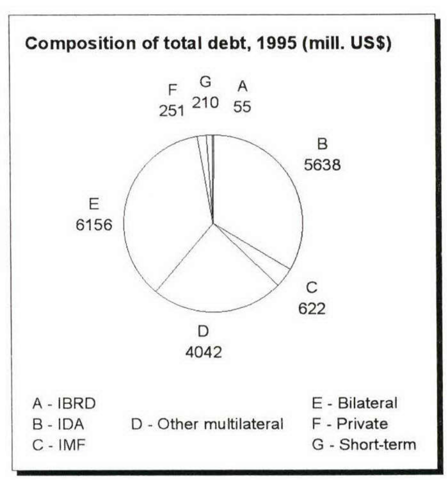
	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	427	1,162	3,057	4,130
Imports of goods and non-factor services	1,459	2,864	4,693	6,545
Resource balance	-1,033	-1,702	-1,636	-2,415
Net factor income	-6	-90	-30	-41
Net current transfers	35	477	1,247	1,426
Current account balance, before official transfers	-1,003	-1,314	-420	-1,030
Financing items (net)	1,048	1,237	1,045	1,304
Changes in net reserves	-45	77	-625	-274
Memo:				
Reserves including gold *(mill. US$)*	148	356	2,852	3,070
Conversion rate *(local/US$)*	8.9	26.0	40.0	40.2



Current account balance to GDP ratio (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	1,841	7,278	16,569	16,974
IBRD	55	55	58	55
IDA	295	2,021	5,378	5,638
Total debt service	104	360	653	679
IBRD	0	3	7	8
IDA	2	22	71	83
Composition of net resource flows				
Official grants	315	472	759	800
Official creditors	576	603	730	445
Private creditors	-3	-3	-11	0
Foreign direct investment	0	0	11	125
Portfolio equity	0	0	47	22
World Bank program				
Commitments	205	398	597	356
Disbursements	91	288	412	197
Principal repayments	0	6	37	46
Net flows	91	282	375	151
Interest payments	1	20	43	46
Net transfers	90	262	332	105



Composition of total debt, 1995 (mill. US$)

Bangladesh - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*		*Planned*[a]	
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	183.8	238.8	321.2	614.2	412.0	570.0	485.0
Sector (%)[b]							
Agriculture	0.0	43.1	0.0	1.6	12.1	17.5	0.0
Education	0.0	4.4	0.0	25.9	0.0	17.5	0.0
Electric Pwr & Engy.	0.0	0.0	0.0	38.3	2.4	35.1	27.8
Environment	0.0	51.0	0.0	0.0	0.0	29.8	0.0
Finance	0.0	0.0	32.7	0.0	0.0	0.0	0.0
Industry	1.7	1.4	0.0	0.0	0.0	0.0	0.0
Oil & Gas	65.7	0.0	0.0	0.0	0.0	0.0	20.6
Popultn, Hlth & Nutn	32.5	0.0	0.0	0.0	48.5	0.0	20.6
Public Sector Mgmt.	0.0	0.0	.9	0.0	9.7	0.0	0.0
Telecommunications	0.0	0.0	0.0	1.6	0.0	0.0	0.0
Transportation	0.0	0.0	41.4	32.6	27.2	0.0	30.9
Water Supply & Santn	0.0	0.0	25.0	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	1.7	1.4	.9	0.0	0.0	0.0	0.0
Specific investment loans and others	98.3	98.6	99.1	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	55.6	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	231.7	226.6	314.6	26.9	217.8	154.2	61.4
Repayments (US$m)	41.6	50.2	56.7	8.0	0.0	0.0	0.0
Interest (US$m)	43.6	46.2	44.8	3.9	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Bangladesh

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**463.0**	**389.0**	**227.8**	**423.1**	**540.1**	**459.7**	**253.0**	**171.5**	**597.1**	**183.8**	**238.8**
By Sector											
Agriculture	50.0	20.0	81.5	-	98.5	164.0	49.6	-	-	-	224.9
Human Resources	78.0	-	-	-	159.3	180.0	-	68.0	-	59.8	10.5
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	135.0	47.0	-	262.0	107.3	67.2	-	-	-	120.8	-
Industry & Finance	-	-	11.4	25.0	175.0	3.5	28.4	-	250.3	3.2	3.4
Infrastructure & Urban Development	**-**	**132.0**	**134.9**	**133.6**	**-**	**45.0**	**-**	**-**	**346.8**	**-**	**-**
Transportation Sector	-	102.0	87.3	133.6	-	45.0	-	-	346.8	-	-
Urban Development	-	-	47.6	-	-	-	-	-	-	-	-
Water Supply & Sanitation	-	30.0	-	-	-	-	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**200.0**	**190.0**	**-**	**2.5**	**-**	**-**	**175.0**	**103.5**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**200.0**	**190.0**	**-**	**177.5**	**177.3**	**3.5**	**152.9**	**103.5**	**250.3**	**3.2**	**3.4**
Structual Adjustment Loan	200.0	-	-	-	-	-	150.0	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	190.0	-	177.5	177.3	3.5	2.9	103.5	250.3	3.2	3.4
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**263.0**	**199.0**	**227.8**	**245.6**	**362.8**	**456.2**	**100.1**	**68.0**	**346.8**	**180.6**	**235.4**
Technical Assistance Loan	-	-	-	-	-	-	25.0	-	-	-	-
Sector Investment and Maintenance Loan	-	-	-	-	53.9	-	-	-	146.8	-	-
Specific Investment Loan	263.0	199.0	227.8	220.6	308.9	456.2	49.6	68.0	200.0	180.6	235.4
Financial Intermediary Loan	-	-	-	25.0	-	-	25.5	-	-	-	-
Emergency Recovery Loan	-	-	-	-	-	-	-	-	-	-	-

India

INDIA

Economic growth and poverty. For the third year in a row, GDP is estimated to have grown by about 7 percent in the fiscal year 1996-97, placing India among the world's best performing economies. At $2.6 billion in 1996-97, foreign direct investment is 16 times higher than when the economy was liberalized but remains substantially lower than its East Asian neighbors. India has reduced poverty from about half the population in 1947 to about one-third today; but with population growth, the absolute number of poor has risen, and **more than 312 million Indians live below the poverty line**. Growth, and better provision of health and education are central to reducing poverty further. If the 6-7 percent growth rates of the past three years are sustained and income distribution does not worsen, poverty could plummet from its current rate of 35 percent to 6.3 percent by 2005.

Internal differences affect pace of reforms. Prime Minister Gujral's United Front minority coalition government, an eclectic mix of 14 leftist, regional, and caste-based parties, is committed to pushing economic reforms forward. But due to internal differences within the coalition, the government has not been able to muster backing for key proposals such as as reducing subsidies, reforming the insurance sector, and privatization at a desirable pace. Nonetheless, in 1997, there has been substantial progress in further liberalizing foreign direct and portfolio investment; facilitating private investment in ports, roads, and coal mining; and trade liberalization.

ISSUES AND THE WORLD BANK'S RESPONSE

Population and health. India suffers tremendous problems in public health and population growth. Although India has succeeded in reducing its birth rate from 6 children per woman to 3.2 children per woman, it ranks first in the world in terms of the number added to its population each year–about 16 million. Maternal mortality rates remain high, accounting for 25 percent of the world's child birth-related deaths. About 32 million of India's 105 million children remained out of school in 1993. In the population and reproductive health sector, the Bank financed four population projects totaling about US$188 between 1972-1986. Since then, Bank Group-Government of India collaboration has been stepped up, with approval of five more population projects and a **Child Survival and Safe Motherhood (CSSM)** Project totaling about US$645 million, and a **Reproductive and Child Health Project** for US$265 million was approved in FY97. The objective of each of these projects has been to strengthen the capacity of the family welfare and health systems to deliver better quality services more equitably. Since 1991, the Bank has significantly increased its emphasis on health sector, development through a two pronged approach. First, the Bank supports high priority programs to reduce the spread of significant diseases such as the **National AIDS Control Project** (FY92, IDA $84 million), the **National Leprosy Elimination Project**, (FY93, IDA $85 million). Secondly, the Bank supports strengthening performance of state health systems and expanding access to health services through the **Andhra Pradesh First-Referral Health Systems Project** (FY94, IDA $133 million); and the **State Health Systems II Project** (FY96, IDA $350 million), which is the largest health sector credit the Bank has financed.

Child labor. An estimated 44 million children below the age of 14 are working in India, and about 100,000-200,00 are working in hazardous industries. This is a highly sensitive issue in India. The Government of India has enacted comprensive legislation and the state governments have mounted numerous initiatives. The Bank has no comparative advantage in strengthening or enforcement of their child labor laws–indeed, such interventions would likely be resented. The Bank's approach involves strengthening pre-school programs to give young children a greater likelihood of eventually attending school; target working children in IDA-assisted basic education projects to help get them out of the workplace and into schools; and improve invome earning opportunities for women in families with working children. For example, in one primary education project under preparation, in Bihar, we are doing social assessment work that will help us design measures to try to get children out of work and into school; and we are supporting income earning opportunities for poor women through several agriculture projects, such as the **Rural Women's Development and Empowerment Project**. And in the **National Sericulture Project**, we undertook a study of child labor in the Karnataka State silk industry to determine the magnitude of the child labor problem and worked with the state government and NGOs to get these children into school.

Power sector issues. India's state electricity boards are estimated to lose more than $2 billion each year. A sustainable solution to the sector's problems entails a full restructuring of the state electricity boards, including tariff reform, incorporation of public utilities, privatization of distribution and independent regulation. Under the Orissa Power Sector Restructuring Project, the State of Orissa has pioneered these reforms with support from the Bank (FY96, $350 million IBRD), and other state electricity board reform projects are under preparation. The Bank is supporting the government's efforts to reform the coal sector and is helping **Coal India, Ltd.**–the country's largest public sector enterprise and supplier of 90 percent of India's coal–restructure its operations. Coal is India's least-cost source of energy and meets two-thirds of its energy needs. IDA is providing a $63 million credit for a Coal Sector Environmental and Social Mitigation Project (CSESMP) to implement high-priority environmental and social mitigation programs and to strengthen Coal India's capacity to deal more effectively with environmental and social issues. Effective implementation of the CSESMP is linked to the $535 million IBRD loan for a Coal Sector Rehabilitation Project scheduled to go to the Board on September 9. Some NGOs argue that there is insufficient progress of CSESMP to move forward with the CSRP. A Request for Inspection by the Inspection Panel has been received from residents of Singrauli who assert that they have been adversely affected by a Bank-supported project under implementation by the **National Thermal Power Corporation**. The Inspection Panel has visited the site and on September 4, the Board will discuss the Panel's recommendation and whether or not to go ahead with a full inspection.

State-level reform. Greater action is needed at the level of the states which are responsible for provision and regulation of key infrastructure and social services. India's states face three crises: fiscal, infrastructure, and human resource development. In its sector work and lending programs, the Bank is working increasingly at the level of the states and has adopted a new lending approach to state level reform. The starting point of this approach are state-level economic reviews which provide the basis for articulating with the state government the policy framework within which the Bank's lending will take place, and the main fiscal, pricing, and regulatory reforms underpinning it. The first State Economic Restructuring Project to restructure public expenditure in Andhra Pradesh is currently under preparation and is scheduled to be presented to the Board in FY98. It is a multi-sector investment operation designed to finance high priority investment in infrastructure and social sectors.

Corruption and governance. Corruption and governance problems are growing concerns in India and a recurrent theme in the press. India ranked among the top ten most corrupt countries rated in Transparency International's 1997 survey. An anti-corruption cell has been set up in the Prime Minister's office which functions as a clearing house to receive complaints and forward them to investigating agencies and not as an investigating body. The election commissioner has recently called for immediate legislative and administrative measures to check the growing criminalization of politics. To promote greater transparency in Bank-financed projects, the Bank is providing training on procurement, and the government has agreed to use the same principles of international competitive bidding in non-Bank projects and in its national competitive bidding process.

INDIA AND THE WORLD BANK

Bank portfolio. India is one of the Bank's oldest members and is the Bank's largest single borrower, with cumulative lending of around $49 billion at the end of FY97 ($19.1 billion IBRD and $23.2 IDA). India is also the top IDA borrower. Lending in FY97 totaled $1.5 billion for 10 projects ($908 million for IDA, down from $2 billion in FY96 and). The drop was mainly in IBRD lending due to increased reliance on policy-based investment operations in project preparation. The disbursement ratio of 18 percent is still below that of other major borrowers, but is a sizable improvement over the FY92-96 average of 14 percent. This change can be attributed to stronger monitoring in recent years and state level implementation and pipeline reviews by the Delhi Office. Plans for joint Bank/Government action affecting the rate of project implementation are brought to the attention of Mr. Wolfensohn and the Finance Minister for six monthly reviews. The shift of country management to the fieldhas strengthened this process. The energy sector accounts for the largest share of the portfolio, followed by agriculture and irrigation. The youngest and fastest growing segment is directed to human resources. **Continued access to IDA resources** is a major concern for India. This is an issue under discussion by the Bank's Board; however, we anticipate continued IDA access over the next few years.

IFC Portfolio. IFC's held portfolio is US$855 million ranking it IFC's third largest country exposure, and representing approximately 8.0% of IFC's total held portfolio as of June 30, 1997. Gross approvals in FY97 (US$212 million) witnessed a significant turnaround after a decline in the previous fiscal year (US$101 million). IFC's particular accomplishments in India are:

- **Support to Infrastructure**: IFC has been involved in the Indian power sector since the late 1980s when it financed Tata Electric Co. and Ahmedabad Electric Co. Since then, IFC has strongly supported the Government's reform program by approving 3 of the 8 "fast track" projects, and a project which supports energy efficiency in the power sector (Asian Electronics Ltd.). Currently, IFC is processing an investment in the Infrastructure Development Finance Corp., a specialized financial intermediary to finance infrastructure.

- **Catalytic Role in Financial Sector:** Pioneering role in India's housing finance and banking sectors by establishing first housing finance institution (HDFC), and the first private bank (Global Trust Bank). Assisted in establishment of leasing and international venture capital industries through policy advice to GOI.

- **Promotion of Export Sector:** Supported several projects in the export sector, both directly and through a credit line through the Exim Bank of India.

The FY98 high probability pipeline is strong, and consists of core infrastructure projects (power, telecom and transportation sectors; we are currently appraising our first toll road project in India) and a continuing diversification into important social sectors such as healthcare and education. In advisory services, we are currently advising the Government of Kerala in the water supply sector and the Government of Gujarat in the ports sector. The Government requested the World Bank/IFC's Foreign Investment Advisory Service (FIAS) to assist in the development of a suitable institutional framework for investment promotion. FIAS has planned to visit India in October 1997 to continue discussions.

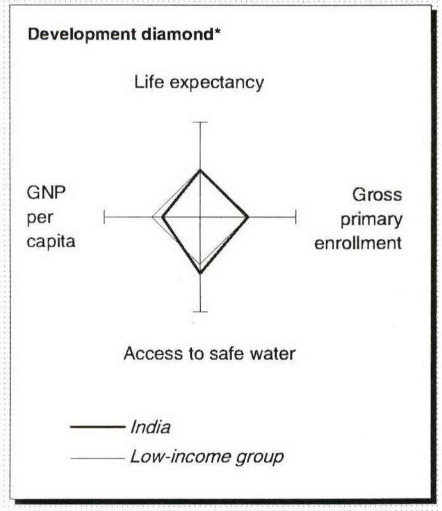
MIGA PORTFOLIO. India became a member of the Multilateral Investment Guarantee Agency (MIGA) in January 1994. MIGA has not issued any guarantees for investments in India so far, but it is working on several prospective projects including several for Indian firms interested in investing overseas.

India at a glance

4/21/97

POVERTY and SOCIAL

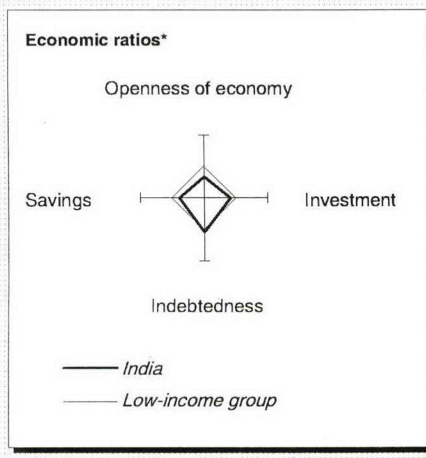
	India	South Asia	Low-income
Population mid-1995 *(millions)*	929.4	1,243	3,180
GNP per capita 1995 *(US$)*	340	350	430
GNP 1995 *(billions US$)*	319.7	433	1,382
Average annual growth, 1990-95			
Population *(%)*	1.8	1.9	1.7
Labor force *(%)*	2.0	2.1	1.7
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	27	26	29
Life expectancy at birth *(years)*	62	61	63
Infant mortality *(per 1,000 live births)*	68	75	69
Child malnutrition *(% of children under 5)*	63	..	..
Access to safe water *(% of population)*	63	63	53
Illiteracy *(% of population age 15+)*	48	50	34
Gross primary enrollment *(% of school-age population)*	105	98	105
Male	113	110	112
Female	91	87	98



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

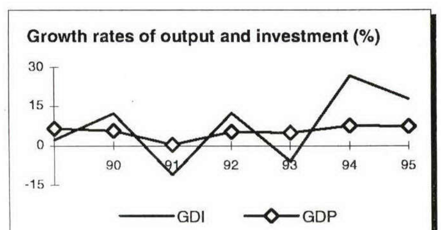
	1975	1985	1994	1995
GDP *(billions US$)*	91.0	214.3	303.7	328.3
Gross domestic investment/GDP	20.8	24.2	24.0	26.2
Exports of goods and non-factor services/GDP	6.2	6.0	10.8	12.1
Gross domestic savings/GDP	20.4	21.1	22.2	23.5
Gross national savings/GDP	20.6	21.6	22.7	24.1
Current account balance/GDP	0.0	-2.8	-0.9	-1.9
Interest payments/GDP	0.3	0.6	1.2	1.2
Total debt/GDP	15.1	19.1	33.4	28.6
Total debt service/exports	13.1	22.7	26.3	28.1
Present value of debt/GDP	..	..	23.3	22.8
Present value of debt/exports	..	..	181.2	160.8

	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	4.0	5.5	7.6	7.3	6.4
GNP per capita	1.7	3.3	5.5	5.4	4.9
Exports of goods and nfs	4.1	10.7	3.6	29.9	10.1

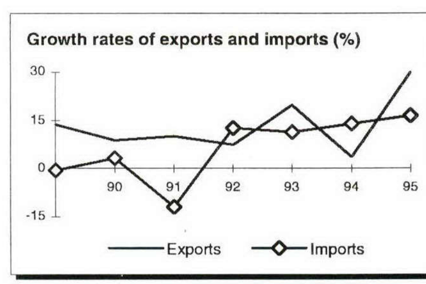


STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	40.5	33.0	30.1	27.9
Industry	23.7	28.1	28.6	30.1
Manufacturing	16.7	17.9	18.2	19.7
Services	35.8	38.8	41.3	42.1
Private consumption	70.2	67.8	67.3	65.9
General government consumption	9.4	11.1	10.5	10.6
Imports of goods and non-factor services	6.6	9.1	12.6	14.8



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	2.4	3.6	4.6	-0.1
Industry	5.2	6.5	9.4	11.6
Manufacturing	5.4	6.5	10.2	13.6
Services	4.9	6.6	7.5	8.8
Private consumption	4.4	4.8	4.4	2.7
General government consumption	6.2	4.3	1.8	5.1
Gross domestic investment	3.7	6.2	26.8	17.9
Imports of goods and non-factor services	9.3	5.0	14.1	16.6
Gross national product	4.0	5.3	7.3	7.2

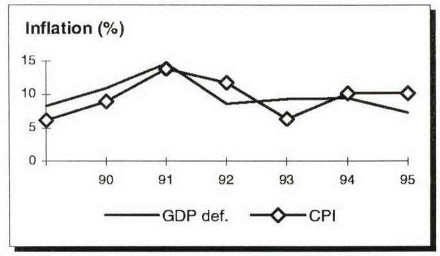


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

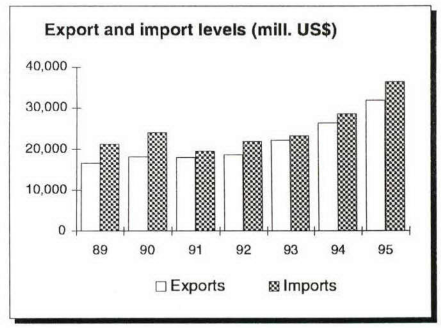
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	5.6	10.2	10.2
Implicit GDP deflator	-1.5	7.5	9.5	7.3
Government finance				
(% of GDP)				
Current revenue	..	23.8	23.8	24.1
Current budget balance	..	2.2	-0.1	0.2
Overall surplus/deficit	..	..	..	..



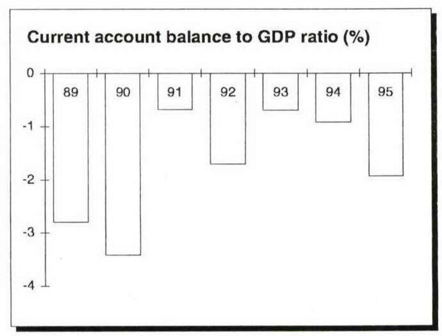
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	8,793	26,330	31,783
Tea	..	512	311	350
Iron	..	473	413	518
Manufactures	..	5,640	21,088	24,483
Total imports (cif)	..	15,957	28,654	36,354
Food	..	1,321	1,464	1,243
Fuel and energy	..	4,054	5,681	7,201
Capital goods	..	3,502	5,567	6,577
Export price index *(1987=100)*	..	94	106	99
Import price index *(1987=100)*	..	90	111	121
Terms of trade *(1987=100)*	..	104	95	81



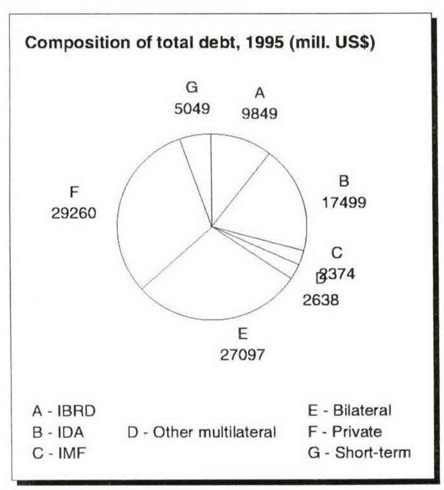
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	5,650	12,773	32,760	39,636
Imports of goods and non-factor services	5,990	19,422	38,150	48,540
Resource balance	-340	-6,649	-5,390	-8,904
Net factor income	-150	-1,552	-3,621	-4,945
Net current transfers	470	2,207	6,200	7,480
Current account balance, before official transfers	-20	-5,994	-2,811	-6,369
Financing items (net)	20	6,542	8,495	2,645
Changes in net reserves	0	-548	-5,684	3,724
Memo:				
Reserves including gold *(mill. US$)*	2,065	7,073	21,855	18,090
Conversion rate *(local/US$)*	8.7	12.2	31.4	33.5



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	13,708	40,960	101,501	93,766
IBRD	436	2,396	11,120	9,849
IDA	2,809	9,750	17,666	17,499
Total debt service	822	3,532	10,257	13,123
IBRD	89	313	1,595	1,714
IDA	24	124	315	357
Composition of net resource flows				
Official grants	511	450	612	556
Official creditors	1,260	1,424	893	-867
Private creditors	83	2,277	1,078	775
Foreign direct investment	85	106	620	1,300
Portfolio equity	0	0	4,729	1,517
World Bank program				
Commitments	917	2,882	2,066	1,697
Disbursements	531	1,375	1,708	1,318
Principal repayments	63	157	1,021	1,170
Net flows	467	1,218	687	149
Interest payments	50	280	889	901
Net transfers	417	938	-202	-752



India - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*		*Planned*[a]	
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	2063.5	2077.7	1529.5	2980.6	3010.0	3285.0	2125.0
Sector (%)[b]							
Agriculture	25.5	14.0	23.1	14.9	0.0	23.0	18.1
Education	12.6	20.5	0.0	6.4	5.6	15.2	0.0
Electric Pwr & Engy.	0.0	16.8	0.0	23.0	3.3	18.3	16.5
Environment	8.1	6.8	3.3	5.9	0.0	3.0	0.0
Finance	33.9	9.9	0.0	0.0	0.0	0.0	0.0
Mining	0.0	3.0	0.0	17.9	0.0	0.0	0.0
Popultn, Hlth & Nutn	6.4	16.8	37.6	6.7	19.3	16.1	11.3
Public Sector Mgmt.	0.0	0.0	0.0	16.8	0.0	0.0	0.0
Transportation	0.0	0.0	36.1	8.4	34.9	18.3	16.5
Urban Development	0.0	0.0	0.0	0.0	16.6	0.0	0.0
Water Supply & Santn	13.4	12.1	0.0	0.0	20.3	6.1	37.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	1.8	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	98.2	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	259.6	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	1523.3	1309.5	1563.3	87.1	1280.0	1155.4	895.2
Repayments (US$m)	1062.3	1148.6	1070.0	155.1	0.0	0.0	0.0
Interest (US$m)	906.7	886.0	792.1	73.7	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

India

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**2,368.3**	**2,805.6**	**2,972.2**	**3,036.6**	**1,940.4**	**2,049.4**	**2,191.5**	**2,681.7**	**928.8**	**2,114.8**	**2,077.7**
By Sector											
Agriculture	977.1	267.0	710.0	652.0	315.0	475.8	243.0	369.7	382.4	526.4	432.9
Human Resources	51.0	-	57.0	404.6	452.5	413.1	377.5	944.0	206.4	393.3	775.2
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	485.0	1,330.0	905.0	1,225.0	583.0	650.0	765.0	964.0	-	-	350.0
Industry & Finance	752.2	340.0	360.0	505.0	500.0	245.0	-	12.0	-	700.0	268.0
Infrastructure & Urban Development	**103.0**	**868.6**	**940.2**	**250.0**	**89.9**	**109.9**	**306.0**	**92.0**	**340.0**	**275.8**	**251.6**
Transportation Sector	-	119.6	390.0	250.0	-	-	306.0	-	94.0	-	-
Urban Development	62.0	150.0	550.2	-	-	-	-	-	246.0	-	-
Water Supply & Sanitation	41.0	254.0	-	-	89.9	109.9	-	92.0	-	275.8	251.6
Telecommunications & Informatics	-	345.0	-	-	-	-	-	-	-	-	-
Environment	-	-	-	-	-	155.6	-	-	-	219.3	-
Multi-Sector	-	-	-	-	-	-	**500.0**	**300.0**	-	-	-
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	-	-	-	-	-	-	**650.0**	**800.0**	-	-	-
Structual Adjustment Loan	-	-	-	-	-	-	500.0	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	150.0	800.0	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**2,368.3**	**2,805.6**	**2,972.2**	**3,036.6**	**1,940.4**	**2,049.4**	**1,541.5**	**1,877.7**	**928.8**	**2,063.5**	**2,077.7**
Technical Assistance Loan	-	-	-	-	-	-	-	32.0	-	-	142.0
Sector Investment and Maintenance Loan	651.2	817.0	690.2	505.0	200.0	155.6	-	-	-	126.0	-
Specific Investment Loan	1,342.1	1,988.6	1,322.0	2,531.6	1,740.4	1,683.8	1,541.5	1,845.7	682.8	1,237.5	1,935.7
Financial Intermediary Loan	375.0	-	610.0	-	-	-	-	-	-	700.0	-
Emergency Recovery Loan	-	-	350.0	-	-	210.0	-	-	246.0	-	-

Nepal

NEPAL

Slow progress on reforms. Each of the three governments since November 1994 has lacked the political strength to push forward with the program of structural and fiscal reforms initiated between 1991 and 1994–most notably, expansion of revenues and prioritization of expenditures on the fiscal side, and privatization, financial sector, and civil service reform on the structural side. So far, no agreement has been reached with the IMF on an ESAF program (to replace the one which lapsed in October 1995).

Political instability. The political situation in Nepal continues to be highly volatile. In the last two years, three coalition governments have been in power. The ruling three-party coalition (UML, RPP and NSP) headed by Prime Minister Lokendra Bahadur Chand was sworn in on March 12, 1997 following the March 6 loss in Parliament of a vote of confidence sought by former Prime Minister Sher Bahadur Deuba. The government has remained shaky from the outset due to simmering divisions within both the RPP and UML, and the opposition Nepal Congress Party seeks a new alliance to unseat the government.

ISSUES AND THE WORLD BANK RESPONSE

Poverty reduction and human development. Nepal remains one of the poorest countries in the world, with a per capita income of about US$210. Nepal has seen an improvement in its social indicators over the past two decades–especially in enrollment ratios for primary education. Life expectancy at birth during 1980-95 increased from 47 years to 56 for women and from 49 years to 57 for men. Access to safe water has also increased from 11 percent of the population in 1980 to 48 percent in 1994-1995. Notwithstanding this progress, many social indicators remain well below the average for the South Asia region. Nepal's population is growing rapidly at 2.5 percent per annum, and population density with respect to arable land (around 600 persons per square kilometer) is one of the highest in the world. About three quarters of the adult population is illiterate. To expand access to basic social services, the Bank is supporting two operations to expand access to education: the **Basic and Primary Education** (FY92, IDA $30.6 million) and Higher Education (FY94, IDA $20 million) and the **Population and Family Health Project** (FY94, IDA $26.7 million)–the first IDA-supported health project in Nepal.

Power. As only 9 percent of the population has access to electricity, an insufficient and unreliable power supply continues to hinder economic growth. Nepal has developed only 250 megawatts of the 50,000 megawatts or more of economically exploitable power. Following the decision not to proceed with the Arun III hydropower project, the Bank began preparation of a **Nepal Power Development Project.** Following the appraisal mission in July 1997 there is now agreement with the Government on all outstanding issues, and the project is expected to go to the Board in November 1997. The project aims to optimize the use of Nepal's hydropower potential and supplement private and other public financing available for the development of Nepal's power sector. This project will help meet the domestic demand for electricity and to export power where possible. IFC has strongly supported the development of private sector power projects in Nepal by approving the following three run-of-the river hydro projects in the last three years, i.e., (i) Himal Power; (ii) Bhote Koshi; and (iii) Khimti Khola. These three projects would increase Nepal's existing generating capacity of around 280 MW by about 56 percent.

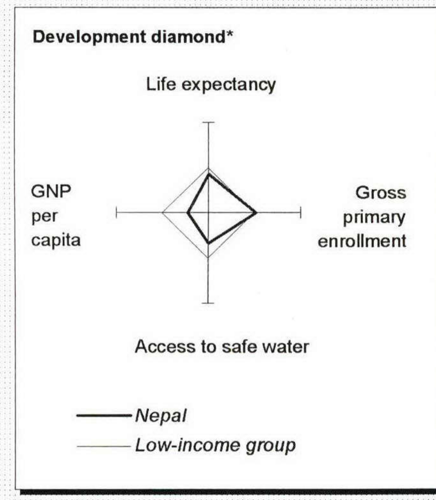
NEPAL AND THE WORLD BANK

The strained relations which resulted from the Bank's cancellation of the Arun project have improved over the past year. Lending efforts have intensified: after zero new credits in FY95 and FY96 and a single credit of about $18 million in FY97, the Bank is processing four new operations for a total of about $300 million in the next few months. This includes a power development project of $175 million (with a power development fund of $100 million). The FY97 portfolio consisted of 13 projects, down from 15 in FY96 and 22 in FY95. The FY97 portfolio had a value of US$490.3 million equivalent, all in IDA credits. The agriculture and irrigation sector accounted for the largest share (26 percent), followed by education (17.3 percent), water supply and sewerage (16 percent), energy (13 percent), and telecommunications (11.2 percent). Transportation, and population, health, and nutrition represented 10.3 percent and 5.4 percent of the portfolio respectively. Compared with FY96, this represents a sizable increase in the shares (from 38.5 percent in FY97 to 42.5 percent in FY97) of the agriculture and water portfolio. The disbursement ratio on IDA-supported projects rose to an all time high of 20.4 percent in FY97.

Role of IFC. IFC's current held portfolio in Nepal is US$31.58 million with an exposure of 0.3 percent relative to IFC's total held portfolio as of June 30, 1997. Gross approvals in FY97 were only US$1.3 million. However, the FY98 high probability pipeline, with approximately US$28.5 million for IFC's own account and US$70.7 million for the account of participants, seems promising and includes investments in hotel and cement projects. IFC's areas of focus over the medium-term will be: (i) hydro-power projects; (ii) telecom projects; (iii) cement; (iv) advisory and privatization work that supports the reform program in infrastructure and the financial sector; (v) financial institutions/capital markets projects, and (vi) given the Bank's initiative in agriculture, IFC will also explore opportunities in this sector.

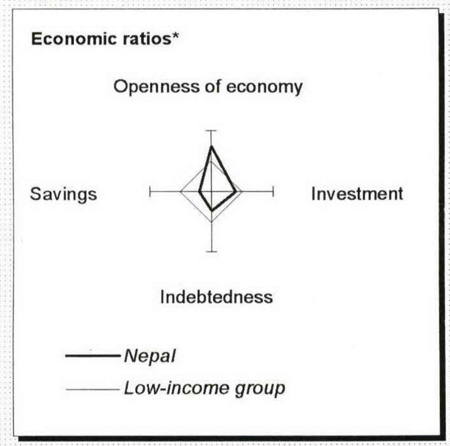
Nepal at a glance

POVERTY and SOCIAL	Nepal	South Asia	Low-income
Population mid-1995 *(millions)*	21.4	1,243	3,188
GNP per capita 1995 *(US$)*	210	350	460
GNP 1995 *(billions US$)*	4.6	435	1,466
Average annual growth, 1990-95			
Population *(%)*	2.5	1.9	1.8
Labor force *(%)*	2.5	2.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	14	26	29
Life expectancy at birth *(years)*	55	61	63
Infant mortality *(per 1,000 live births)*	92	73	58
Child malnutrition *(% of children under 5)*	70	62	38
Access to safe water *(% of population)*	51	81	75
Illiteracy *(% of population age 15+)*	73	50	34
Gross primary enrollment *(% of school-age population)*	107	98	105
Male	129	110	112
Female	87	87	98

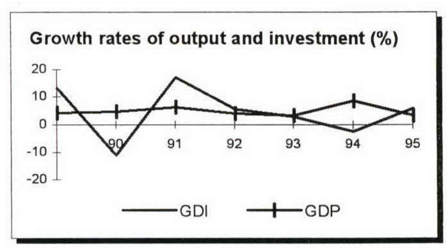


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	1.6	2.6	4.0	4.5
Gross domestic investment/GDP	14.5	21.9	22.4	23.5
Exports of goods and non-factor services/GDP	8.9	11.5	23.9	24.3
Gross domestic savings/GDP	10.0	13.4	14.7	12.4
Gross national savings/GDP	11.1	16.2	16.9	14.9
Current account balance/GDP	-2.8	-7.1	-5.8	-8.7
Interest payments/GDP	0.0	0.3	0.7	0.7
Total debt/GDP	2.1	22.6	57.5	56.9
Total debt service/exports	1.1	6.8	7.6	7.8
Present value of debt/GDP	..	..	27.8	..
Present value of debt/exports	..	..	104.6	..

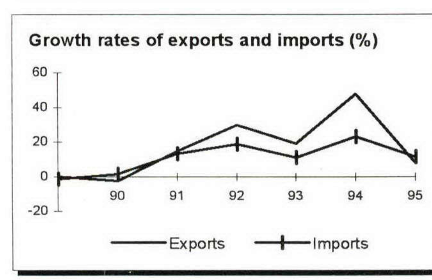
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	2.9	4.8	8.6	3.4	5.0
GNP per capita	0.3	2.3	6.1	1.2	2.5
Exports of goods and nfs	..	9.8	48.0	8.1	2.3



STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	71.8	51.7	43.1	41.8
Industry	8.2	15.1	21.7	22.4
Manufacturing	4.2	5.7	9.5	9.6
Services	20.1	33.2	35.2	35.8
Private consumption	82.4	77.2	77.3	79.4
General government consumption	7.6	9.4	8.0	8.2
Imports of goods and non-factor services	13.4	20.0	31.6	35.4



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	1.7	3.0	7.6	-0.3
Industry	..	7.8	9.0	3.2
Manufacturing	..	9.5	12.3	2.0
Services	..	5.9	7.2	5.7
Private consumption	..	5.4	6.0	5.2
General government consumption	..	4.3	-0.8	5.4
Gross domestic investment	..	4.1	-2.4	5.8
Imports of goods and non-factor services	..	8.7	23.4	11.6
Gross national product	3.0	4.8	8.3	3.6

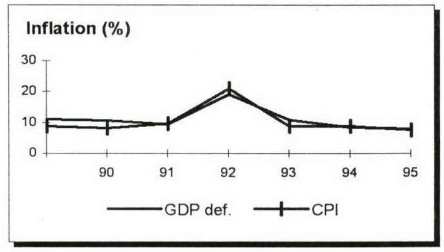


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

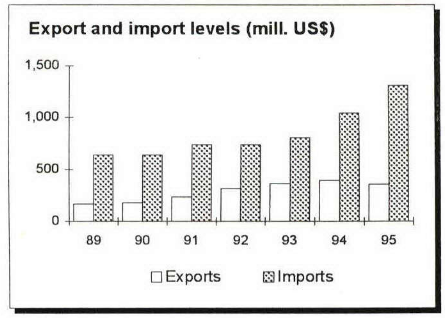
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	7.6	8.1	8.8	7.7
Implicit GDP deflator	27.5	11.4	8.5	8.1
Government finance				
(% of GDP)				
Current revenue	6.0	8.4	9.8	11.2
Current budget balance	2.7	2.2	3.6	2.4
Overall surplus/deficit	-1.3	-7.5	-7.0	-6.6



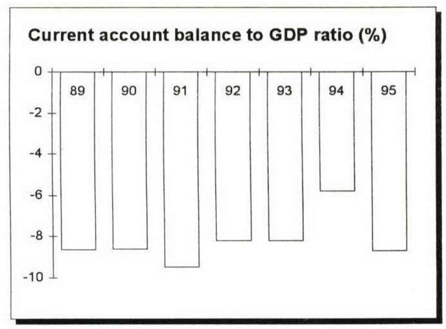
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	161	392	359
Food	..	59	24	33
Pulses	..	6	7	9
Manufactures	..	67	121	103
Total imports (cif)	..	457	1,047	1,312
Food	..	44	120	156
Fuel and energy	..	24	98	94
Capital goods	..	133	204	259
Export price index *(1987=100)*	..	..	91	97
Import price index *(1987=100)*	..	..	57	58
Terms of trade *(1987=100)*	..	..	161	168



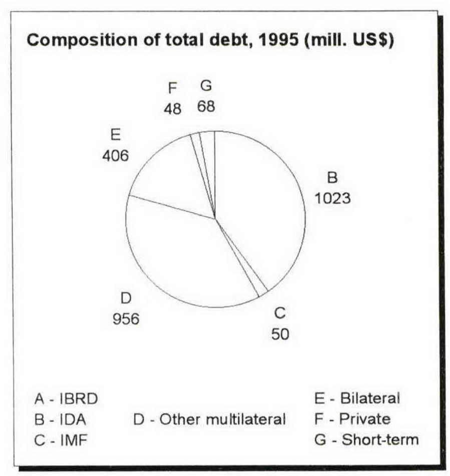
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	139	301	965	1,068
Imports of goods and non-factor services	209	522	1,278	1,556
Resource balance	-71	-221	-313	-488
Net factor income	10	0	12	5
Net current transfers	16	37	66	91
Current account balance, before official transfers	-44	-184	-235	-391
Financing items (net)	13	136	369	399
Changes in net reserves	32	49	-135	-8
Memo:				
Reserves including gold *(mill. US$)*	114	105	752	..
Conversion rate *(local/US$)*	10.6	17.9	49.3	49.9



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	34	590	2,320	2,551
IBRD	0	0	0	0
IDA	6	236	932	1,023
Total debt service	2	23	82	94
IBRD	0	0	0	0
IDA	0	2	12	14
Composition of net resource flows				
Official grants	8	77	171	175
Official creditors	8	91	161	214
Private creditors	0	6	-10	-13
Foreign direct investment	0	1	7	8
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	131	101	0
Disbursements	2	33	76	81
Principal repayments	0	0	5	7
Net flows	2	33	71	74
Interest payments	0	2	7	7
Net transfers	2	31	64	67



IBRD/IDA Lending Summary FY86-96

Nepal

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**34.5**	**109.1**	**71.2**	**199.0**	**47.2**	**60.0**	**150.6**	**28.0**	**97.2**	**-**	**-**
By Sector											
Agriculture	24.5	59.1	41.3	30.5	47.2	-	-	28.0	-	-	-
Human Resources	-	-	-	34.2	-	-	30.6	-	46.7	-	-
Public Sector Management	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	14.4	-	-	-	65.0	-	-	-	-
Industry & Finance	10.0	-	-	-	-	-	-	-	-	-	-
Infrastructure & Urban Development	**-**	**-**	**15.5**	**74.3**	**-**	**60.0**	**55.0**	**-**	**50.5**	**-**	**-**
Transportation Sector	-	-	15.5	32.8	-	-	-	-	50.5	-	-
Urban Development	-	-	-	41.5	-	-	-	-	-	-	-
Water Supply & Sanitation	-	-	-	-	-	60.0	-	-	-	-	-
Telecommunications & Informatics	-	-	-	-	-	-	55.0	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**-**	**50.0**	**-**	**60.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**50.0**	**-**	**60.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Structual Adjustment Loan	-	50.0	-	60.0	-	-	-	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	-	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**34.5**	**59.1**	**71.2**	**139.0**	**47.2**	**60.0**	**150.6**	**28.0**	**97.2**	**-**	**-**
Technical Assistance Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Investment and Maintenance Loan	-	-	-	-	-	-	-	-	-	-	-
Specific Investment Loan	24.5	59.1	55.7	116.2	47.2	60.0	150.6	28.0	97.2	-	-
Financial Intermediary Loan	10.0	-	-	-	-	-	-	-	-	-	-
Emergency Recovery Loan	-	-	15.5	22.8	-	-	-	-	-	-	-

Nepal - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*	*Planned*[a]		
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	0.0	0.0	18.3	227.0	260.0	110.0	105.0
Sector (%)[b]							
Agriculture	0.0	0.0	0.0	13.2	30.8	50.0	71.4
Education	0.0	0.0	0.0	0.0	13.5	0.0	14.3
Electric Pwr & Engy.	0.0	0.0	0.0	77.1	0.0	0.0	0.0
Multisector	0.0	0.0	0.0	0.0	17.3	0.0	0.0
Popultn, Hlth & Nutn	0.0	0.0	0.0	0.0	0.0	27.3	0.0
Public Sector Mgmt.	0.0	0.0	0.0	0.0	19.2	0.0	0.0
Social Sector	0.0	0.0	0.0	0.0	0.0	0.0	14.3
Transportation	0.0	0.0	0.0	9.7	19.2	22.7	0.0
Water Supply & Santn	0.0	0.0	100.0	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	0.0	0.0	100.0	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	78.6	82.4	58.4	3.9	22.7	10.7	4.5
Repayments (US$m)	6.8	7.3	8.4	.2	0.0	0.0	0.0
Interest (US$m)	6.9	7.7	7.7	.2	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.
[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.
[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

Pakistan

PAKISTAN

Political and economic situation. As a result of poor macro management, poor governance, and allegations of corruption, Benazir Bhutto's government was removed from office in late 1996. In the face of impending fiscal and balance of payment crises, the new pro-business Government of Prime Minister Nawaz Sharif took office in February and quickly set in motion a multi-year reform program to accelerate growth, contain inflation, and improve Pakistan's balance of payments with support from the Bank and the IMF. This has helped avert the threat of balance of payment difficulties. Markets have reacted favorably to these reforms, which recently culminated in a PFP and ESAF expected to be considered by the IMF Board in October.

Economic growth during the past five years has averaged below 5 percent per year, but slowed to about 3 percent in 1996-97 due to weak performance in agriculture and large-scale manufacturing. The government has recently taken significant steps to contain expenditures and reduce the fiscal deficit (from an estimated 6.1 percent of GDP in 1996-97 to a budgeted 5.0 percent of GDP in 1997-98) and is also implementing reforms to reduce distortions and improve administration of the tax system. Initial work on government restructuring (down-sizing) was very rapid, but implementation will be slower because retrenchment is difficult and labor unions are resisting. There has been a recent deterioration of law and order due to political and sectarian violence.

ISSUES AND THE WORLD BANK'S RESPONSE:

Poverty reduction and human development. Average incomes per capita have climbed in real terms by about 70 percent over the past two decades, reaching about $490 in 1996. Even given this strong growth performance, over a third of the population still lives below the poverty line. With a $200 million credit from IDA, the government launched the **Social Action Program** (SAP) in 1992 which has helped expand access to social services and improve extremely low social indicators. For example, from 1993 to 1996, primary school enrollment increased from 64 to 69 percent. From 1991 to 1996, family planning use among women rose from 12 percent to 22 percent. Examples of specific education projects include the **Sindh Primary Education Development Project** (FY90, IDA $120.5 million) and **the Balochistan Primary Education Program** (FY93, IDA$106 million) which are increasing access, quality of instruction, community and parent participation, and efficiency and management of primary education, with special emphasis on girls in rural areas and urban slums.

Corruption and governance. Corruption and governance problems continue to be pervasive in Pakistan. Pakistan has been rated among the worst five in Transparency International's past two surveys on corruption. The new government, which came to power on an anti-corruption election plank, has taken steps to address corruption by dismissing government officials on charges of corruption and misconduct. The government also has initiated strong action to expedite the accountability process through the abolition of block budgetary allocation and termination of quotas for such items as public sector employment, plots of land, and access to educational institutions. The government has initiated a "no bribery pledge" and has requested the Bank to modify standard bidding documents to include a clause which states that contractors competing for business under international competitive bidding must pledge that they will pay no bribes in Pakistan or outside the country in connection with Pakistani international competitive bidding. The Bank is also helping by providing an IDF grant and its advice for reform of Pakistan's national procurement rules and is providing training on procurement.

Financial sector. In the banking sector, non-performing loans have quadrupled over the past seven years and amount to about 30 percent of the system's total portfolio, due to extensive political interference in lending and collections, and systematic bail-out of key industries. The government has developed a comprehensive program to restore the banking sector's solvency and integrity and overcome the sector's severe structural weaknesses. The Bank's ongoing **Financial Sector Deepening and Intermediation Project** (FY94, IBRD $214.5 million) is providing technical assistance for the institution-building aspects of the program, and has been restructured to provide more support for privatization. With strong implementation of the program in the context of credible macroeconomic adjustment, the Bank is prepared to provide further support through banking sector adjustment operations. Crowding out of private investment has left small and medium enterprises starved for capital. **IFC** is therefore extending a $40 million credit line to leasing companies for the benefit of SMEs and is developing instruments to reach micro enterprises through a project with the Agha Khan Fund for Economic Development.

Privatization. Pakistan's privatization/private infrastructure program is considered the strongest in Asia. Building on a strong track record during 1996 when a number of important transactions were completed and others brought to an advanced stage, the government is expected to complete a number of additional major transactions this year. Progress has been particularly strong in the power sector, where private investment of $5 billion has been committed. To help continue the success of Pakistan's privatization program, the Bank is assisting the government with a program that includes hastening the build-up of capacities of the power, gas, and telecommunications regulatory authorities to provide a proper environment for privatization, deregulation and private sector investment. The Bank has provided support for the commercialization and eventual privatization of portions of the National Power Authority, creation of a **Private Sector Energy Development Fund** (FY88, IBRD $150) to support joint ventures; restructuring and privatization of the telecommunication sector through the **Telecommunications Regulation and Privatization Support Project** (FY96, IBRD $35 million), and innovative use of the Bank's guarantee in the **Hub River Project** and the **Uch Power Project** to attract commercial financing in the energy sector.

PAKISTAN AND THE WORLD BANK GROUP

Bank Portfolio. Since 1952, the World Bank has approved 88 loans and 137 credits for Pakistan, totaling more than $11 billion. The composition of Bank lending has shifted significantly in recent years, reflecting an increasing emphasis on human resource development, power generation and distribution, and agricultural development. As of the end of FY97, the Bank's portfolio in Pakistan included 42 projects totaling about $4.3 billion, 52.2 percent of which were IBRD commitments and 47.8 percent were IDA. The weak policy performance and creditworthiness concerns of the past year led to a drop in lending and a plan to use a the low-base case lending scenario.

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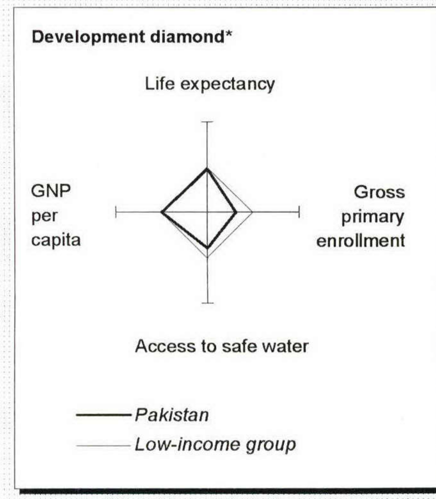
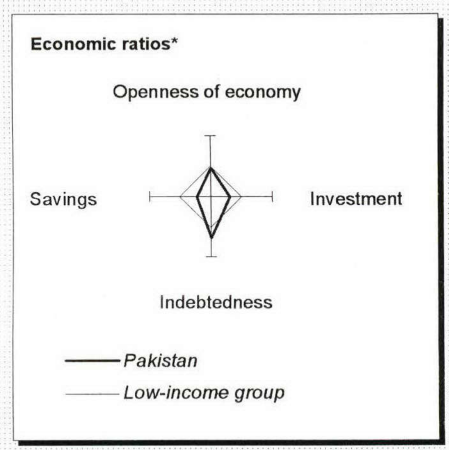
Pakistan at a glance

POVERTY and SOCIAL	Pakistan	South Asia	Low-income
Population mid-1995 *(millions)*	129.7	1,243	3,188
GNP per capita 1995 *(US$)*	460	350	460
GNP 1995 *(billions US$)*	59.5	435	1,466
Average annual growth, 1990-95			
Population *(%)*	2.9	1.9	1.8
Labor force *(%)*	3.3	2.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	34	..	..
Urban population *(% of total population)*	35	26	29
Life expectancy at birth *(years)*	60	61	63
Infant mortality *(per 1,000 live births)*	90	73	58
Child malnutrition *(% of children under 5)*	40	62	38
Access to safe water *(% of population)*	59	81	75
Illiteracy *(% of population age 15+)*	62	50	34
Gross primary enrollment *(% of school-age population)*	65	98	105
Male	80	110	112
Female	49	87	98

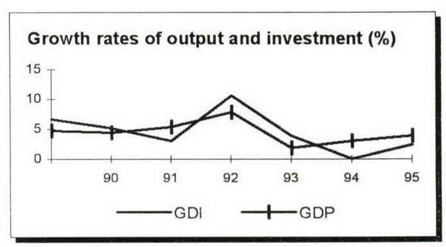


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	11.3	31.1	52.0	60.5
Gross domestic investment/GDP	16.2	18.3	19.5	18.5
Exports of goods and non-factor services/GDP	10.9	11.2	17.8	16.8
Gross domestic savings/GDP	4.9	6.7	16.0	14.4
Gross national savings/GDP	6.1	23.9	16.2	14.6
Current account balance/GDP	-10.4	-5.4	-3.8	-4.0
Interest payments/GDP	0.9	1.0	1.5	1.6
Total debt/GDP	50.7	42.9	56.9	52.2
Total debt service/exports	20.6	24.2	34.8	..
Present value of debt/GDP	..	..	42.4	..
Present value of debt/exports	..	..	223.9	..

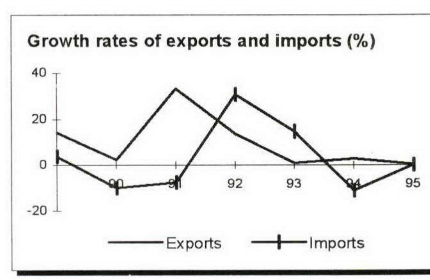
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	6.7	5.2	3.1	3.9	5.8
GNP per capita	4.5	1.2	0.1	0.8	1.2
Exports of goods and nfs	9.1	10.2	3.1	0.6	7.0



STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	32.0	28.5	25.1	25.9
Industry	23.4	22.5	25.1	25.3
Manufacturing	16.7	15.9	17.6	17.1
Services	44.5	49.0	49.8	48.8
Private consumption	84.4	81.2	71.9	73.4
General government consumption	10.6	12.1	12.1	12.2
Imports of goods and non-factor services	22.2	22.8	21.3	20.9



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	4.5	3.8	2.9	5.9
Industry	7.1	6.7	4.6	3.6
Manufacturing	8.0	6.4	5.4	2.9
Services	7.0	5.2	3.8	4.1
Private consumption	5.8	4.0	1.3	8.6
General government consumption	6.8	4.2	-3.4	0.7
Gross domestic investment	7.2	4.8	0.1	2.4
Imports of goods and non-factor services	4.9	3.1	-10.8	0.4
Gross national product	7.7	4.3	2.9	5.0

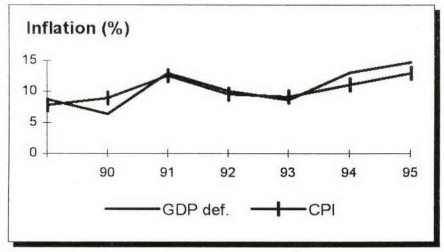


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

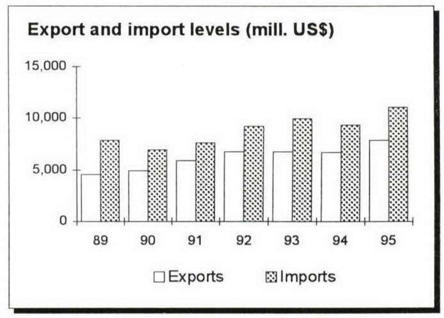
	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	20.9	5.6	11.2	13.0
Implicit GDP deflator	24.1	4.6	13.1	14.8
Government finance				
(% of GDP)				
Current revenue	..	17.0	17.3	17.3
Current budget balance	..	-0.8	-5.9	-5.6
Overall surplus/deficit	..	-7.8	-6.9	-6.7



Inflation (%)

TRADE

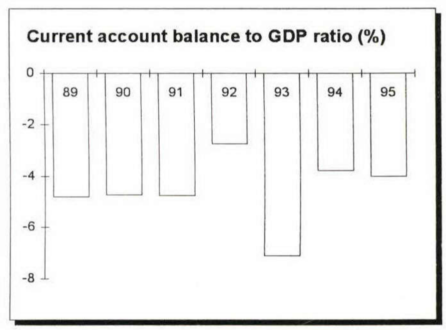
	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	2,457	6,685	7,883
Rice	..	279	242	454
Cotton	..	222	80	62
Manufactures	..	1,922	6,482	7,367
Total imports (cif)	..	6,531	9,329	11,050
Food	..	..	917	1,626
Fuel and energy	..	1,398	1,400	1,586
Capital goods	..	..	3,515	3,867
Export price index *(1987=100)*	..	..	..	..
Import price index *(1987=100)*	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

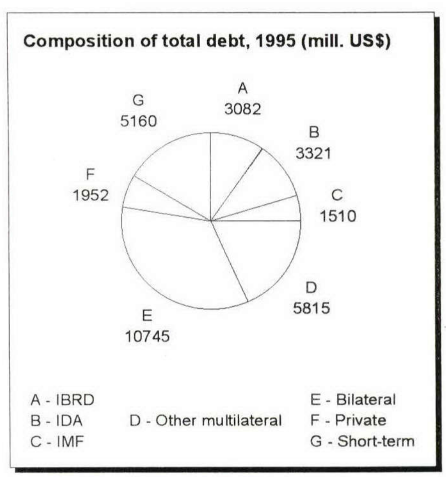
	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	1,231	3,247	8,309	9,672
Imports of goods and non-factor services	2,539	7,113	11,066	12,742
Resource balance	-1,308	-3,867	-2,757	-3,070
Net factor income	-95	-506	-1,597	-1,729
Net current transfers	229	2,688	2,390	2,397
Current account balance, before official transfers	-1,175	-1,685	-1,964	-2,402
Financing items (net)	1,051	637	3,549	2,649
Changes in net reserves	124	1,048	-1,585	-247
Memo:				
Reserves including gold *(mill. US$)*	563	1,429	3,101	3,535
Conversion rate *(local/US$)*	9.9	15.2	30.1	30.8



Current account balance to GDP ratio (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	5,753	13,371	29,579	31,585
IBRD	283	435	2,934	3,082
IDA	484	1,391	3,054	3,321
Total debt service	306	1,417	3,423	3,649
IBRD	38	61	383	436
IDA	6	21	51	59
Composition of net resource flows				
Official grants	185	257	199	205
Official creditors	708	450	1,485	897
Private creditors	18	-170	-108	762
Foreign direct investment	25	131	430	409
Portfolio equity	0	0	1,334	106
World Bank program				
Commitments	98	689	993	514
Disbursements	81	170	637	525
Principal repayments	20	39	210	254
Net flows	61	131	427	271
Interest payments	24	43	224	242
Net transfers	37	89	203	29



Composition of total debt, 1995 (mill. US$)

Pakistan - Bank Group Fact Sheet
IBRD/IDA Lending Program

Category	*Past*		*Current*		*Planned*[a]		
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	706.0	459.9	84.8	632.8	285.0	605.0	350.0
Sector (%)[b]							
Agriculture	3.5	5.8	66.0	56.9	26.3	36.4	0.0
Education	21.2	0.0	0.0	3.6	0.0	0.0	28.6
Electric Pwr & Engy.	35.4	76.1	0.0	0.0	0.0	4.1	14.3
Environment	0.0	0.0	0.0	0.0	0.0	8.3	0.0
Finance	30.6	0.0	0.0	0.0	0.0	0.0	0.0
Popultn, Hlth & Nutn	9.2	5.8	0.0	0.0	0.0	16.5	28.6
Public Sector Mgmt.	0.0	0.0	34.0	0.0	0.0	5.8	0.0
Social Sector	0.0	0.0	0.0	39.5	24.6	0.0	0.0
Telecommunications	0.0	7.6	0.0	0.0	0.0	0.0	0.0
Transportation	0.0	0.0	0.0	0.0	22.8	28.9	0.0
Urban Development	0.0	4.7	0.0	0.0	0.0	0.0	28.6
Water Supply & Santn	0.0	0.0	0.0	0.0	26.3	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	146.6	-.6	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	544.1	521.9	644.7	39.5	423.9	179.4	59.5
Repayments (US$m)	235.0	260.8	259.7	15.6	0.0	0.0	0.0
Interest (US$m)	234.0	241.9	226.3	9.1	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.
[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.
[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

IBRD/IDA Lending Summary FY86-96

Pakistan

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**650.2**	**591.1**	**466.9**	**949.4**	**825.8**	**677.1**	**324.2**	**428.9**	**741.5**	**706.0**	**459.9**
By Sector											
Agriculture	230.0	42.1	130.9	274.4	207.3	103.6	29.2	54.2	-	24.9	26.7
Human Resources	40.2	145.0	-	-	112.5	45.0	115.0	154.0	200.0	215.1	26.7
Public Sector Management	-	-	-	-	-	-	-	-	296.8	-	-
Energy	90.0	91.0	150.0	250.0	322.0	218.0	180.0	-	230.0	250.0	350.0
Industry & Finance	220.0	54.0	96.0	300.0	-	82.4	-	-	-	216.0	-
Infrastructure & Urban Development	**70.0**	**252.0**	**90.0**	**125.0**	**184.0**	**228.1**	**-**	**91.9**	**-**	**-**	**56.5**
Transportation Sector	-	152.0	-	-	184.0	91.4	-	-	-	-	-
Urban Development	70.0	-	90.0	-	-	-	-	-	-	-	21.5
Water Supply & Sanitation	-	-	-	125.0	-	136.7	-	91.9	-	-	-
Telecommunications & Informatics	-	100.0	-	-	-	-	-	-	-	-	35.0
Environment	-	-	-	-	-	-	-	28.8	14.7	-	-
Multi-Sector	**-**	**7.0**	**-**	**-**	**-**	**-**	**-**	**100.0**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**70.0**	**-**	**-**	**600.0**	**-**	**28.0**	**-**	**-**	**250.0**	**-**	**-**
Structual Adjustment Loan	-	-	-	-	-	-	-	-	250.0	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	70.0	-	-	600.0	-	28.0	-	-	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**580.2**	**591.1**	**466.9**	**349.4**	**825.8**	**649.1**	**324.2**	**428.9**	**491.5**	**706.0**	**459.9**
Technical Assistance Loan	-	7.0	-	-	-	-	-	-	-	-	35.0
Sector Investment and Maintenance Loan	-	100.0	175.5	150.0	296.5	284.5	29.2	106.0	46.8	150.0	-
Specific Investment Loan	210.2	430.1	291.4	199.4	379.3	338.6	295.0	222.9	444.7	90.0	424.9
Financial Intermediary Loan	370.0	54.0	-	-	150.0	26.0	-	-	-	466.0	-
Emergency Recovery Loan	-	-	-	-	-	-	-	100.0	-	-	-

Sri Lanka

SRI LANKA

Signs of economic recovery. Sri Lanka's economic potential has not been fully realized due to a history of ethnic conflict, political unrest, and stop-and-go economic policies. Its economy has grown at an average of about 4 percent per year over the past 20 years. In 1996 economic growth slowed to 3.8 percent (the slowest rate since 1989) due to the effects of a prolonged drought on agriculture and hydroelectric generation and a decline in tourism (revenues fell 30 percent) caused by the political unrest. The slow growth of the economy was reflected in a weakening of both exports and imports, with the current account deficit falling to 5 percent of GDP in 1996. A recovery is now underway, with a pick up in economic growth, exports, and tourist arrivals, and an upturn in the stock market. The upturn is partly a result of a change in domestic policies starting in late 1996. The government is seeking IMF support under a new three-year ESAF arrangement–an indication of the government's commitment to medium-term adjustment. In collaboration with the IMF, the Bank is promoting fiscal stability and structural reform through work on a PFP and technical assistance *inter alia* in the areas of civil service reform and privatization.

Civil conflict. The civil war waged by Tamil separatists in the country's north and east since 1983 has exacted a heavy toll on human lives and the economy. *In the event of peace or a substantial reduction in military action, the Bank expects to play a lead role in coordination of international reconstruction assistance.* President Chandrika Kumaratunga announced a nationwide referendum to adopt a constitution aimed at delegating considerable authority to the Tamil dominated North East to bring an end to the ethnic conflict which has killed more than 50,000 people. She has also announced steps to implement the use of Tamil as an official language as a confidence building measure to boost minority confidence in the government. Kumaratunga's People's Alliance has just a one-seat majority in the 225-member national assembly and must win the support of the main opposition UNP to push the reforms. The medium-term political outlook for the country looks fairly optimistic with a possible and long-awaited return to peace and stability in time for the country's golden jubilee fifty year anniversary celebrations in February 1998.

ISSUES AND THE WORLD BANK'S RESPONSE:

Poverty and human development. Sri Lanka has a per capita income of about US$700. The incidence of poverty has been reduced over the past three decades, although 22 percent of families are still below the poverty line. Despite its low per capita income, social indicators have improved dramatically over the past 25 years matching those of much more advanced economies. Literacy and primary school enrollment are virtually universal. Infant mortality rates have fallen from 48 per 1,000 live births in 1970 to 16 per 1,000 in 1994, comparing favorably to the average of 58 per 1,000 live births in other low income countries. Life expectancy at birth has climbed from 67 for females and 65 for males in the 1970s to 76 and 72 in 1994, respectively. The maternal mortality rate dropped from 90 per 100,000 live births in 1980 to 30 in 1994. Total fertility rates have declined from 4 births per woman in the early 1970s to 2.4 per woman–near replacement level. But some areas still need attention. The incidence of malaria has increased, and undernutrition in young children persists. Sri Lankan women are on average economically and socially better off than those in most other parts of the region, but there are still notable gender disparities. The **Sri Lanka Health Services Development Project** (FY97, IDA $18.8 million) is helping the country address its existing and emerging health problems including malnutrition, malaria, and HIV/AIDS. The **Teacher's Education and Deployment** project (FY96, IDA $64.1 million) is helping to improve the quality of teacher training and instruction.

High fiscal deficits remain a concern. A 40 percent increase in military spending in 1996 contributed to a worsening of the fiscal situation. A general sales tax is scheduled for implementation in early 1998 to protect government revenues, but comprehensive reforms are needed to restructure expenditures, namely through title control of the wage and pension bills, tighter targeting of social welfare programs, and a strengthening of budgetary expenditure and public sector management.

Financial sector. There have been improvements in the financial sector in recent years, especially in the capital markets. But the system continues to be shallow and inefficient, largely because it is dominated by the two state commercial banks. The Bank and Sri Lanka are working to strengthen the banking system and private and state insurance companies. If policy reforms are forthcoming, the Bank will provide support for financial sector reform. IFC has completed numerous pioneering projects which have deepened and diversified the local financial sector such as Union Assurance Ltd., a private insurance company, Pyramid Unit Trust, a domestic mutual fund, Lanka Orix Leasing Co., the first leasing leasing company and Lanka Orix Factors, the first factoring company.

Private sector development. The Bank has been providing technical assistance to the Government of Sri Lanka to carry out an important privatization program which culminated in divestiture of a 35 percent stake in Sri Lanka Telecom last month. With World Bank support, the Public Enterprise Reform Committee is now actively engaged in designing a second wave of privatization for the next few years. The government plans to use the proceeds of these privatization endeavors to retire public debt. The Bank is supporting private sector development through the **Private Sector Infrastructure Development Project** (FY96, IDA $77 million) which has established a long-term lending facility and provides technical assistance to promote significant participation by the private sector in infrastructure investments. **IFC** participated in the first private power project, Asia Power, in Sri Lanka in 1996, which contributed to establishing a framework for private participation in power that should increase the pace of implementation of other private power projects in the country. IFC is also currently in discussions in two other infrastructure projects, a port refurbishment project with P&O and John Keels Holdings and Lanka Bell Ltd. wireless loop telecom project sponsored by Transmarco/GTE.

THE WORLD BANK AND SRI LANKA

Since joining the Bank in 1950, Sri Lanka, a blend country, has received about $2.3 billion for 84 projects, with roughly $2.1 billion in IDA lending. In FY97, Sri Lanka received a total of $0.16 billion for three projects, all in IDA funding. The largest share of IDA's current portfolio in value terms is public sector management (30.6 percent), followed by Education (13.1 percent) and Agriculture (10.5 percent). Power accounts for 8.6 percent of the portfolio.

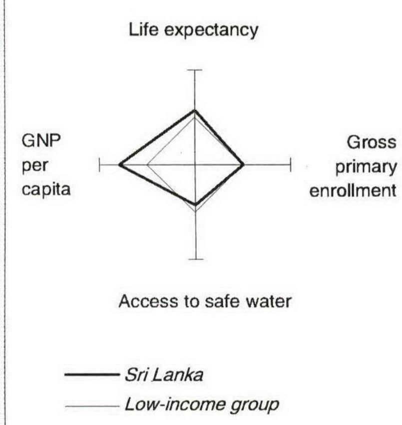
Role of IFC. IFC's held portfolio was US$27.4 million as of June 30, 1997. IFC approved three projects in FY97 totaling US$4.9 million; Packages Lanka (general manufacturing), Lanka Orix Factors (capital markets), and the Asia Power swap transactions. Dependent upon the resolution of civil war, IFC's strategy is to focus on infrastructure projects, particularly, ports, power and telecommunication. As in the past, IFC will help deepen Sri Lanka's capital markets by developing commercial banks, financing leasing companies and venture funds, and credit lines targeted to the small and medium-sized enterprises (SMEs).

Sri Lanka at a glance

2/11/97

POVERTY and SOCIAL	Sri Lanka	South Asia	Low-income
Population mid-1995 *(millions)*	18.1	1,243	3,180
GNP per capita 1995 *(US$)*	700	350	440
GNP 1995 *(billions US$)*	12.6	435	1,399
Average annual growth, 1990-95			
Population *(%)*	1.3	1.9	1.7
Labor force *(%)*	2.0	2.1	1.7
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	22	..	..
Urban population *(% of total population)*	22	26	29
Life expectancy at birth *(years)*	72	61	63
Infant mortality *(per 1,000 live births)*	16	75	69
Child malnutrition *(% of children under 5)*	38	62	41
Access to safe water *(% of population)*	57	63	67
Illiteracy *(% of population age 15+)*	10	50	34
Gross primary enrollment *(% of school-age population)*	106	100	105
Male	106	110	112
Female	105	87	98

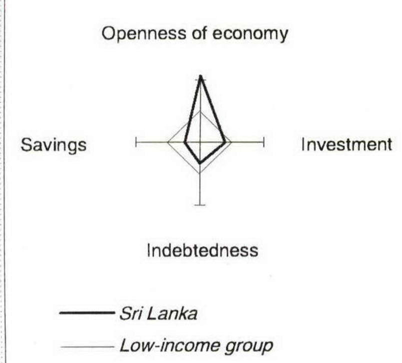
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	3.8	5.9	11.7	12.9
Gross domestic investment/GDP	15.6	22.6	27.0	25.1
Exports of goods and non-factor services/GDP	27.5	26.4	33.8	35.9
Gross domestic savings/GDP	8.1	10.4	15.2	14.1
Gross national savings/GDP	9.4	19.2	20.6	19.6
Current account balance/GDP	-2.9	-7.1	-6.4	-4.2
Interest payments/GDP	0.5	2.0	1.1	1.0
Total debt/GDP	21.5	60.2	67.3	63.7
Total debt service/exports	26.1	16.5	8.2	7.3
Present value of debt/GDP	..	..	40.8	43.1
Present value of debt/exports	..	..	99.7	99.5

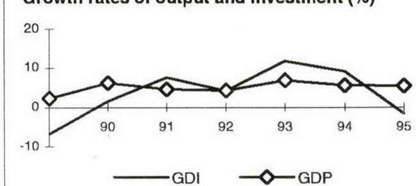
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	5.3	4.4	5.6	5.4	4.9
GNP per capita	3.7	2.7	3.9	4.4	..
Exports of goods and nfs	*4.7*	9.0	13.0	6.4	7.3

Economic ratios*



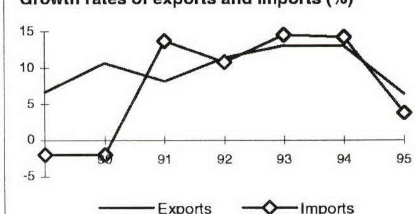
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	30.4	27.7	23.8	23.0
Industry	26.4	26.2	24.7	25.1
Manufacturing	20.1	14.7	15.4	15.7
Services	43.2	46.1	51.5	51.9
Private consumption	82.6	79.2	75.1	74.0
General government consumption	9.3	10.4	9.7	11.8
Imports of goods and non-factor services	35.0	38.6	45.6	46.9

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	4.3	1.8	3.3	3.3
Industry	5.3	5.6	8.1	7.7
Manufacturing	4.1	7.6	9.1	9.2
Services	6.6	4.8	5.2	5.1
Private consumption	*6.1*	4.1	5.7	7.1
General government consumption	4.1	3.5	12.2	-1.1
Gross domestic investment	14.4	2.3	9.2	-1.7
Imports of goods and non-factor services	*13.2*	5.5	14.2	3.8
Gross national product	5.5	4.1	5.3	5.9

Growth rates of exports and imports (%)

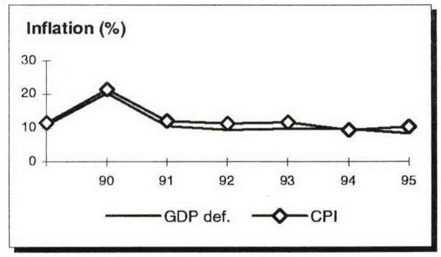


Note: 1995 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

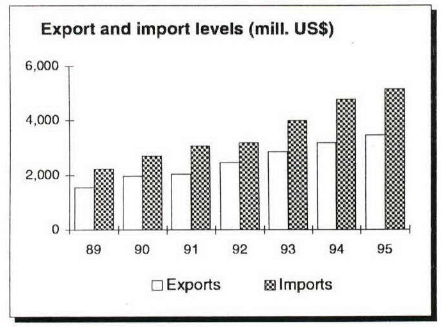
	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	6.6	1.5	9.5	10.4
Implicit GDP deflator	5.4	-1.1	9.7	8.4
Government finance				
(% of GDP)				
Current revenue	..	22.7	19.0	20.7
Current budget balance	..	2.3	-2.9	-2.0
Overall surplus/deficit	..	-11.9	-10.0	-9.7



Inflation (%)

TRADE

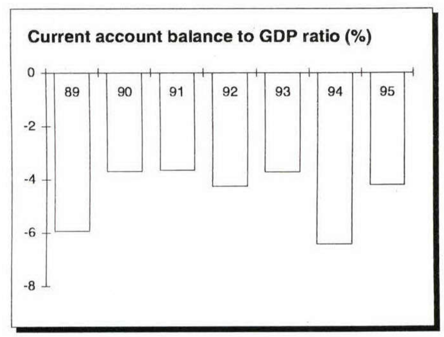
	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	1,333	3,189	3,472
Tea	..	442	420	383
Other agricultural goods	..	94	278	295
Manufactures	..	233	2,131	2,440
Total imports (cif)	..	1,948	4,768	5,145
Food	..	217	589	631
Fuel and energy	..	404	296	321
Capital goods	..	382	1,358	1,430
Export price index *(1987=100)*	..	96	119	121
Import price index *(1987=100)*	..	86	148	155
Terms of trade *(1987=100)*	..	111	80	78



Export and import levels (mill. US$)

BALANCE of PAYMENTS

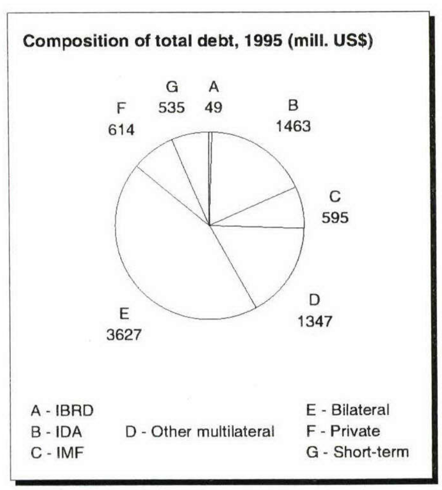
	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	632	1,561	3,955	4,629
Imports of goods and non-factor services	804	2,296	5,335	5,876
Resource balance	-172	-734	-1,379	-1,247
Net factor income	-18	-127	-167	-138
Net current transfers	80	443	794	841
Current account balance, before official transfers	-110	-419	-753	-544
Financing items (net)	84	304	1,001	450
Changes in net reserves	26	115	-248	94
Memo:				
Reserves including gold *(mill. US$)*	57	472	2,035	1,910
Conversion rate *(local/US$)*	7.0	27.2	49.4	51.3



Current account balance to GDP ratio (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	815	3,540	7,891	8,230
IBRD	36	61	54	49
IDA	39	397	1,339	1,463
Total debt service	169	320	392	409
IBRD	6	9	13	12
IDA	0	3	16	19
Composition of net resource flows				
Official grants	56	151	160	174
Official creditors	61	297	288	317
Private creditors	-22	44	-49	15
Foreign direct investment	0	26	166	195
Portfolio equity	0	0	112	61
World Bank program				
Commitments	30	137	0	39
Disbursements	19	79	78	106
Principal repayments	3	5	15	15
Net flows	16	74	63	92
Interest payments	3	8	15	16
Net transfers	14	66	48	76



Composition of total debt, 1995 (mill. US$)

IBRD/IDA Lending Summary FY86-96

Sri Lanka

($ millions)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Total IBRD/IDA	**85.0**	**70.6**	**179.5**	**63.7**	**143.4**	**358.6**	**69.5**	**110.1**	**-**	**39.0**	**156.1**
By Sector											
Agriculture	-	18.6	23.5	19.9	-	29.6	14.3	-	-	-	-
Human Resources	15.0	-	17.5	-	49.0	57.5	-	-	-	-	64.1
Public Sector Management	-	-	-	-	-	45.0	-	-	-	-	92.0
Energy	-	52.0	40.5	-	-	-	50.0	-	-	-	-
Industry & Finance	20.0	-	20.0	43.8	-	120.0	-	65.8	-	-	-
Infrastructure & Urban Development	**50.0**	**-**	**78.0**	**-**	**-**	**99.5**	**-**	**44.3**	**-**	**39.0**	**-**
Transportation Sector	-	-	-	-	-	42.5	-	20.0	-	-	-
Urban Development	13.0	-	78.0	-	-	-	-	-	-	39.0	-
Water Supply & Sanitation	37.0	-	-	-	-	-	-	24.3	-	-	-
Telecommunications & Informatics	-	-	-	-	-	57.0	-	-	-	-	-
Environment	-	-	-	-	-	-	-	-	-	-	-
Multi-Sector	**-**	**-**	**-**	**-**	**94.4**	**7.0**	**5.2**	**-**	**-**	**-**	**-**
Technical Assistance	-	-	-	-	-	-	-	-	-	-	-
By Instrument											
Adjustment	**-**	**-**	**-**	**-**	**94.4**	**127.0**	**5.2**	**5.8**	**-**	**-**	**-**
Structual Adjustment Loan	-	-	-	-	94.4	7.0	5.2	-	-	-	-
Debt and Debt Service Reduction Loan	-	-	-	-	-	-	-	-	-	-	-
Sector Adjustment Loan	-	-	-	-	-	120.0	-	5.8	-	-	-
Rehabilitation Loan	-	-	-	-	-	-	-	-	-	-	-
Investment	**85.0**	**70.6**	**179.5**	**63.7**	**49.0**	**231.6**	**64.3**	**104.3**	**-**	**39.0**	**156.1**
Technical Assistance Loan	13.0	-	-	-	-	-	-	-	-	-	15.0
Sector Investment and Maintenance Loan	20.0	-	20.0	-	-	45.0	-	-	-	-	-
Specific Investment Loan	52.0	70.6	81.5	63.7	49.0	186.6	64.3	104.3	-	39.0	64.1
Financial Intermediary Loan	-	-	-	-	-	-	-	-	-	-	77.0
Emergency Recovery Loan	-	-	78.0	-	-	-	-	-	-	-	-

Sri Lanka - Bank Group Fact Sheet
IBRD/IDA Lending Program

	Past			*Current*	*Planned*[a]		
Category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Commitments (US$m)	39.0	156.1	57.8	99.5	160.0	190.0	95.0
Sector (%)[b]							
Agriculture	0.0	0.0	0.0	49.7	25.0	15.8	0.0
Education	0.0	41.1	0.0	50.3	0.0	0.0	0.0
Electric Pwr & Engy.	0.0	0.0	41.9	0.0	31.3	0.0	31.6
Environment	0.0	0.0	25.6	0.0	0.0	0.0	0.0
Finance	0.0	0.0	0.0	0.0	0.0	36.8	0.0
Industry	0.0	0.0	0.0	0.0	0.0	21.1	0.0
Popultn, Hlth & Nutn	0.0	0.0	32.5	0.0	0.0	26.3	68.4
Public Sector Mgmt.	0.0	58.9	0.0	0.0	0.0	0.0	0.0
Transportation	0.0	0.0	0.0	0.0	31.3	0.0	0.0
Urban Development	100.0	0.0	0.0	0.0	12.5	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]	2.0	1.3	1.1	0.0	0.0	0.0	0.0
Specific investment loans and others	93.3	107.6	86.6	7.5	62.7	75.1	42.0
Repayments (US$m)	13.7	15.2	16.2	1.0	0.0	0.0	0.0
Interest (US$m)	15.1	15.6	14.7	.6	0.0	0.0	0.0

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

OTHER TOPICS

Corruption

Corruption Talking Points

Key Messages

The World Bank Group cannot unilaterally purge its borrower countries of corruption. But fighting corruption on three essential fronts—in partnership with national governments, the private sector, international organizations, and civil society—can do much to combat what Jim Wolfensohn has called "*the cancer of corruption*."

How do we define corruption? The Bank, in its recent Task Force paper on corruption, defines it as "the abuse of public office for private gain." The Bank acknowledges corruption exists in the private sector. But it is the public sector which is the Bank's main concern since the Bank lends primarily to governments, and supports government policies, programs, and projects.

1. <u>Tightening up our end of the business</u>

- The Bank has tightened up its procurement rules to ban firms which it determines are, or have, engaged in corruption or fraud.
- We work with borrower countries to incorporate "no bribery pledges" as a legal requirement for companies which bid for public sector contracts. For example, talks are underway with five African countries on this issue.
- An important pilot scheme is exploring ways of changing the way the Bank disburses loan payments: tougher standards for borrowers —but then faster and less bureaucratic disbursement to agencies which can meet the tough new standards, and helping those which cannot as yet satisfy them.
- The Bank now carries out surprise audit checks of projects. It has already conducted a first round of checks in Eastern Europe, Southern Africa, and South Asia.

2. <u>Sharpening Our Attack on Corruption in Borrower Countries</u>

- Raising corruption problems bluntly with government leaders, especially in private sessions with Jim Wolfensohn.
- Recently Mr Wolfensohn announced the delay of a $70 million structural adjustment credit to Kenya due to concern about corruption. The Bank is monitoring events in Kenya closely and fully endorses similar recent action by the IMF.
- Working with countries to develop overall anti-corruption programs. Six countries including the Federation of Bosnia, Georgia, Latvia, and Ukraine, are so far involved in the programs, which promote (a) economic policy reforms which reduce opportunities for bribery and corruption, (b) strengthening institutions, such as a professional civil service, transparent and fair tax agencies, and legal reform, such as more efficient courts and training prosecutors to better target corruption.

- A wide-ranging initiative has been underway for some time by the Bank's training and technical assistance arm, the Economic Development Institute to combat corruption. It consists of training workshops and seminars for parliamentarians, public officials, journalists, and civil society on topics such as "good governance", public integrity, and the practical ingredients of anti-corruption strategies. These activities are underway in Ghana, Jordan, Malawi, Tanzania, Uganda, and Ukraine, and regional seminars have taken place in Africa and the Middle East. Other countries which may join the program include Hungary, Poland, and others in Central America, and South Asia.

- In early September, the Bank Group will release its anti-corruption strategy, (approved by the Board September 2). It will set out the Bank's action plan, explain how we will give sharper anti-corruption focus to economic reform, deregulation and government restructuring, and will also address Bank support for stronger enforcement measures against what Jim Wolfensohn described at last year's Annual Meetings as "the cancer of corruption". The strategy will also set out internal guidelines for Bank staff.

- The Bank coordinates its anti-corruption efforts with the IMF, and later in September, the Development Committee at the Annual Meetings in Hong Kong will review a joint paper on Bank and IMF efforts on the subject of "good governance" and corruption .

3**. Changing the Global Intellectual Climate on Corruption** : Corruption is a global problem, and multilateral efforts are required to complement individual country action.

- Corruption seriously undermines public support in donor countries for continued flows of development assistance, which, in turn, hurts the world's poor.

- The Bank promotes economic reform and open government as the best defense against corruption.

- In the global competition for private capital, reinforcing the message that corruption puts countries at a serious disadvantage in the eyes of investors.

Collaborating with the OECD, the European Union, the United Nations, the Council of Europe, as well as the International Chamber of Commerce, and NGO's such as Transparency International, to persuade industrialized countries to tackle anti-corruption measures such as ending tax deductibility for bribes and criminalizing foreign corruption.

Australia
and WB

AUSTRALIA and the WORLD BANK

IBRD Participation

IBRD Allocated Shares:	1.62%
Potential Voting Power:	1.59%
Unsubscribed Shares:	0
IBRD Paid-in Capital:	US$181.8million

IDA Participation

IDA11/ITF Share:	1.46%
Potential Voting Power:	1.31%
Rank:	11
Cumulative Share:	1.79%

as of June 30, 1997

History of IDA Contributions

	Basic (US$M)	% of Total	Suppl (US$M)		Basic (US$M)	% of Total	Suppl (US$M)		Basic US$M	% of Total	Suppl (US$M)
Initial	20.18	2.50		IDA5	146.90	1.92		IDA8	229.17	1.98	
IDA1	19.80	2.66		IDA6	229.20	1.90		IDA9	292.84	1.99	
IDA2	24.00	2.02		FY84	65.41	3.31		IDA10	262.47	1.46	3.10
IDA3	48.00	1.99		IDA7	178.52	1.96		ITF	54.14	1.46	
IDA4	90.00	1.99		SFA	0.00	0.00		IDA11	80.00	1.46	

Aid Trends

Volume in 1996: US$ 1,093 million **ODA/GNP:** 0.29%

Trend: Australian development assistance fell by 15% from 1995. The ODA/GNP ratio dropped from 0.36% in 1995 to 0.29% in 1996.

Staff on Board

Higher Level (18-30):	87
Managers (level26+):	14

Cofinancing

Ten year volume:	US$119.4 million
SPA3 Pledge:	none
SPA4 Pledge:	none

*/ Unless shown with $,numbers are in donor currency

Procurement

Procurement Share:	Total	IBRD	IDA
FY97:	1.43%	1.17%	1.97%
Cumulative:	1.19%	1.04%	1.58%
Absolute total value:	US$ 1,844 million		

GEF

Core Fund (as of 12/1/96):	US$ 9.68 million
GEF-1 Pledge (as of 8/25/97):	US$ 20.84 million
GEF-1 Contributions Due from Donors:	0

Basic Statistics

Australia

Macro Economic Indicators a/

Population 1996: 18.29 million

Per capita GDP 1996: US$21,490

	1992	1993	1994	1995	1996	*Forecast* 1997
Real GDP Growth Rate	2.6	3.9	5.3	3.7	4	3.5
Unemployment Rate b/	10.7	10.8	9.7	8.5	8.4	8.3
Current Account/GDP %	-3.6	-3.7	-4.7	-5.3	-3.7	-3.9
General Gov't Financial Bal/GDP	-4	-3.8	-4	-2	-1.4	-1
General Gov't Gross Debt/GDP	27.8	31.9	42.6	43.4	43.8	42.7
Average Inflation Rate (CPI)	1	1.8	1.9	4.7	2.6	2.5
Interest Rate (Discount, eop)	6.96	5.83	5.75	5.75	5.75	5.75 /c
Average Exchange Rate (US$/A$)	0.735	0.68	0.732	0.742	0.783	0.754 /c

a/Source: IMF *International Financial Statistics*, and OECD *Economic Outlook* #61,June 1997

b/Source: OECD: 'Standardized Unemployment rate'

c/Latest available

n.a. =not available

Japan
and the WB

Japan and the World Bank

Key Messages

- Point out that *Japan's influence in the Bank is growing*. (However, since the journalist group will be mixed, we do not want to over-emphasize this.)
- Show *awareness and appreciation of Japan's role as top donor to the Bank*. Japan's contributions through the World Bank are *visible*.
- Put PHRD in the context of *what it does for borrowers*, rather than a subsidy to the Bank.
- Begin to raise media interest in the *September visit*; preview the messages of partnership. In particular, *Japan's participation in multilateral development through the Bank is complementary to its bilateral program*.

Background Facts:

- Japan is the **second-largest shareholder in IBRD,** with 8.15 percent of IBRD share allocations (compared with 17 percent for the US and Germany at 4.65 percent). Last year, Japan's allocated share of IBRD capital increased by 2 percent through a special capital increase. Given IBRD's capital structure, this increase in shareholding means that Japan's voting power can also be increased; **on a day-to-day basis, this means Japan has more influence on our Executive Board.**

- With regard to our concessional loan fund, **IDA**, **Japan is historically the second largest contributor,** having provided 17.58 percent of all contributions to IDA since its inception. (In comparison, the United States has provided 23 percent of all such contributions, while Germany has provided just over 11 percent.)

  In the most recent replenishment of IDA, IDA11, Japan's accepted burden share is 18.7 percent, while the US share is 20.86 percent. However, it should be added that **Japan has provided other special contributions as well**, including its share of special funding to the one-year Interim Trust Fund which provided resources for IDA's lending operations during fiscal 1997, and to which the US did not contribute at all.

- Over the past ten years, Japan has been by far the **Bank's largest cofinancing partner,** averaging $1.7 billion per year in cofinancing from both OECF and JEXIM.

- Japan has greatly assisted World Bank borrower governments by providing **grant funding for developing countries' programs** through the Policy and Human Resources Development (PHRD) Trust Fund which is administered by the Bank. This has allowed our borrowers to do the upstream work before our loans come into force, in many very successful and innovative projects, such as:
  - India, where PHRD supported health projects to reduce the incidence of leprosy, blindness, malaria, and tuberculosis;
  - Bolivia's Rural Community Development Program, where PHRD helped the Bolivian Government test methodologies of community participation, which have involved hundreds of active participants at the grassroots and regional levels;
  - Bangladesh, where PHRD funded important preparatory work for the energy sector, including opening up the gas sector to private participation.
  - PHRD also funds graduate studies for selected officials from developing countries for advanced training at leading academic centers throughout the world.

- Japan has provided **support for many World Bank policy and research initiatives**. One well-known example is the East Asian Miracle study undertaken by the Bank in 1993, which has helped to bring the ideas behind Japan's own development success into the mainstream of development policy work. And, at the upcoming Annual meetings, the Development Committee will review an **Action Plan to facilitate Private Involvement in Infrastructure. This responds to a proposal made by Japan at last year's Annual Meetings.**

- As you know, **Japan was a borrower from the World Bank until 1966,** and the Bank provide a total of 31 loans ($863 million) to Japan, including financing for such high-profile projects as the bullet train. Japan completed its repayments to the Bank in July 1990.

- Currently, **two World Bank Vice Presidents are Japanese nationals** (Hiroo Fukui, Vice President for Resource Mobilization and Cofinancing, and Mieko Nishimizu Vice President for South Asia). Also, **MIGA's Executive Vice President** is a Japanese national as well, Akira Iida.

- Last year, **Japanese companies** received $372 million in payments on contracts for procurement under World Bank-financed projects. Since the World Bank was founded, Japanese companies have received $18.8 billion. **The Bank has been enhancing its dialogue and cooperation with the business community in Japan through Keidanren and Japan Chamber of Commerce and Industry (JCCI).**

If asked your view of the current ODA cuts in Japan and how will they affect the World Bank:

- We understand that the cuts in Japan's ODA budget this year are **driven by the fiscal adjustment** the Government is undertaking in order to reduce its deficit. The commitments Japan has made to IDA funding will surely be honored. Since the **contributions from Japan through the Bank have been used effectively --** backed by a good mixture of Japanese development knowledge and experiences and those of the Bank, and are critically important to developing countries, I hope that Japan will maintain the current level of contributions the Bank.

On your trip to Japan in September:

- I plan to visit Japan in September enroute to Hong Kong for regular consultations with the Government. During this visit, I want to stress again the importance I place on **partnership**. This will be my third official visit to Japan. The dates of the visit are **September 16-17**. The program is being planned now and will include meetings with the Ministry of Finance, Ministry of Foreign Affairs, among others. A meeting with the Prime Minister has been requested. The program also includes a **speaking engagement at a joint seminar with the OECF** on the results of a World Bank study of "Aid Effectiveness."

Jane Kirby-Zaki, External Affairs, ext. 80576
with contributions from Mika Iwasaki, Tokyo Office
and Atsuko Horiguchi, FRM
August 26, 1997

Strategic Compact
Progress Report

The Strategic Compact: A Progress Report

Key Messages

The Strategic compact builds on our past attempts at reorganization, but differs in two important ways: it is all-encompassing, and it demands accountability through monitoring and measuring every step.

Previous reorganizations have sought incremental change -- either to meet the growing needs of our clients, cutting down costs, improving effectiveness or being able to deliver our services better. For the first time we believe, we are undertaking a fundamental renewal -- which when it is completed, provide the institution the flexibility to respond to new challenges, the agility to deliver results on-the-ground, the innovative capacity to deliver new products and services and the commitment to improve development effectiveness--*On An Ongoing basis*.

It is thus a holistic re-organization--covering every aspect of how we do business--from how we use resources in our front-line to cost-effectiveness in the use of our administration

For the first time, the renewal program under the compact includes a set of performance measures that hold the Bank accountable for delivering on its actions--every six months JDW will report to the board on the progress made under the compact against a set of concrete and comprehensive benchmarks that define success.

What has happened under the compact so far?
It is important to bear in mind that the compact is in its very early stages of implementation. It is less than six months since the Board endorsed the compact and less than two months since the budgetary resources to support it were approved. However, even in this short time-frame there has been intense activity across the institution.

1. Refuelling current business activity
   New Vice-Presidents have been appointed in almost all regions, as well as heads of Networks; in addition some 150 new managers have been selected--using a *more open and transparent management selection process.*
   Five networks have been established--the newest one for Core services to help strengthen front-line lending and provide better service in critical areas like resource management and procurement.
   HIPC initiative has become fully operational. Uganda, Burkina Faso, and Bolivia are in the final stages of approval for assistance.

2. Refocusing the Development Agenda
   Mainstreaming social development work in operations -- CASs being reviewed to ensure stakeholder participation and improving understanding of social capital.
   Rural action plan being implemented with lending increasing by $700 million in FY97 (after many years of decline).
   An anti-corruption plan discussed by the EDs on July 15. Final report sent out for Board consideration on September 2 1997--also subject of agenda in Hong Kong.
   Private Sector Development initiatives streamlining. Better co-ordination with IFC, joint CASs, and co-location of IFC and WB regional offices.
   Full-support for the *Partnership for Capacity Building in Africa.*

New Products being developed to service broader development agenda. Adaptable lending proposal, that provides for smaller sized loans that can be used for programs that venture into untested and untried arenas such as social development, is to be reviewed by the board on September 9, 97. Another intiative, The Development Grant Facility (DGF) is a proposal to consolidate the management of all existing World Bank arrangements for grant financing under a single institutional umbrella, was approved on August 21 1997.

3. Retooling the Knowledge Base

Bank benchmarked by the American Productivity Council in March 1997 as a best practice example for knowledge management.
Chief Information Officer appointed.
*Knowledge management system implemented i*n several sectors (education and health), region wide (Africa) being developed as part of overall institutional systems.
Knowledge management--conference held in Toronto in June, co-sponsored with Government of Canada--involved more than 200 government, corporate and NGO participants from 124 countries.

4. Revamping Institutional Capabilities

Decentralization . Compared with only 3 in June 1997, 31 Country programs are managed by the 21 CMUs now located in the field (some CMUs manage more than one country program based on geographical proximity).

East Asia
Five CMUs -- (1) China (2) Thailand (3) Phillipines (4) Indonesia (5) Vietnam.
South Asia
Five CMUs -- (1) Bangladesh (2) India (3) Nepal (4) Pakistan/Afghanistan (5) Sri Lanka.
Europe & Central Asia
Three CMUs -- (1) Russia (2) Estonia/Latvia/Lithuania/Poland (3) Czech Republic/ Hungary/ Moldova /Slovak Republic/Slovenia.
Africa
Three CMUs -- (1) Cote D'Ivoire (2) Kenya (3) Ghana.
Latin Americs & the Carribean
Three CMUs -- (1) Argentina/Chile/Uruguay (2) Brazil (3) Mexico.
Middle East & North Africa
Two CMUs -- (1) Egypt (2) West Bank and Gaza.

Training and professional development. Resources allocated for staff training and professional development increased by 50% over FY97--over 7000 staff and managers have participated in more than 350 training courses in the past two years. EDP program underway--450 managers expected to have participated by year end.
Human resources reform. The four main areas of reform are: employment policy reform; compensation and benefits; managerial and professional development; and HR managment framework an support. Phased approach due to scale and complexity of effort. significant elements ready for consideration in FY 98; eg. paper on diversity ready for Board consideration by November 1997, specific proposals for pension reform by end 97.
Cost-Effectiveness review. Diagnostic phase over. Second phase underway with report on specific recommendations due to the Board in October.
Loan Administration Change Initiative. For improved financial management of projects.
Information Systems renewal.

Financial Sector
Reform and the WB

Building Financial Sector Capacity in the World Bank Group

You announced at the 1996 Annual Meeting that the "Bank Group--working with the IMF--is strengthening our capacity to help our clients strengthen their financial sectors..."

What Have We done So Far?

Internal - The creation of the Financial Sector Board/family has provided a vehicle for identifying key experts internally and externally, and putting in place a process for deploying the best staff in the Bank to the areas of highest priority.

- The Financial Sector Board is presently defining a financial sector strategy.

- Through the Strategic Compact, resources available for financial sector work have been increased by 8.5% in FY 1998. The additional resources will be deployed first to improve the Bank's operations in countries with vulnerable banking systems that pose a systemic risk to fiscal stability. Other initiatives should be approved in the next several weeks.

External - The Bank was one of the drafters of the recent report, **"Financial Stability in Emerging Market Economies",** that was released in late April at the Interim/Development Committee Meeting and endorsed by the G-7 in Denver. The report sets forth, for the first time, an international strategy for fostering the establishment, adoption, and implementation of the sound principles and practices needed for financial stability. The report gives the World Bank an important role in helping to resolve serious banking problems, restructuring failed institutions, and building stronger supervisory regimes. **You will be participating in an event (hosted by the International Institute for Finance) on Monday, September 22 with Camdessus and US Treasury Secretary Rubin that will highlight the report.**

- As promised at last year's Annual Meetings, **the Bank and the Fund have reached agreement on a mechanism for coordinating the work of the two institutions in the financial sector.** This agreement has been presented to the Boards of the respective institutions (it went to the IMF Board on August 22 and will go to the Bank's Board on Thursday, August 28). The joint Bank-Fund paper is attached.

- **PENDING INITIATIVE** -- David Scott has been working closely with Canada's York University, the Canadian supervisory agencies, and various international banks to create **a leadership institute for senior managers of bank, securities, and insurance supervisory authorities that would promote managerial and leadership skills.** The Centre would be focused on helping managers design and implement comprehensive institutional strengthening programs and adapt their internal strategies to new internationally agreed practice standards. The Centre is consistent with the G-7 mandate to the Bank. If this Centre gets the go ahead in the next month, it is likely the Canadian Finance Minister will want to make the Centre an important part of his remarks in Hong Kong, so coordination will be important. World Bank funding (@$200,000) for a portion of the start up of the Centre is presently being explored.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
President Wolfensohn - Briefing Book for President's Meetings and Events - Pre-Brief - Press Roundtable - September 3, 1997	30488586

Document Date	Document Type
5 August 1997	Board Paper

Correspondents / Participants

Subject / Title
Report no. R97-191, "Bank-Fund Collaboration on Strengthening Financial Sectors"

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Diego Hernández	July 24, 2025

Archives 01 (March 2017)

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
President Wolfensohn - Briefing Book for President's Meetings and Events - Pre-Brief - Press Roundtable - September 3, 1997	30488586

Document Date	Document Type
27 April 1997	Board Record

Correspondents / Participants

Subject / Title
Report no. SecM97-328, "Joint Statement by the President of the World Bank and the Managing Director of the IMF on Collaboration in Strengthening Financial Sectors"

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

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Withdrawn by	Date
Diego Hernández	July 24, 2025

ANNUAL MTGS
INFO

Annual Mtgs
Fact Sheet

Annual Meetings Fact Sheet

Hong Kong, Special Administrative Region (HKSAR) as the site

Q. Why did the World Bank decide to hold its Annual Meetings in Hong Kong so soon after the transfer? When was the decision made and by whom?

A. The Bank and Fund Annual Meetings are held annually in September or October, and every third year they are held outside Washington at the invitation of a member country.

All 180 members of the Bank (Fund 181) are represented on the Boards of Governors of the Bank and the Fund. In 1994, the Boards of Governors adopted resolutions accepting the invitation of the Government of China to hold the 1997 Meetings in Hong Kong; the Government of the United Kingdom extended its support for this invitation.

The World Bank expects to remain an important development partner for China for many years to come. The economic integration between Hong Kong and China during the past 18 years has been impressive. By holding the Meetings in Hong Kong this year, the Bank and the IMF are demonstrating their confidence in the continued success of this relationship after the historic transfer of sovereignty in 1997, to the benefit of Hong Kong, China and the whole world.

Q. Who is the host/organizer in Hong Kong?

The Hong Kong Monetary Authority of the Hong Kong, SAR government, is hosting the event at the Hong Kong Convention and Exhibition Center, the same site used for the Handover ceremonies. (The HKMA has independently raised more than US$35 million for the event, through corporate sponsorship).

Purpose of the Annual Meetings

Q. What is the purpose of holding these Meetings?

A. The Articles of Agreement of the IBRD states that "The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors." The By-Laws of the IMF states that "The Board of Governors shall hold regular meetings, which shall be at annual intervals unless the Board of Governors decides otherwise." At these Meetings, the Boards of Governors of the Bank and the Fund meet to discuss various matters, including the Annual Reports and finances of the Bank Group and the Fund. In addition, the Meetings:

- Provide a forum for exchanges of views between individual member countries and the managements and staffs of the Bank and the Fund on economic and monetary conditions and policies in those countries. Many countries view these exchanges as the primary benefit of their participation in the Meetings.

- Provide a forum for exchanges of views among member countries and between the countries and the managements of the Bank and the Fund on global economic and monetary conditions and the policies and operations of the institutions. In this connection, the Meetings can provide a forum for international cooperation and enable the institutions to learn how to continue to adapt to serve their membership better.
- Facilitate interaction between the private sector, including potential investors and non-governmental organizations, and other Meetings participants.
- Facilitate the regular and effective interaction among member countries required for the formation and work of constituent groups.
- Provide an effective forum for explaining to the public directly and through the media– the tasks, objectives, and relevance of the Bank and the Fund. In this manner the Meetings make a major contribution to openness.

Size of the Meetings

Q. How many people attend these Meetings?

A. About 10,000 people* attend the Meetings, including about 3,500 governors and their delegations from 181** member countries, more than 5,000 visitors and special guests, mainly from private business and the banking community and non-governmental organizations, and about 1,000 representatives of the media. In addition, Bank and Fund staff attend the Meetings for the primary purpose of consultations with officials of government delegations, and representatives of the banking community and other participants.

*Including spouses

**The IMF has 181 member countries, the World Bank Group has 180 member countries

Q. Has there been an effort to cut back on the number of Bank staff who attend?

A. Yes. This year the total number of World Bank Group attendees is 287, a 28 percent reduction from Madrid.

Costs of the Meetings

Q. How much do the Annual Meetings cost when held abroad? How about when they are held in Washington?

A. The cost of the 1994 Madrid Meetings was about $12 million; while it is difficult to estimate the costs of the Hong Kong meeting, the price is likely to be somewhat higher -- approximately $13 million.

The total costs for the joint Annual Meetings of the Bank and the Fund (and over 140 associated meetings) when held in Washington are about $11 million, shared by the Bank and the Fund. When meetings are held abroad the costs have generally been higher mainly because of higher travel expenses. Travel costs account for over half of the budget.

Q. Why does the Bank pay the costs of travel to the Meetings?

A. In accordance with their by-laws, the Bank and Fund pay the travel and subsistence costs for the Governor and Alternate Governor for each member country. (From 1996 reimbursement was based on Business Class travel rather than First Class travel.) This provides all countries with equal opportunity to attend the Meetings.

Q. If over half of the budget is for travel, what does the rest cover?

A. For Annual Meetings held in Washington, the main costs are for logistical facilities such as: telephones, computing services, offices and salaries for temporary contractual staff. (The Bank/Fund Conferences Office, which is responsible for the coordination of the arrangements for the Annual Meetings, the Spring Ministerial meetings and other meetings, has a permanent staff of eight.)

Hong Kong
and the WB

Hong Kong, Special Administrative Region (HKSAR) and the World Bank Group

Hong Kong SAR and China

Although China's relationship with Hong Kong has grown ever closer in recent years, the transfer of Hong Kong is conferring important economic advantages to China.

- With its well-established system of laws and regulation, Hong Kong is well placed to assist in the rapid and orderly development of domestic capital and asset markets in China and derive considerable benefit through service and construction projects in the process [source: Pieter Bottelier]
- China and Hong Kong are important sources of new foreign investment for each other, with Hong Kong accounting for 60% of total FDI in China
- China is also Hong Kong's largest trading partner, accounting for 35% of Hong Kong's total foreign trade

Basic Law

Q. What does Hong Kong's Basic Law say? Why does the Bank think the Chinese government will adhere to it?

A. The Basic Law, signed in 1990, establishes the framework within which Hong Kong, as a Special Administrative Region of China, will retain its free market system for fifty years after its transfer to Chinese sovereignty. It was approved by the National People's Congress of the People's Republic of China and builds on the Sino-British Joint Declaration of 1984. Key features of the Basic Law are that the Hong Kong Special Administrative Region (HKSAR) will:

- protect private property rights, the private ownership of enterprises, and foreign investments;
- manage its public finances independently, enact laws on its own on matters of taxation and revenue collection, and strive to achieve fiscal balance;
- maintain an autonomous monetary and financial system and retain the Hong Kong dollar as legal tender;
- ensure the free convertibility of the Hong Kong dollar and manage the exchange fund solely for regulating the exchange value of the currency; and
- maintain the status of a free port, operate as a separate customs territory, participate in international organizations and trade agreements, and enjoy exclusively the export quotas and tariff preferences obtained or made by it.

China clearly understands that international and local confidence in Hong Kong is critical to its interests and the Bank sees no signs that the Chinese will wish to undermine that confidence and risk damaging Hong Kong's economic successes.

Hong Kong's monetary system and the Hong Kong dollar

Q. What arrangements have been put in place to maintain confidence in the Hong Kong monetary system and the Hong Kong dollar?

A. The Hong Kong and Chinese monetary authorities announced seven principles governing the monetary relationship between the two countries that will help sustain confidence in Hong Kong's monetary system and the Hong Kong dollar:

- There will be two currencies and two monetary systems. The HK dollar will continue to be linked with the US dollar at a fixed exchange rate of HK$7.8 to US$1;
- The two monetary authorities will be mutually independent. The Hong Kong Monetary Authority will be accountable solely to the HKSAR Government;
- Supervisory cooperation will be maintained. The HKSAR will continue to supervise financial institutions in Hong Kong, including those from the mainland, in accordance with international rules and practices;
- The People's Bank of China will provide support for maintaining currency stability in Hong Kong. The People's Bank of China and the Hong Kong Monetary Authority signed a bilateral repurchase agreement of US Treasury Securities. Under the Basic Law, China will, under no circumstances, draw on or resort to Hong Kong's Exchange Fund or other assets in any way and for any reason;
- All financial claims and liabilities between the Mainland of China and Hong Kong will be dealt with in accordance with internationally accepted rules and practices;
- Mainland financial institutions in Hong Kong will abide by the laws of Hong Kong and will not enjoy any special privileges;
- Shanghai and Hong Kong will develop a complementary and mutually reinforcing relationship as financial centers, each with its own special characteristics.

The World Bank and Hong Kong

Q. Does the World Bank lend to Hong Kong or have any other activities there? What will happen to these relationships in the future?

A. Hong Kong is part of China and China is a member of the World Bank. Hong Kong's long established commercial and financial links with the Bank will continue. The Bank has not been directly involved in Hong Kong: the territory is not a Bank member (in contrast to Hong Kong's membership of WTO, for example, which will continue independently of China's accession to WTO membership), and there are at present no Bank projects or other operational activities there.

The International Bank for Reconstruction and Development (IBRD), which lends to creditworthy borrowing countries, obtains most of its funds through medium- and long-term borrowings in the capital markets of the world. Since May 1989 when the Bank first borrowed in Hong Kong Dollars, it has raised HK$ 6.1 billion (US$ 786.73 million). The Bank's most recent borrowing in Hong Kong was a 10-year HK$ 1 billion issue on April 7, 1997, which set a benchmark for longer term corporate paper.

In addition, Hong Kong companies have, over the years, won a considerable number of contracts to supply goods and services to World Bank-financed projects. As of April 1997, a total of US$ 1.8 billion (equivalent to HK$ 14 billion) had been disbursed to Hong Kong companies.

The IFC and Hong Kong

Q. To what extent have firms in Hong Kong been involved in IFC-sponsored development projects?

A. Since 1964, 55 firms from Hong Kong have worked in partnership with IFC on 42 investment projects. They have provided US$683 million and US$14 million in loans (as of 6/30/97), as well as US$2 million in capital goods.

More than 83 percent of these of these funds have been invested in projects in the Philippines. Private sector projects in China and in Indonesia respectively have received five percent of this total. Sectorally, investment funds from Hong Kong firms have been concentrated in infrastructure projects (77 percent) and secondarily in hotels and tourism (14 percent).

Four Hong Kong financial institutions -- Asiana Finance Limited, Seoul Finance Limited, Bank East Asia Limited and Shanghai Commercial Bank Limited -- have loaned US$9 million through IFC's Loan Syndication Program.

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Agenda

Record Removal Notice

File Title	Barcode No.
President Wolfensohn - Briefing Book for President's Meetings and Events - Pre-Brief - Press Roundtable - September 3, 1997	30488586

Document Date	Document Type
31 July, 1997	Agenda

Correspondents / Participants

Subject / Title
Development Committee - September 22, 1997
Provision Agenda (draft)

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Diego Hernández	July 24, 2025

Program of Seminars

PROGRAM OF SEMINARS

1997 Annual Meetings of the World Bank Group and International Monetary Fund

Speaker Addendum

(As of August 25, 1997)

Saturday, September 20

9:00-9:30	***Welcome*** **James D. Wolfensohn**, President, World Bank Group (Opening Remarks)
10:00-12:30	***The Building Blocks for Investment and Competitiveness*** **Michael Enright**, Professor, University of Hong Kong, Hong Kong
11:00-12:30	***Corporate Citizenship - and Profitability - in Asia*** **Page Chapman**, President, Bankers Trust Foundation, USA **Rudolph Schlais, Jr.**, President, China Operations, General Motors, China **Aurora Francisco Tolentino**, Executive Director, Philippine Business for Social Progress, Philippines **Peter Woo**, Honorary Chairman, Wheelock & Company Ltd., Hong Kong (Moderator)
2:00-3:30	***IMF Lending to Low-Income Countries: Strategies, Policies, and Outcomes*** **Anupan Basu**, Deputy Director, African Department, IMF **Benno Joseph Ndulu**, Executive Director, African Economic Research Consortium, Nairobi **Susan Schadler**, Senior Advisor, Policy Development and Review Department, IMF
3:30-5:00	***India: Expanding Investment Opportunities*** **Kenji Yoshizawa**, Deputy President, The Bank of Tokyo-Mitsubishi Ltd., Japan
3:45-5:15	***New Thinking on Aid Effectiveness*** **Emmanuel Tumusiime-Mutebile**, Secretary to the Treasury, Ministry of Finance, Uganda (Moderator)
5:30-6:30	***Keynote - Asia as Opportunity*** **James D. Wolfensohn**, President, World Bank Group (Opening Remarks)

Sunday, September 21

9:00-10:30	***South Asia: The Next Miracle?*** **Mark Tully**, Former BBC Correspondent, India (Moderator)
9:00-10:30	***Update on the International Monetary Fund's Data Dissemination Standards*** **Robert Chote**, Economics Editor, The Financial Times, UK **Frederick Ho**, Commissioner, Census and Statistics Department, Hong Kong **Rajapakse Jayatissa**, Director, Central Bank of Sri Lanka, Sri Lanka
11:00-12:30	***Opportunities for Asian Investors in Africa*** **John Niepold**, Portfolio Manager, Emerging Markets Investors Corporation, USA **Rustomjee Cooper**, Chairman, Coopers Pte Ltd., and President, Panwell Group, Singapore
11:00-12:30	***Should Countries Care About Corruption?*** **Samuel Paul**, Chairman, Public Affairs Centre, India

2:00-3:30 *The Impact of the Information Age in Developing Countries*
Denis Gilhooly, Vice President, Business Development, Teledesic Corporation, USA,
K. John, Vice President, MIMOS Berhard, Malaysia

4:00-5:30 *Romania: New Opportunities for Investors*
Donald Roth, Managing Partner, Emerging Markets Partnership, USA (Moderator)

5:30-6:30 *Keynote - Global Integration*
James D. Wolfensohn, President, World Bank Group (Opening Remarks)

Monday, September 22

2:30-4:00 *Procurement Opportunities in World Bank Operations*
Richard Stern, Deputy Vice President, Human Resources, World Bank

9:00-10:30 *China: Challenges and Prospects*
Chen Jinhua, Chairman, State Planning Commission, China

11:00-12:30 *China's Infrastructure*
Yao Zhenyan, Governor, The State Development Bank of China, China

11:00-12:30 *China's Environment: Growing Greener?*
Xie Zhenhua, Administrator, National Environmental Protection Agency, China

11:00-12:30 *China's Household Security: Health and Pensions*
David de Ferranti, Head, Human Development Network, World Bank
Guo Shuqing, Secretary-General, State Commission for Restructuring the Economic Systems, China
Masahiro Yamada, Managing Director and Member of the Board, Nippon Life Insurance Company, Japan

2:30-4:00 *China: Using Capital Markets to Mobilize Investment Resources*
Edgar Cheng, Chairman, Stock Exchange of Hong Kong Ltd., Hong Kong
Zhu Xiaohua, Chairman of the Board of Directors & President, Everbright, China
Chen Yaoxian, Vice Chairman of Securities Commission of the State Council, and Vice Chairman of Securities Regulatory Commission, China

2:30-4:00 *China: One Country, Two Financial Systems*
Norman Chan, Deputy Chief Executive, Hong Kong Monetary Authority,Hong Kong
Chen Yuan, Deputy Governor, The People's Bank of China, China

2:30-4:00 *China: Food Security and the Rural Economy*
Justin Yifu Lin, Director, China Center for Economic Research, Beijing University, China
Sun Xiaoyu, Vice President, Development Research Center of the State Council, China

4:45-5:45 *Keynote - China: The Promise of Partnership*
Zhu Rongji, Vice Premier, China
James D. Wolfensohn, President, World Bank Group (Opening Remarks)

Tuesday, September 23

2:00-3:30	***World Bank Group and the Private Sector*** **Jean-Louis Diefenbacher**, Chairman and CEO, Compagnie Generale des Eaux Asia Pacific, Singapore
2:00-3:30	***The Emergence of Asia's Debt Market*** **Dato' Abdul Murad Khalid**, Assistant Governor, Central Bank of Malaysia, Malaysia
2:00-3:30	***Partnerships for Capacity Building in Africa*** **James D. Wolfensohn**, President, World Bank Group (Opening Remarks)
4:00-5:30	***Foreign Direct Investments: Where Next?*** **Babar Ali**, Chairman Emeritus and Advisor, Packages Inc., Pakistan **C. B. Chan**, Deputy Chairman and CEO, Century Private Equity Ltd., Singapore **William Ryrie**, Vice-Chairman, ING Barings, UK **Louis Wells**, Professor, Harvard Business School, USA (Moderator)

1997 ANNUAL MEETINGS

OF THE WORLD BANK GROUP & INTERNATIONAL MONETARY FUND

PROGRAM OF SEMINARS

ASIA AND THE WORLD: CAPITAL, COMPETITIVENESS, AND COMMUNITY

Saturday, September 20
to Tuesday, September 23

HONG KONG
CONVENTION AND
EXHIBITION CENTRE

ABOUT THE PROGRAM

The 1997 Annual Meetings Program of Seminars is designed to create a forum for business and government leaders, senior World Bank Group and International Monetary Fund officials and others to discuss developments and opportunities in emerging economies worldwide.

The Program takes place on the occasion of the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund, which bring together ministers and senior officials from over 180 member countries, as well as other key players in the international development field. The Program promotes partnerships and the sharing of knowledge, experiences, and new ideas through a series of seminars, workshops, keynote sessions, and special events for high-level private sector and government participants.

This year's Program, *Asia and the World: Capital, Competitiveness, and Community*, will include some 40 highly interactive sessions, in which global experts will present a wide range of perspectives for audience discussion on topics in the following areas:

- Finance and Capital Markets
- Infrastructure Development
- Governance and Sustainable Development
- Regional and Country Opportunities
- The Promise of China's Partnership

The schedule for the 1997 Program, session details, features, and hotel and atttendance information are contained in the pages that follow. Please note that the Program schedule is subject to change.

1997
PROGRAM of SEMINARS SCHEDULE

SATURDAY, SEPTEMBER 20

- 9:00 - 9:30 — Welcome
- 10:00 - 12:00 — Infrastructure Development in Asia
- 12:00 - 1:45 — Asia Infrastructure Luncheon
- 11:00 - 12:30 — Corporate Citizenship – and Profitability – in Asia
- 12:30 - 1:45 — Youth Development Luncheon
- 10:00 - 11:30 / 11:30 - 12:30 — The Building Blocks for Investment and Competitiveness (Seminar and Breakout Sessions)
- 2:00 - 3:00 — Asian Entrepreneurs View the Global Market
- 3:30 - 5:00 — India: Expanding Investment Opportunities
- 2:30 - 3:00 / 3:30 - 5:00 — A Clean Energy Future for Asia (Workshop and Seminar)
- 2:00 - 3:30 — ■ IMF Lending to Low-Income Countries
- 3:45 - 5:15 — ■ New Thinking on Aid Effectiveness
- 5:30 - 6:30 — Keynote Session – Asia as Opportunity
- 6:30 — Reception

SUNDAY, SEPTEMBER 21

- 9:00 - 10:30 — South Asia: The Next Miracle?
- 11:00 - 12:30 — Opportunities for Asian Investors in Africa
- 12:30 - 1:45 — Investing in Africa Luncheon
- 8:45 - 10:45 — Building Better Banking Part I: Banking System Fragility
- 11:00 - 12:30 — Building Better Banking Part II: A Framework for Sound Banking
- 12:30 - 1:45 — Finance Luncheon
- 9:00 - 10:30 — Update on the Fund's Data Dissemination Standards
- 11:00 - 12:30 — ■ Should Countries Care about Corruption?
- 2:00 - 3:30 — Investment Opportunities in Egypt
- 3:45 - 5:15 — Romania: New Opportunities for Investors
- 2:00 - 3:30 — Pension Reform and the Creation of Efficient Capital Markets
- 3:45 - 5:15 — Asian Stock Markets
- 2:00 - 3:30 — The Impact of the Information Age in Developing Countries
- 3:45 - 5:15 — ■ Should there be Greater Fiscal Transparency?
- 5:30 - 6:30 — Keynote Session – Global Integration
- 6:30 — Reception

MONDAY, SEPTEMBER 22

- 9:00 - 10:30 — China: Challenges and Prospects
- 11:00 - 12:30 — China's Infrastructure
- 12:30 - 2:00 — China Luncheon
- 11:00 - 12:30 — China's Household Security: Health and Pensions
- 11:00 - 12:30 — ■ China's Environment: Growing Greener?
- 9:00 - 10:30 — ■ Capital Account Liberalization
- 11:00 - 12:30 — ■ Preparing for Economic and Monetary Union in Europe
- 2:30 - 4:00 — China: One Country, Two Financial Systems
- 2:30 - 4:00 — China: Using Captial Markets to Mobilize Investment Resources
- 2:30 - 4:00 — ■ China: Food Security and the Rural Economy
- 2:30 - 4:00 — Procurement Opportunities in World Bank Operations
- 4:45 - 5:45 — Keynote Session – China: The Promise of Partnership
- 5:45 — Reception

TUESDAY, SEPTEMBER 23

- 10:00 - 12:00 — Annual Meetings Open Plenary Session – relayed live by closed-circuit television
- 2:00 - 3:30 — World Bank Group and the Private Sector
- 4:00 - 5:30 — Business Opportunities in Latin America and the Caribbean
- 5:30 - 6:30 — High Tea and Country Discussion Tables
- 2:00 - 3:30 — The Emergence of Asia's Debt Market
- 4:00 - 5:30 — Foreign Direct Investment: The New Frontiers
- 2:00 - 3:30 — ■ Partnerships for Capacity Building in Africa
- 4:00 - 5:30 — ■ The Role of the State

■ Public Policy Forums are open to all Program and other registered Annual Meetings participants, free of charge.

1997
SATURDAY, SEPTEMBER 20

9:00 - 9:30

Welcome

Remarks **Tung Chee-hwa**, Chief Executive, Hong Kong Special Administrative Region, Hong Kong

10:00 - 12:00

Infrastructure Development in Asia: Accelerating Private Participation

The World Bank estimates that in the next ten years Asia will require US$ 1.5 to 2 trillion for infrastructure development. Despite keen interest, the private sector today provides less than 15 percent of the financing. APEC leaders have called for concrete steps to double private sector participation in the next five years.

- How can countries and international organizations create more projects that will attract private investors?
- How can governments expand private participation into new sectors?
- What is the key to attracting long-term private institutional investors?
- How do governments ensure that local demands for equity, efficiency, transparency, affordability, and environmental sensitivity are met?

Discussion Leaders
Montek Ahluwahlia, Finance Secretary, India
Karl Hermann Baumann, Chief Financial Officer, Siemens AG, Germany
Toyoo Gyohten, President, Institute for International Monetary Affairs, Japan
Suk Joon Kim, Chairman and CEO, SsangYong Business Group, Korea
Rahardi Ramelan, Vice Chairman, National Development Planning Agency, Indonesia
Gordon Wu, Managing Director, Hopewell Holdings, Ltd., Hong Kong

Moderator
Victor Fung Kwok-King, Chairman, Prudential Asia Investment Ltd., Hong Kong, and Chairman, Hong Kong Trade Development Council

The seminar will be followed by a luncheon featuring government officials from throughout the region.

10:00 - 12:30

The Building Blocks for Investment and Competitiveness

While macroeconomic stability is a necessary condition for growth, it is not enough to attract and sustain private sector investment and competitiveness. In many countries, the business environment needs attention. This seminar, and the breakout sessions that follow it, will address the legal-economic conceptual framework and the practical instruments needed to encourage flexible business transactions, mobility of resources, property rights, risk mitigation, collateral and leasing practices, industrial clusters, and supply chain management.

- What are the building blocks for investment and competitiveness and how are they established?
- What are the impediments to fostering productivity and competitiveness?
- What are the strategies and instruments for putting the blocks in place, filling in gaps, and creating the degree of certainty needed to encourage investment and growth?
- How can the private and public sectors implement the strategies and apply the needed instruments?

Discussion Leaders
Mahboob Mahmood, Partner, Sidley & Austin, Singapore
Hernando De Soto, President, Instituto Libertad y Democracia, Peru
Abdullah Mohammad Tahir, Deputy Secretary General, Ministry of International Trade and Industry, Malaysia

Moderator
David Rothkopf, Managing Director, Kissinger Associates, USA

This seminar will be followed by two breakout sessions:

Discussion Leaders
R. Shyam Khemani, Manager, Competition and Strategy Group, Private Sector Development, World Bank
Joseph Saba, Country Director, West Bank and Gaza, World Bank

11:00 - 12:30

Corporate Citizenship – and Profitability – in Asia

Increasingly, companies are developing strategic alliances with community groups and governments to promote economic development. In Asia, such partnerships are being fashioned to further community and national development goals, while enhancing corporate reputations and profitability.

- What types of alliances among companies, governments, and civic organizations have been most successful and why?
- How is corporate citizenship benefiting companies?
- How can communities and governments support and leverage such partnerships to further their development objectives?

Discussion Leaders	**Ratan Tata**, Chairman, Tata Industries, Ltd., India And other private sector executives.

12:30 - 2:00

Corporate Citizenship for Youth Development

By the year 2000, roughly half of the world's population will be under the age of 20. For global companies, young people represent the markets, creativity, and labor force of the future.

- Why are companies increasingly working with NGOs, foundations, and governments to confront challenges facing young people?
- What types of partnerships have been most successful, and why?
- What is being done on this front in Asia?

Discussion Leaders	**Jaime Augusto Zobel de Ayala II**, President and CEO, Ayala Corporation, Philippines **Maria Cattaui**, Secretary General, International Chamber of Commerce **Arnold G. Langbo**, Chairman of the Board and CEO, Kellogg Company, USA
Moderator	**Rick Little**, President and CEO, International Youth Foundation, USA

This seminar will be a working luncheon.

2:00 - 3:30

■ IMF Lending to Low-Income Countries: Strategies, Policies, and Outcomes

The IMF's Enhanced Structural Adjustment Facility (ESAF) provides concessional financing to the world's poorest countries.

- What is the ESAF strategy for increasing growth and promoting a sustainable structure for the balance of payments?
- How successful have countries been in implementing this strategy?
- Why did the gap between economic growth in ESAF users and that in other low- and middle-income developing countries narrow during the late 1980s and early 1990s?
- What additional policy changes will help enhance growth rates in low-income countries?

■ = Public Policy Forum

All Discussion Leaders are listed alphabetically, except for current and former heads of state.

1997
SATURDAY, SEPTEMBER 20

2:00 - 3:00

Asian Entrepreneurs View the Global Market

Asian entrepreneurs are setting the pace for economic change in Asia, creating new strategies for succeeding both within and outside the region.

- What are Asian businesses' strategies for global expansion?
- Where are Asian entrepreneurs investing and why?
- What can governments do to stimulate favorable investment conditions and to encourage the growth of entrepreneurship?

Discussion Leaders	**Ronnie Chan**, Chairman and CEO, Hang Lung Development Co., Ltd., Hong Kong **Y.Y. Wong**, Chairman, The WYWY Group, Singapore
Moderator	**Maria Cattaui**, Secretary General, International Chamber of Commerce

2:30 - 5:00

A Clean Energy Future for Asia: Can Investors Meet the Challenge?

Even with expected gains in efficiency and increased private investment, Asia will require more than a trillion dollars over the next decade to meet its energy needs. This workshop session will present the World Bank Group's perspective on global approaches to energy and environmental issues, and the companion seminar that follows will explore prescriptions for environmentally sound energy investments.

- How can coal continue to be a fuel of choice without further damage to the environment?
- Do hydroelectric sources hold potential for more efficient and environmentally sound power?
- Can the region increase its use of more environmentally friendly fuels, such as natural gas?

Workshop Leaders	**Andrew Steer**, Director, Environment Department, World Bank **Richard Stern**, Deputy Vice President, and former Director, Industry & Energy Department, World Bank
Discussion Leaders	**Rodney Chase**, Chief Executive Officer, British Petroleum Exploration, UK And other public and private sector leaders.
Moderator	**Meg Taylor**, Attorney, Gadens Ridgeway Lawyers, Papua New Guinea

3:30 - 5:00

India: Expanding Investment Opportunities

India is entering a new era of accelerated growth and reform, with expanding opportunities for foreign as well as domestic investors.

- What measures is the government taking to attract and encourage private investment, particularly in infrastructure?
- What does the private sector perceive as impediments to investment?
- Which sectors are government priorities for private investment, and which sectors are more attractive to investors?
- Can India emulate the East Asian development experience?

Opening Remarks	**Palaniappan Chidambaram**, Finance Minister, India **Richard Hu**, Finance Minister, Singapore
Discussion Leaders	**Richard Fisher**, Chairman of the Executive Committee, Morgan Stanley Dean Witter, USA And other private sector leaders.
Moderator	**Ratan Tata**, Chairman, Tata Industries, Ltd., India

■ = Public Policy Forum

3:45 - 5:15

■ New Thinking on Aid Effectiveness

Official Development Assistance (ODA) has come under intense scrutiny in recent years. Some cuts in ODA can be attributed to budget tightening in donor countries. But others reflect a growing concern about the true effectiveness of aid.

- What conditions are required for aid to support growth and poverty reduction effectively?
- With growing private investment in developing countries, what is the role of development institutions?
- What can we learn from civil society and the business community about increasing the effectiveness of aid on the ground?

Discussion Leaders

David Dollar, Development Research Group, World Bank
Caroline Harper, Head of Research, Save the Children, UK
Masaki Shiratori, Vice President, Overseas Economic Cooperation Fund, Japan

5:30 - 6:30

Keynote: Asia as Opportunity

Keynote Speaker

The Honorable Dato' Seri Dr. Mahathir Mohamad, Prime Minister of Malaysia

6:30 -

Reception

1997
SUNDAY, SEPTEMBER 21

8:45 - 12:30

Building Better Banking
Part I: Banking System Fragility

Addressing banking system fragility has moved to the top of the international agenda. Although there has been much talk of improving supervision, participants in this session will consider different approaches to financial sector regulation, as well as lessons of how desirable financial reforms can be adopted politically.

- Can markets play a role in enhancing safety?
- What is the role of diversification in preventing systemic problems?
- How have successful reformers been able to muster political support for financial reform?

Opening Remarks — **Joseph Stiglitz**, Chief Economist and Senior Vice President, World Bank

Discussion Leaders — **Charles Calomiris**, Paul M. Montrone Professor of Finance and Economics, Columbia University, USA
Gerard Caprio, Jr., Lead Economist, Development Research Group, World Bank
Edward Kane, James F. Cleary Professor of Finance, Boston College, USA
Randall Kroszner, Professor, University of Chicago, USA
Guillermo Perry, Chief Economist, Latin America and the Caribbean Region, World Bank
Mikio Wakatsuki, President, Japan Research Institute, Japan
Berry Wilson, Senior Economist, Federal Communications Commission, USA

Moderator — **Guillermo Ortiz**, Secretary General of Finance and Public Credit, Mexico

Building Better Banking
Part II: A Framework for Sound Banking

Continuing the dialogue of the preceding session, this panel will consider the steps needed to strengthen banking operations.

- What can governments do to make banking "safe and sound"?
- What is the role of international banking standards and enhanced surveillance?

Discussion Leaders — **David Carse**, Deputy Chief Executive and Head, Banking Supervision, Hong Kong Monetary Authority, and Chairman, East Asian & Pacific Central Banks, Hong Kong
Jonathan Fiechter, Director, Financial Sector Development Department, World Bank
David Folkerts-Landau, Assistant Director, Research Department, International Monetary Fund
Ricardo Hausmann, Chief Economist, Inter-American Development Bank

Moderator — **Richard Frank**, Managing Partner and Chief Operating Officer, Darby Overseas Investments, Ltd., USA

The seminar will be followed by a luncheon.

9:00 - 10:30

South Asia: The Next Miracle?

The days when some major South Asian countries were confined to the "Hindu rate of growth" — 4 percent a year, more than half of which was swallowed up by population growth — are long since past. For the last decade South Asia has been second only to East Asia as the fastest growing region in the world. But the region still lags far behind its neighbors to the East in income levels and income growth.

- What are the critical factors that lie behind the remarkable rates of growth in East Asia?
- What key reforms are needed to achieve comparably high growth rates in South Asia?
- Does rapid growth require sacrificing equity and the environment?

Discussion Leaders

Surjit Bhalla, President, OXUS Research and Investment, India
Lal Jayawardena, Economic Adviser to the President and Deputy Chairman of the National Development Council, Sri Lanka
Wahiddudin Mahmood, Professor of Economics, Dhaka University, Bangladesh
Hafeez Pasha, Deputy Chairman, Planning Commission, Pakistan
John Williamson, Chief Economist, South Asia Region, World Bank

9:00 - 10:30

Update on the International Monetary Fund's Data Dissemination Standards

Turbulence in international financial markets has underscored the need for regular and timely flows of economic and financial data. The IMF established the Special Data Dissemination Standard (SDDS) in April 1996 to improve availability of such data. Today, information about countries' data dissemination practices is publicly accessible on the worldwide web on the Fund's Dissemination Standards Bulletin Board.

- How broad is the country coverage provided on the bulletin board?
- What kind of enhancements have been made to the bulletin board?
- What are the experiences and reactions of data users and data producers after one year of operation?

The seminar will also present a preview of the General Data Dissemination System.

Discussion Leaders

The panel will comprise a representative of an SDDS subscriber, financial market participants, and Fund staff.

Moderator

Carol S. Carson, Director, Statistics Department, International Monetary Fund

1997
SUNDAY, SEPTEMBER 21

11:00 - 12:30

Opportunities for Asian Investors in Africa

Asian investors are among those taking notice of the political, social and economic transformation under way in Africa. Last year, more than half of the continent's countries grew at rates higher than the 3 percent population growth; average GDP for sub-Saharan Africa was 5 percent.

- What makes the African markets appealing to Asian investors?
- How can the climate for foreign investment in Africa be improved?
- Which sectors are benefiting from Asian investment?
- What groups have facilitated Asian-African partnerships?

Discussion Leaders	**Cha Chi Ming**, Chairman, CHA Group, Hong Kong **Ken Ofori-Atta**, CEO, DataBank, Ghana, and member of the West Africa Enterprise Network **H.P. Singhi**, Senior President, Orient Paper Industries, Ltd., Kenya
Moderator	**Conrad Strauss**, Chairman, Standard Bank Investment Corporation, South Africa

The seminar will be followed by a luncheon featuring senior government policymakers from Africa.

11:00 - 12:30

■ Should Countries Care about Corruption

Corruption is now at the forefront of the development debate. Empirical evidence is beginning to show the negative impact of corruption on growth and investment. These findings parallel the emerging concern of politicians and policymakers around the world about the deleterious effects of corruption on economic performance, resulting in increased efforts to address the underlying causes of corruption and develop effective strategies for controlling it.

- What are the consequences of corruption for economic development?
- What have some of the most highly respected policymakers learned about corruption and what practical advice can they offer?

Opening Remarks	**Joseph Warioba**, Head of the Anti-Corruption Commission, and former Deputy Prime Minister, Tanzania
Discussion Leaders	**Ronald MacLean-Abaroa**, Senior Governance Researcher, Harvard University, USA, and former Mayor of La Paz, Bolivia **Pasuk Phongpaichit**, Professor, Chulalongkorn University, Thailand **Shang-Jin Wei**, Professor, Harvard University, USA
Moderator	**Danny Leipziger**, Division Chief, Regulatory Reform and Private Entreprise, Economic Development Institute, World Bank

■ = Public Policy Forum

2:00 - 3:30

Investment Opportunities in Egypt

Egypt has experienced a major economic turnaround with improved macroeconomic performance, growth in privatization, and increased capital inflows of about US$ 2 billion last year alone.

- How sustainable is this trend and what is needed to accelerate economic growth?
- What policies will facilitate proposed concessions and BOTs in infrastructure?
- Can Egypt become a manufacturing hub for regional exports?
- What opportunities does Egypt's Privatization Program offer to investors?

Discussion Leaders
Mona Aboelnaga, Vice President, Siguler Guff & Co., USA
Atef Ebeid, Minister of Public Enterprise Sector and Minister of State for Administrative Development, Egypt
Ahmed Ezz, Chairman of the Board, EZZ Group, Egypt
John Page, Chief Economist, Middle East and North Africa Region, World Bank

Moderator
Jassim Al-Mannai, Director General and Chairman, Arab Monetary Fund, United Arab Emirates

2:00 - 3:30

Pension Reform and the Creation of Efficient Capital Markets

Influenced by the success of Chile, many countries are discussing or moving to funded pension systems. These shifts have major implications for the development of capital markets.

- What have we learned on pension reform — has Chile done it right?
- How necessary are "draconian" regulations at the start of the reform?
- What is the role of competition in the management of pension assets?
- How important is international diversification to a pension portfolio?

Discussion Leaders
Koen de Ryck, Pragma Consulting and European Federation for Retirement Provision, Belgium
Pamela Tan, Director, Mandatory Provident Fund Office, Hong Kong
Salvador Valdes, Professor, Universidad Catolica, Chile
Dimitri Vittas, Lead Economist, Development Research Group, World Bank

Moderator
Robert D. Hormats, Vice Chairman, Goldman Sachs International, USA

1997
SUNDAY, SEPTEMBER 21

2:00 - 3:30

The Impact of the Information Age in Developing Countries

The availability and exchange of information and knowledge has a defining impact on business and social development today. The development of human resources, the preservation and management of natural resources, and the efficient transfer and management of finances increasingly depend on information technology.

- How does a country stay technologically competitive in a global information society?
- How can a country build a secure, high-performance information infrastructure to gain maximum developmental impact from these technologies?
- How can information technology improve the skills and intellectual capacity of a labor force, especially in the fields of science, technology, and business?
- What innovative technologies are driving the service industry boom, and how can countries capitalize on this?

Discussion Leaders
Manuel Hinds, Minister of Finance, El Salvador
Tengku Mohd. Azzman Sharifadeen, President and CEO, Malaysian Institute of Microelectronic Systems, Malaysia
James A. Unruh, Chairman and CEO, Unisys Corporation, USA

Moderator
James Bond, Chief, Informatics and Telecommunications Division, World Bank

4:00 - 5:30

Romania: New Opportunities for Investors

Romania, the second largest country in Central Europe, is rapidly reforming. And the new government can already point to impressive results: foreign investment in the first quarter of 1997 grew ten-fold compared with the same period last year, and weekly turnover on the stock exchange this year is more than the annual turnover in 1996.

- Has the new government succeeded in establishing a foundation for stability and growth?
- What changes have been made in the legal framework— including amendments to the Foreign Investment Law, the new Bank Privatization Law, and the simplified rules for privatization of state enterprises?
- What progress has been made toward privatization and what are the opportunities for investors?

Discussion Leaders
Sorin Petre Dimitriu, President, State Ownership Fund, Romania
J.A. Seroussi, President, Foreign Investors Association, Romania
Calin Popescu Tariceanu, Minister of State, Ministry of Industry and Commerce, Romania
Anthony Van der Heijden, President, ING Bank, Romania

■ = Public Policy Forum

4:00 - 5:30 Asian Stock Markets: Are International Investors Shying Away?

In 1996 portfolio equity flows to emerging markets increased in every region except East Asia, where they slipped some 12 percent. Furthermore, in a year of recovery in emerging stock markets, performance in Asian markets was at best mixed, and some markets —notably Thailand and Korea— fell dramatically.

- Are structural impediments to foreign investment in Asian stock markets taking their toll?
- Are ownership restrictions and foreign board pricing contributing to market stagnation?
- Is it time for markets with restrictions on foreign investors to level the playing field?
- What are the pros and cons of these restrictions for domestic and international investors?

Discussion Leaders	**Henry Lee**, Managing Director, Hendale Asia, Hong Kong **Steven Schoenfeld**, Principal, Barclays Global Investors, USA **Hideo Tanaka**, Chief General Manager, Daiwa International Capital Management, Japan **Prasarn Trairatvorakul**, Deputy Secretary General, Thai Securities & Exchange Commission, Thailand
Moderator	**Urban Lehner**, Chief Editor, Asian Wall Street Journal, Hong Kong

4:00 - 5:30 ■ Should There Be Greater Fiscal Transparency?

Is there a case for improved fiscal transparency, and if so, what policies and reforms are necessary to achieve it?

- What are the benefits of greater fiscal transparency, and are there circumstances that would justify nontransparent behavior?
- Should governments commit to being more explicit about their fiscal policy intentions and forecasts, perhaps in a charter of fiscal responsibility (for example, as in New Zealand)?
- Should governments publish up-to-date comprehensive data on public sector operations?
- Should governments adopt accrual-based accounting of their operations to supplement existing cash accounts?

Discussion Leaders	**E. A. Evans**, Secretary to the Treasury, The Treasury, Australia **Ricardo Hausmann**, Chief Economist, Inter-American Development Bank **Lucas D. Papademos**, Governor, Central Bank, Greece **Maria Ramos**, Director General, Department of Finance, South Africa
Moderator	**Vito Tanzi**, Director, Fiscal Affairs Department, International Monetary Fund

5:30 - 6:30 Keynote: Global Integration

Keynote Speakers	**Jérôme Monod**, Chairman, Lyonnaise des Eaux, France **George Soros**, President, Soros Fund Management, USA

6:30 - Reception

1997
MONDAY, SEPTEMBER 22

CHINA: THE PROMISE OF PARTNERSHIP

9:00 - 10:30

China: Challenges and Prospects

If China succeeds in maintaining its high growth rate, it will become one of the world's largest markets in the early 21st century. Success would mean dramatically rising incomes and falling levels of absolute poverty. China's demand for new products, technologies, and services would also benefit the world economy. Success is not guaranteed. China still must tackle problems from the past and the new challenges of rapid transition.

- Can the rapid growth of the last two decades be maintained for the next two decades?
- What are the major obstacles to the realization of China's growth potential, and how can the government make the promise of the 21st century a reality?
- What are the implications for the international community of an emerging China, and how can the international community help China succeed?

Discussion Leaders
William Purves, Chairman, Hong Kong and Shanghai Banking Corporation Holdings, UK
Joseph Stiglitz, Chief Economist and Senior Vice President, World Bank
And a senior official from the State Planning Commission of China.

Moderator
Stanley Fischer, First Deputy Managing Director, International Monetary Fund

11:00 - 12:30

China's Infrastructure

Rapid economic growth is straining China's infrastructure. Peak power demand exceeds supply in many areas, while congested roads, railways, and waterways slow transportation and increase costs.

- How can China develop mechanisms to convert its ample domestic savings into long-term finance for infrastructure?
- Have the experiments in BOT investments, though still in early stages, provided a basis for government and investors to expand foreign participation?
- For foreign investors, what policies require immediate attention to facilitate their participation in power and transport projects, especially in the poorer interior regions?

Discussion Leaders
Jack Cizain, Executive Vice President, Electricité de France, France
Joseph W. Ferrigno, President and CEO, Prudential Asia Infrastructure Investors, Ltd., Hong Kong
And a senior official from the State Development Bank of China.

Moderator
Dick Cheney, Chairman of the Board and CEO, Halliburton Company, USA

11:00 - 12:30

■ China's Environment: Growing Greener?

The rapid economic growth that has lifted millions out of poverty also has damaged the environment. The government has adopted laws protecting the environment in recent years, and enforcement has improved. But Chinese cities are still heavily polluted.

- Can China grow rapidly over the next two decades — and at the same time improve its environment?
- As China moves to a market economy, what are the most important policy initiatives that will ensure that market forces benefit — rather than destroy — the environment?
- Will trade, international investment, and technological flows foster environmental improvement?

Discussion Leaders
Andrew Steer, Director, Environment Department, World Bank
And a senior official from the National Environmental Protection Agency of China.

Moderator
William K. Reilly, Principal, Texas Pacific Group, and former Chief Administrator, US Environmental Protection Agency, USA

■ = Public Policy Forum

11:00 - 12:30

Household Security in China: Health and Pensions

China's transition has brought remarkable benefits to the low-income segment of its society. Rising incomes have lifted some 200 million people out of poverty, while investments in health services have lifted the population's health status well above that of other countries with similar per capita income. But the old state-enterprise and community-based mechanisms of providing household security are withering with the advance of market forces.

- As the old system of health care provision breaks down, what changes are necessary to improve China's first rate provision of broad-based healthcare in cities and the countryside?
- With the emergence of municipal pension systems, what regulatory changes are needed to ensure viability, investment safety, and return on investment?
- Is there a role for fund managers in the emerging pension system?

Discussion Leaders — Senior representatives from investment and insurance firms, and from the System Reforms Commission of China.

The morning sessions will be followed by a luncheon.

2:30 - 4:00

China: Using Capital Markets to Mobilize Investment Resources

China's financial markets, though still in their incipient stages, hold enormous promise to mobilize domestic and foreign resources for investment in China. But their development is constrained by the absence of several critical factors: the absence of a time-proven rating system, a method of oversight, and a clear legal framework. Meanwhile, Hong Kong financial markets have become a major source of capital for companies worldwide, including "red chip" issues from China.

- How can China develop its domestic markets to provide long-term financing to Chinese companies and the government, perhaps including municipalities?
- How can China attract institutional investors to provide a steady source of long-term finance for its capital markets?
- How can mainland Chinese companies make better use of Hong Kong's markets to finance their investments?

Discussion Leaders — Senior representatives from the Stock Exchange of Hong Kong, the Securities and Regulatory Commission of China, and banking institutions.

Moderator — **Robert D. Hormats**, Vice Chairman, Goldman Sachs International, USA

1997
MONDAY, SEPTEMBER 22

CHINA: THE PROMISE OF PARTNERSHIP

2:00 - 4:00

China: One Country, Two Financial Systems

Integrating Hong Kong into Chinese economic life has already begun in many respects. Cross-border trade has been a source of growth for both economies, and financial flows have grown in recent years to record heights.

- What are the financial policies that will govern Hong Kong as a special administrative region, and will these lead to greater financial integration with the mainland?
- How can the expertise available in Hong Kong benefit China's transition to a market-based financial system?
- What are the policies needed to maintain Hong Kong's preeminence as a financial center and simultaneously facilitate Shanghai's emergence?

Discussion Leaders — Senior officials from the People's Bank of China and the Hong Kong Monetary Authority.

Moderator — **Paul Volcker**, former Chairman of the Federal Reserve, USA

2:30- 4:00

■ China: Food Security and the Rural Economy

Acutely aware of the devastation of famine, Chinese leaders have given a high priority to food production and supply. Reforms launched in the late 1970s paid enormous dividends by increasing agricultural productivity, expanding grain supplies, and diversifying agriculture.

- Can productivity increases continue or are they approaching a natural ceiling?
- Will China become a major importer of grains in the next two decades — to the point of reversing the long-term decline of real prices of food in world markets?
- What domestic policies and international efforts could help ensure a reliable food supply in China?

Discussion Leaders — **Ernest Micek**, Chairman, President and CEO, Cargill Incorporated, USA
And senior officials from the Ministry of Agriculture of China and from Beijing University.

Moderator — **Trevor Flugge**, Chairman, Australian Wheat Board, Australia

4:45 - 5:45

Keynote:
China – the Promise of Partnership

Keynote Speaker — A Senior Official from China.

5:45 -

Reception

■ = Public Policy Forum

9:00 - 10:30

■ Capital Account Liberalization

International capital flows have increased substantially faster than trade in goods and services in recent years. While many countries have liberalized their regulation of capital flows in order to realize the greatest benefit to their economies, many restrictions remain. The IMF's Articles of Agreement (Article VIII) contain a commitment for members to achieve a full liberalization of current account transactions, and so far 139 countries have accepted this obligation.

- What are the policy implications of increased international capital flows?
- How is further capital account liberalization impacting countries?
- Should the IMF's Articles of Agreement be amended?

11:00 - 12:30

■ Preparing for Economic and Monetary Union in Europe

In May 1998, the European Union is expected to decide which of its 15 member countries are qualified to participate in Economic and Monetary Union (EMU) from the beginning of 1999.

- How will monetary and fiscal policies be conducted in the monetary union?
- What issues are the financial markets focusing on in the run up to EMU, and how will the introduction of the Euro affect financial markets?
- What are the implications of EMU for other countries and for the management of the international monetary system?

Discussion Leaders

Jacques Artus, Deputy Director, European I Department, International Monetary Fund
Joly Dixon, Director for International Economic and Financial Matters, European Commission
Gert Jan Hogeweg, Head of the Monetary, Economic and Statistics Department, European Monetary Institute
John Lipsky, Chief Economist and Director of Research, Chase Manhattan Bank, USA
Michael Mussa, Economic Counsellor and Director of Research Department, International Monetary Fund

Moderator

Massimo Russo, Special Advisor to the Managing Director, International Monetary Fund

2:30 - 4:00

Procurement Opportunities in World Bank Operations

The World Bank Group lends approximately US$ 22 billion a year, presenting enormous business opportunities for member countries.

- What are the regional and sectoral breakdowns for future Bank lending?
- What goods and services are to be procured by borrowers?
- How and where does the Bank promote privatization and private investment in infrastructure?
- What procurement policies and procedures apply to the acquisition of goods and services?
- What are the best sources of information on business?

Discussion Leaders

Raghavan Srinivasan, Chief Procurement Adviser, Operations Policy Department, World Bank
And other World Bank Group representatives.

1997
TUESDAY, SEPTEMBER 23

2:00 - 3:30

World Bank Group and the Private Sector

While private investment in developing countries has been increasing dramatically, it still falls short of meeting the needs, particularly in the infrastructure sector and in the poorest countries. The World Bank Group has taken measures, and continues to explore new means, to increase the trend toward private participation in projects.

- How is the Bank Group providing financial and advisory support for private enterprise and subsovereign infrastructure projects?
- How is the Bank Group enhancing its guarantee capacity, coverage, and delivery?
- How is the Bank Group disseminating information on investment opportunities, finance and best practices?

Discussion Leaders: **Kazuo Sato**, Executive Vice President, Mitsui and Co. Ltd., Japan
And other business and government leaders with expertise in public-private infrastructure ventures.

Moderators: Co-chairs of the Private Sector Development Group, World Bank Group –
Gautam Kaji, Managing Director, Operations, World Bank
Jannik Lindbaek, Executive Vice President, International Finance Corporation

2:00 - 3:30

The Emergence of Asia's Debt Market

1996 was an epoch year in which foreign institutional investors finally recognized local currency fixed-income markets as a viable asset class. However, such investments are concentrated in short-term money market instruments, because of structural impediments to other investment instruments, such as bonds.

- What measures could regulatory agencies take to remove impediments to bond market development - such as in areas of information disclosure/control and benchmarking?
- What policy developments are creating promising investment opportunities in the Asian debt markets?

Discussion Leaders: **I. Putu Gede Ary Suta**, Chairman, Capital Market Supervisory Agency, Ministry of Finance, Indonesia
Neill Nuttall, Director, Jardine Fleming Investment Management Ltd., Hong Kong
Michael Roche, Director, HSBC Asset Management Hong Kong Ltd., Hong Kong

Moderators: **Gregory Batey**, Executive Director and Head of Fixed Income Research, Peregrine Fixed Income Ltd., Hong Kong

2:00 - 3:30

■ Partnerships for Capacity Building in Africa

Capacity building — investment in human capital and institutions — is the missing link in Africa's development process. Consensus has emerged concerning the priorities, opportunities and challenges for such investment, as well as the imperative and role for international involvement.

- How are African countries responding to the challenges, and what responsiblities should they bear?
- What can Africa learn from the East Asian experience?
- What should the role be for the international community in future capacity building initiatives?
- Are there attractive opportunities for foreign investors as partners in this process?

Discussion Leaders: **Zephirin Diabre**, President, Conseil Economique et Social, Burkina Faso
Richard Kaijuka, Minister of Planning and Economic Development, Uganda
Poul Nielson, Minister of Development Cooperation, Denmark
Robert Picciotto, Director General, Operations Evaluation Department, World Bank
Michael Spicer, Managing Director, Anglo-American Corporation, South Africa

Moderator: **Baroness Lynda Chalker**, House of Lords, UK

■ = Public Policy Forum

4:00 - 5:30

Beyond Opening to Integration: Emerging Business Opportunities in Latin America and the Caribbean

Across the region, recent reform programs have transformed the economic landscape, throwing once-closed markets wide open to trade and foreign investment. Integration has made brisk progress, with leaders of the Western hemisphere pledging to achieve a region-wide "Free Trade Area of the Americas" within ten years.

- What are the new opportunities for investors in privatized utilities, infrastructure, and export-oriented manufacturing?
- What does Latin America's transformation mean for international investors?
- What new opportunities will regional integration create?

Discussion Leaders
Julio Manuel Ayerbe, President, Corporacion Financiera del Valle, Colombia
Herminio Blanco, Foreign Trade Minister, Mexico
Manuel Hinds, Minister of Finance, El Salvador
Henrique de Campos Meirelles, President and COO, BankBoston, USA

Moderator **Ana Patricia Botin**, President and CEO, Santander Investment, Spain

This seminar will be followed by a High Tea and country discussion tables featuring government officials from throughout the region.

4:00 - 5:30

Foreign Direct Investments: Where Next?

Foreign Direct Investment (FDI) has increased five-fold since 1990. So far it has been heavily concentrated in a few developing countries.

- Where are the new frontiers — the countries and sectors — for FDI in emerging markets?
- What policy reforms are needed for developing countries to attract such investment?
- What are the opportunities and the risks for investors in this less-explored terrain?

Discussion Leaders
Chief executives of companies investing in frontier markets.

4:00 - 5:30

■ The Role of the State

The world is rethinking the role of the state. Far-reaching developments in the global economy have us revisiting basic assumptions about government's place in economic life. This seminar will focus on the role of government and explore areas where it is undergoing dramatic change, such as:

- Establishing a foundation of law
- Maintaining an effective economic policy environment
- Providing a comprehensive and efficient safety net
- Protecting the environment
- Giving a voice to citizens, business, and civil society

Discussion Leaders
Luiz Carlos Bresser Gonçalvez Pereira, Minister of Federal Administration and State Reforms, Brazil
Trevor Manuel, Minister of Finance, South Africa
And other government leaders.

Moderator **Joseph Stiglitz**, Chief Economist and Senior Vice President, World Bank

PROGRAM FEATURES

Receptions, luncheons and coffee breaks to promote informal interactions among Program participants.

Resource and exhibit area to provide the latest information on Bank Group and Fund products and services for the private sector, through multimedia tools, and interactive and visual displays. Bank Group and Fund staff will be available to explain project finance, as well as investment guarantees, political risk insurance, loan syndication, country and market data, investment marketing services, advisory services and procurement opportunities.

Publications and other materials — covering the range of themes, regions, and countries addressed in the Program including country surveys and investment guides, macroeconomic analyses, sector overviews, and briefings on doing business in emerging economies.

Registration to the Annual Meetings enabling seminar participants to observe the official proceedings, which begin on Tuesday, September 23; restricted sessions, such as the Opening Plenary, will be relayed live via closed-circuit television.

HOW TO PARTICIPATE

For Program of Seminars attendance, please return the application form with payment promptly, as space is limited. (Advance registration is not required for official Annual Meetings Delegates, Observers and Press.) Application does not guarantee acceptance. Participants will receive further information upon confirmation.

For Public Policy Forums, one must be registered to attend the Annual Meetings. No other registration and no fee is required.

All sessions will be on the record and open to journalists who are registered to the Annual Meetings. Further details will be available when journalists arrive at the Convention Centre.

Seating in seminar rooms is available on a first-come, first-seated basis.

1997 PROGRAM OF SEMINARS
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HOTEL ACCOMMODATION

Inquiries on hotel accommodation should be sent to:

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PRESS INFO

Year 2002

main argument is mainstreaming

Background on the journalists

[curriculum vitae and clips are attached, alphabetically by news organization]

Mr. Eduardo Lachica, Washington Staff Correspondent *Asian Wall Street Journal* -- Mr. Lachica, a Filipino national who has been reporting on the Bank for more than 10 years, began in journalism covering business news in the Philippines and Japan. He is interested in the Bank's portfolio in East Asia, and China in particular. He wants your views on the Bank's various reorganizations and why, in his opinion, none of them have succeeded. He would like an update on the Anti-corruption action plan to be discussed at the Development Committee. Eddie, while easygoing and affable, can be blunt in his questioning and is most receptive to simple answers supported by examples from the field.

Ms. Colleen Ryan, Washington Correspondent *Australian Financial Review* -- Ms. Ryan, a seasoned reporter who has worked for the ***AFR*** for 8 years, with stints in between with the ***Sydney Morning Herald***, the ***National Times*** and ***Eight Days Magazine***, a London publication, has persisted in her request to interview you during the past nine months. Ms Ryan is likely to focus on your Presidency and the imprint you think you hope to leave on the institution, ASEAN and the impact of regional trade agreements on industrial countries (including Australia), and the Bank's successes and failures in East Asia and the Pacific. She wrote a piece on you in May this year, as a wrap up on the Spring Meetings (see attached clip).

Ms. Leah Nathans, Staff Writer, *Business Week* -- Ms. Nathans, who wrote the "Golden Rolodex" piece on you in ***Business Week*** in 1992, will focus on China finance and your views on decisions that will be likely to emerge from the Annual Meetings in Hong Kong. A graduate of Columbia and Barnard, Ms. Nathans has been at ***Business Week*** since 1988. A 1996 piece she wrote on Morgan Stanley focused on the promises and pitfalls of developing new sources of high-margin business in emerging markets (see attached clips).

Mr. Alessandro Merli, London-based International Finance Correspondent, *Il Sole 24 Ore* -- Mr. Merli has been covering development finance since 1985 usually focusing on monetary issues, the IMF and the World Bank, and Italy's role in influencing global banking supervision. He thinks more like an economist than any of the other journalists in this group (he covered the debate on Mercosur, for example). Alessandro is pro-Bank. He will ask about globalization and the World Bank's role, the Bank's operational guidelines on corruption, and about the Bank's views on how best to involve the private sector in the development business. (***Il Sole*** is Italy's most widely-read daily business newspaper).

Mr. Ryosuke Harada, Chief Economic Correspondent, *Nikkei* -- As the senior reporter covering U.S. monetary policy, fiscal policy and U.S.-Japan relations for Nikkei's main business daily, Mr. Harada wields significant influence in Japan. He is likely to ask about the implications of currency liberalization (and volatility) in Southeast Asia, how the Bank can work with the IMF to ensure better banking supervision in developing countries, and your view of how Japan will benefit from the explosion of foreign direct investment in Asia's tiger economies.

He may also want to know about your trip to Japan and the private sector infrastructure initiative.

Mr. P.T. Parasuram, Washington Correspondent, *Press Trust of India* -- As an eminence gris among Washington correspondents covering the World Bank, Mr. Parasuram almost always asks the first question at our press conferences. He has a reputation for asking probing questions about such issues as net transfers of financial flows from developing to developed countries as well as questions about privatization programs in India and whether or not the country is benefiting from structural reforms. (Press Trust of India is the country's national newswire service.)

Mr. Simon Beck, Washington Correspondent, *South China Morning Post* -- Mr. Beck, a U.K. national educated at Oxford, has worked for the ***SCMP*** for seven years, beginning as a diary columnist and working stints as a news editor and assistant news editor in Hong Kong. He will ask about the significance of holding the Meetings in Hong Kong and will want to know how the Bank's Strategic Compact will help it stay relevant in emerging Asia and in China, where private investment dominates. Simon writes a regular column on Asia, the U.S. and key policy issues, so his questions could possibly touch on corruption in China, as well as the country's position as an emerging superpower.

Mr. Zhai Jingsheng, Washington Correspondent, *Xinhua News Agency* -- Mr. Zhai, who represents China's state news agency, wrote to Shengman earlier this month asking to interview you. He wants to ask about the significance of holding the meetings in Hong Kong, prospects for economic development in East Asia and China, the relative success of World Bank-financed China projects, and when China will graduate from IDA borrowing. Mr. Zhai has covered the Bank for the past two years, is usually quite positive about the Bank's role in China, and is not a particularly aggressive reporter.

Prepared by Merrell Tuck, 8/26/97

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Additional Comments

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Withdrawn by	Date
Diego Hernández	July 24, 2025

June 17. Nikkei Morning Edition
page 3

【ワシントン17日＝原田亮介】ロシアを含む主要国首脳会議（デンバー・サミット）が二十日から、米中西部のデンバーで開かれる。議長国の米国は民間経済のグローバル化に対応する新たな政治的な枠組みを重視、政策協調を掲げた伝統的な

20日開幕

デンバー サミット

「経済サミット」は「政治サミット」へと変容する。討議を通じて米国は好調な自国経済をけん引した市場主義の各国への浸透を目指す戦略だ。サミットはこれまで以上に唯一の超大国である米国主導の色彩を強めそうだ。

米の「一極体制」鮮明に

市場主義浸透狙う

中国棚上げ ロシア取り込む

グローバル化

クリントン米大統領はサミット前日にデンバーで「二十一世紀のグローバル市場」と題した演説をする。市場メカニズムを根本に置いた過去四年の米経済政策が低インフレや安定成長、雇用拡大でいかに成功したかを説く。一見自慢話のように見えるが、この演説がサミットの基調となる。

キーワードは「グローバル化」。グローバル化は新興市場の成長や「ロシアなどの市場民主主義の定着」（タルーロ米大統領補佐官）、さらに米国と日欧経済の成長格差までもたらした。グローバル化を強調することで、米国はその推進力である米国流の市場主義の浸透を目指している。

日本の対外黒字の拡大問題や欧州の通貨統合、雇用対策をめぐる七カ国首脳の討議は極めて短時間で、伝統的な政策協調のテーマには踏み込まない。成長促進のための財政出動などが共通課題になったこともあるが、日欧が直面するのは個別政策の手直しでは片づかない構造問題。

圧倒的な市場の力に比べ各国政府は財政余力が乏しく、市場の動きを無理に抑え込もうとすれば為替、債券相場の混乱を招きかねない。政策協調は難しく、これまでのサミットのように各国が抱える案件を平等に調整する場にもしにくい状況のなかで、米国はむしろ自国の経験を範とするよう求める構えだ。

政治分野軸に

エリツィン大統領のほぼ全会合への参加を後押しするなど、米国はすでにサミットの準備段階で唯一の超大国としての指導力を発揮している。「サミットでの米国の相対的な力の向上は自明の理」（米政府高官）であり、討議自体も米国の主導色の濃い内容になろう。

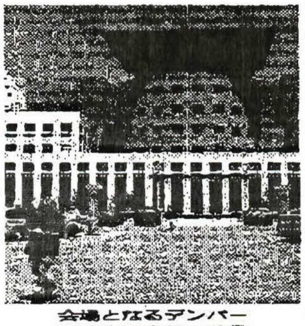
首脳会合でグローバル化を深めるのは経済より政治分野になる。環境問題や人権、国際犯罪、テロ防止、途上国の開発プロジェクトからの汚職の一掃など「一国だけでは対応できず、国際を補完する政治的な枠組み作りが必要だからだ。

「香港」のみ言及

米国が狙うのは自国ルールの普遍化。外国企業の幹部に刑事罰則を適用する法改正を他の主要国に求めているような動きだ。この「自国ルールの押しつけ」が日欧や途上国の反発を招く懸念は十分ある。

米国は、本来グローバル化に欠かせない中国を今回のサミットでロシア同様に国際政治経済の枠組みに取り込むことを断念した。二十一世紀に世界最大の市場になる中国への言及は香港返還に関する声明だけになり、中国の世界貿易機関（WTO）加盟問題は進展しそうにない。

これに対しロシアの九八年WTO加盟は強く後押しする方針だ。米政府幹部は記者団から「中国の加盟になぜメドがつかないのか」と問われ、「ロシアにない巨額の貿易不均衡を抱えているからだ」と苦しい弁明をした。米政権は献金疑惑などを抱え、中国を国際的な枠組みにどう取り込むかという大テーマには手をつけられないのが実情だ。



会場となるデンバーの公立図書館＝共同

デンバー・サミットの主要議題

▼雇用と経済成長
インフレなき持続的成長のための各国別の課題

▼国際金融
金融監督当局間の協力、新興市場の金融システム強化

▼貿　易
さらなる自由化への取り組み。ロシアによる世界貿易機関（WTO）、経済協力開発機構（OECD）の加盟問題

▼開　発
アフリカなど最貧国に対する投資の拡大、援助戦略

▼環境・エネルギー
気候温暖化防止に向けての2000年以降の二酸化炭素排出抑制・削減問題、原子力安全対策

▼世界福祉
高齢化がもたらす社会経済的影響の分析と対策。感染症予防への国際協力

▼テロ・地域情勢
返還後の香港の課題、中東和平、ボスニア情勢、国際テロ対策の強化

8ヵ国首脳の横顔

クリントン米大統領（50）

5回目の出席で初のホストを務める。献金疑惑などスキャンダルは抱えながらも、経済は長期好調。失業や景気低迷に悩む他の首脳に秘けつを伝授？

エリツィン・ロシア大統領（66）

正式参加は初めてだが、92年以来政治討議に招待されている。内閣の大幅入れ替えで内政は小康。環境保護などでの提案をテコに全面参加に強い意欲。

ブレア英首相（44）

唯一の初参加。今回のサミットで最年少の参加者でもある。18年ぶりに保守党から政権を奪回。外交手腕は未知数で、各国首脳との個人パイプ作りが急務。

コール独首相（67）

出席15回を数えるサミットの長老。財政問題で直前まで連立崩壊の危機に直面。"親友"エリツィン大統領の正式参加を外交得点につなげたいところ。

シラク仏大統領（64）

総選挙の左派勝利による保革共存で内政は混乱模様。国会を優先したジョスパン首相の欠席には安どと心配が相半ばか。3回目の出席。

クレティエン加首相（63）

僅差（きんさ）で再選を果たしたばかり。参加国中トップを誇る財政の健全性など経済実績をてこに存在感をアピール。4回目の出席となる。

プロディ伊首相（57）

政権基盤は依然ぜい弱。欧州通貨統合の第一陣参加が最大の課題。アルバニア派兵の苦い経験から、地域紛争問題での主要国協調を期待。出席は2回目。

橋本龍太郎首相（59）

首相として2回目の出席。昨年は「世界福祉構想」を提唱。今年もテロ対策などで指導力を発揮し、秋の自民党総裁選での再選を確実にしたいところ。

「政治特化」は時期尚早

米による経済分野一極支配は不可能

ロンドン・スクール・オブ・エコノミクス米国調査センター所長のマイケル・ホッジス氏　ロシアの参加で従来の七カ国による経済討議に一時間から二時間半程度しか割けなくなったと聞く。大変に残念だ。ロシアを国際経済システムに組み入れるのは重要だが、ロシアが世界経済の運営に意味のある役割を果たせるとは思えない。

G7からG8への衣替えに北大西洋条約機構（NATO）拡大を実現させようという米国の思惑があったと伝えられる。その裏に七カ国首脳が集まっても経済について意味のある話し合いはできないという判断があれば考えものだ。米国経済は好調だが、経済分野で米国の「一極支配」が可能だとは思えない。官僚や民間企業の努力ですべてがうまくいくわけもない。

一例が国際金融システムの安定化策だ。各国が監督の強化や取引の透明性確保に努める必要性は増している。金融技術の進歩に当局の対応は追いついていない。民間金融機関の自主的な努力だけに期待するわけにもいかない。国際的な広がりをもった政治的な力が求められる。

（ロンドン＝清水功哉）

May 30.
Nikkei Morning E
International page

新興市場へ流入急拡大

先進国の民間資金

96年、2400億ドル 世銀報告

世界銀行は二十九日、先進国から発展途上国への民間資金の流入が九六年に二千四百億ドルと十年前の十倍近くに増え、今後も年金運用の拡大などでブームが続くとする報告をまとめた。途上国で高成長や投資リスクの低下が続く半面、先進国では高齢化による成長率低下や年金資産の増大が続くのが背景。ただ、資金が特定国に集中する傾向や途上国特有の銀行システムの弱さなどの問題点も指摘し、通貨危機を未然に防ぐ備えも求めている。

年金運用の拡大映す

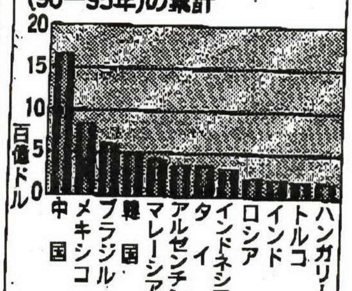
民間資金の途上国への純流入額は、九五年初めのメキシコ通貨危機の前後に一時的な停滞はあったものの、結果的には過去三年で五五%増という急激な増加ペースを回復した。途上国全体の国内投資額に占める比率は九〇年の四・一%が九六年に約二〇%に拡大し、資金流入が成長を促す好循環をもたらしている。

新興市場ブームの持続の背景として、報告は途上国の資本規制の緩和などのほか、先進国側の事情も分析。従来、国際分散投資が遅れていた米国や日本の年金基金、投資信託が「高利回りを求めて途上国に資金を投じる傾向が強まっている」と指摘している。

九六年の東アジア向けの投資増加額では「日本の年金資金の占有率がトップ」とパタチャルヤ経済顧問は説明しており、今後も「高齢化で先進国の貯蓄志向が強まる一方、途上国は相対的に高い成長率を維持するため、資金が流れるのは自然な動き」とみている。

九〇―九五年の累積流入額を国別にみると、中国が千六百億ドル強とトップでメキシコ、ブラジルなどが続き、上位十二カ国が途上国への流入全体の八割を占める集中傾向が鮮明だ。東アジアや中南米と、公的資金頼みが続くアフリカの格差も広がっている。

さらに報告は今後の課題として、途上国全体に通じる銀行システムのもろさを特記。安易な融資を防ぐための預金準備率の引き上げや貸出資産のリスクに見合う自己資本比率規制の導入などを求め、通貨危機と連動する金融危機を未然に防ぐ体制作りを訴えている。（ワシントン＝原田亮介）



先進国からの民間資金流入額（90―95年）の累計

米英協調をアピール

【ロンドン29日＝宮本明彦】クリントン米大統領とブレア英首相の初の首脳会談は、ニュージェネレーション（新しい世代）のトップ同士による米英協調体制

…上にた…今年の米国に続き、九八年には英国がサミットの議長国になることから、両国はこの間に計画の

する方向で準備するが、英米両国が他国に構造改革や内需拡大を要請する場面も予想される。

…別雇用サミット」を開く準備を進めることでも一致した。北アイルランド和平実現に向け協力を強めることも確認した。（1面参照）

会談に先立ちクリントン大統領は英首相官邸での閣議で演説、「英国が欧州で指導力を発揮すると同時に

29日、ロンドンのダウニング街…
レア英首相夫妻（中央）とクリ…

株式1200億円売却

一般投資家向け公募では、

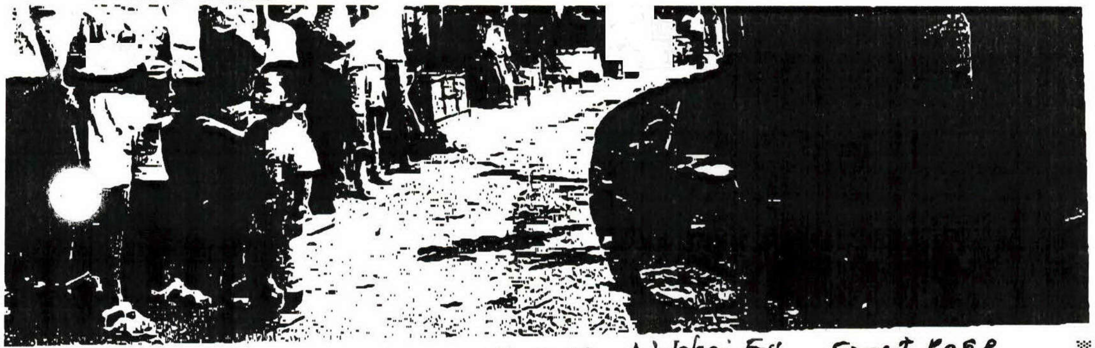
【ロンドン29日＝鈴木亮】ギリシャ最大の企業ギリシャテレコムは、五月末から発行済み株式の一一%にあたる四千五百万株（円換算で約千二百億円に相当）を広く海外市場で売却、ロンドン証券取引所に上場する。同社は欧州連合（EU）域内で唯一、国内での事業独占を認められ、収益が安定しているため、欧米や日本を含めたアジアの機関投資家の間で人気を集めそうだ。

2005年に黒字化

ユーロトンネル

【ロンドン29日＝清水功哉】邦銀などへの巨額債務で財務危機に陥った英仏海峡トンネルの運営会社ユーロトンネル社は二十九日、今後の収支見通しをまとめた。銀行代表団と合意済みの金融支援策で経営再建が順調に進めば、二〇〇五年に収支（税引き後）が黒字化する可能性があると指摘

TOTAL P.01



Aug 12. Nikkei Ev　Front Page

同じ姓を持つ50戸以上が協力して暮らす（福建省永定県の「深遠楼」）

金を融資

◇東海興業
5110億円の負債を抱え、会社更生法の適用を申請。更生手続き開始に向け作業中
◇多田建設（97年7月）
1714億円の負債を抱え、会社更生法の適用を申請。更生手続き開始に向け作業中
◇三井建設（97年8月）
さくら銀行、三井不動産など三井グループの全面支援で再建へ

の三…億円のゼネコン準大手。九七年三月期末の有利子負債…倍に達し、経営不振が深刻化していた。

経営を下支えする。十三日までに固まった三…

も、関係会社の資産売却などで四百二十億円減らす計…

海興業と多田建設が相次ぎ会社更生法の適用を申請し

対アジア

米、厳しい自由化要求

WTOの金融サービス交渉　「通貨危機と無関係」

【ワシントン12日＝原田亮介】サマーズ米財務副長官は十二日、米議会・産業界の会合で講演し、タイの通貨不安を契機にアジア諸国で米主導の金融自由化への警戒感が強まっていることに触れ、「自由化が為替投機を誘うという見方は誤り」と語った。世界貿易機関（WTO）の金融サービス交渉に一段と強い姿勢で臨み、外国金融機関の支店進出の自由化、買収や合弁での五〇％以上の出資比率の許容、進出企業の既得権の維持などをアジア各国に求める方針だ。

金融サービス交渉は日本が議長国で、年末までに最終合意を目指す予定。銀行や証券、保険などの業界が抜き出た国際競争力を持つ米国は、成長するアジア市場に照準を当て、外資参入の障壁を一気に解消することを狙っている。アジア諸国はこれに反発しているが、米政府が厳しい開放要求を突きつけたことで調整難航は必至だ。

同日、サマーズ副長官は「人為的な交渉期限のために方針を曲げることはない」と述べ、「不満足な合意内容なら調印しない」とも語った。ただ自由化について一定の経過期間は容認する考えも示した。

タイの通貨危機を巡っては、自由化が短期資金の流入を招き、投機筋の標的になったという見方も出ている。副長官は「この数週間の投機的な動きはタイ問題の原因ではなく、その結果だ。原因は継続不能なマクロ経済政策と金融不安にある」と反論し、…
の自由化意欲が…
とに強い警戒感…

哲也】十二日のニューヨーク株式相場は大幅に下落、
日比一〇一ドル二十…
九六〇ドル八四セント

中国　客家の故郷 ②

土楼に一族が生活

客家（はっか）の円形土楼を四階まで上るとひんやりと涼しい。土楼の外では真夏の強い日差しが降り注ぎ、セミが間断なく鳴いている。土楼は円形であるため陰影ができやすく、直射日光の届く範囲が狭い。土楼は防音、防寒、防風、防火、耐震効果も考えて設計されているという。

十八世紀初めの康熙年間に建造された福建省永定県の承啓楼には今も五十四家族三百四十二…

先祖をまつる祭壇が楼の中心部に据えられている。祭壇を囲むように家畜の飼育場や炊事場が広がり、東西にそれぞれ井戸がある。円形に連なる住宅部分の二階は穀物の貯蔵庫で一年分の食糧を保管していた。楼内に「書房」があり、子供が読み書きをした。

客家の人々が周囲をふさいだ巨大な集合住宅を建造したのは外敵の侵入を防ぐためだ。盗賊など外敵が攻めてくれば、扉を閉ざして立てこもった。四階の外壁部分に明かり窓のような穴が開いている。「ここから熱湯や石ころを投げつけて下の外敵を撃退したのだ」と楼の住人が指さした。

「土楼には防獣効果もあった」と永定県のアマチュア研究家、江長武（72）さんが聞きな…
…た。山岡邦…

2008年五輪

国内候補地決定へ

大阪・横浜、最後のアピール

大阪市と横浜市が争っている二〇〇八年夏季五輪招致で、日本オリンピック委員会（JOC）は十三日午前から、東京都渋谷区のオリンピック記念青少年総合センターで選定会議を開催…の国内競技団体代表とJOC理事二十人の計四十九人の投票により、両市の招致レースに決着をつける。

プレゼンテーションで横浜市は高秀秀信市長、バルセロナ五輪陸上のファイナ…づけ、「既存施設の利用と関係自治体の協力で財政負担も軽い。四千万人が協力する新しい形の五輪が実現できる」などと売り…

一方、大阪市は…文…市長、バルセロナ五輪シン…に競技施設を…画を「史上初…ピック」とP…はビデオで説…と選手村が近…位の大会」な…

投票は無記…午後二時半ご…からの立候補…る見通し。

招致レース…ら周到な準備…大阪が、コ…

人工衛星で災害監視

科技庁と郵政省

発生を早く把握

科学技術庁と郵政省は共同で、九八年度から人工衛星を使った地震や洪水などの災害監視システムづくりに乗り出す。衛星の広域観測で災害発生をできるだけ早くとらえ、被害状況も正確に把握して復旧に役立てる。原油流出事故や大雨による地滑りなど広域観測の必要な災害が目立つことから、二〇〇〇年代初頭にはシステムをつくりあげて政府の危機管理能力を高めるのに役立てる。

計画では、地球観測衛星や通信衛星など目的の異なる複数の衛星を組み合わせ、地震や洪水のほか火山噴火、土砂崩れ、森林火災、大規模な海洋汚染などの災害の発生を監視する。災害が発生した場合、被害の規模や状況を調べ、二次災害を防ぐのに利用する。地上の二・五メートルの物体を見分けられる衛星を活用し、建物の崩壊など被害の様子を細かく分析できるようにする。災害により地上の通信網が寸断された場合の手段としても使う。

監視システムは…のデータを地上の…受け取り、データ…て災害対策に役立…形の情報にして国…地方自治体などに…

科技庁と郵政省は、…打ち上げ予定の地球…星「ADEOS2」…〇二年に打ち上げ…域観測衛星「AL…」などを利用することにしており、具体的な…ムづくりを傘下の…事業団と通信総合…進める考えだ。

AUG-25-1997 19:54　NIKKEI　P.01/01

Record Removal Notice

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File Title	**Barcode No.**
President Wolfensohn - Briefing Book for President's Meetings and Events - Pre-Brief - Press Roundtable - September 3, 1997	30488586

Document Date	**Document Type**
26 August 1997	CV / Resumé

Correspondents / Participants

Subject / Title
CV - Alessandro Merli

Exception(s)
Personal Information

Additional Comments

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Withdrawn by	**Date**
Diego Hernández	July 24, 2025

This item appeared on page 5 of the **May 1, 1997** issue of

Il Sole 24 ORE (Italy)

Da Banca mondiale e Fmi prestiti vecchi e nuovi ai russi

(DAL NOSTRO INVIATO)

WASHINGTON — Si sbloccano i prestiti alla Russia, parte l'iniziativa per alleggerire il debito estero dei Paesi più poveri, soprattutto dell'Africa. Con questi risultati concreti si sono chiuse martedì a Washington le riunioni di primavera del Fondo monetario internazionale e della Banca mondiale, che hanno però riproposto il problema delle risorse a disposizione soprattutto per aiutare i Paesi in via di sviluppo.

Russia. L'atteso accordo della Russia con il Fmi sul programma economico per il 1997 è stato firmato martedì dal governatore della Banca centrale Serghej Dubinin, e prevede una riduzione dell'inflazione dal 22% del 1996 al 12% quest'anno, ma soprattutto miglioramenti decisivi nella raccolta tributaria. Le difficoltà incontrate con quest'ultima e lo sfondamento del deficit erano state le cause principali della sospensione delle erogazioni di due terzi di un prestito triennale da 10 miliardi di dollari concesso lo scorso anno. La nuova intesa prevede verifiche trimestrali sulle entrate fiscali e sul disavanzo pubblico. Il programma deve essere approvato dal consiglio Fmi questo mese prima che i pagamenti possano riprendere.

Intanto, la Russia ha firmato un protocollo anche con la Banca mondiale per un prestito da 600 milioni di dollari per finanziare l'aggiustamento strutturale. Un altro prestito per la politica sociale verrà aumentato da 500 a 800 milioni di dollari. È inoltre in discussione un finanziamento per la ristrutturazione del settore del carbone. Entro la fine del semestre la Russia riceverà dalla Banca, secondo il vicepresidente della Banca stessa Jonathan Linn, più di mezzo miliardo di dollari. Il presidente dell'istituzione di Washington, James Wolfensohn, ha dichiarato che la Banca mondiale dovrebbe essere in grado di prestare alla Russia 6 miliardi di dollari nei prossimi due anni.

Dopo la firma degli accordi di Washington, il responsabile della politica economica di Mosca, Anatolij Ciubais, ha affermato che l'economia russa dovrebbe crescere quest'anno a un ritmo modesto, fra lo 0,5 e il 2,5%, ma che il 1998 potrebbe riservare sorprese positive. Secondo il numero due del Fmi, Stanley Fischer, il nuovo team economico russo è ottimo è ha cominciato molto bene ad affrontare i problemi, particolarmente quello delle entrate fiscali: i risultati dovrebbero vedersi in tre-sei mesi.

Africa. Il continente a lungo emarginato dalla comunità finanziaria internazionale sta vivendo un rinnovato interesse. Le riunioni di primavera hanno visto l'avvio dell'iniziativa per alleggerire il peso del debito estero dei Paesi più poveri, soprattutto africani. Il primo beneficiario sarà l'Uganda, che godrà di una riduzione del proprio debito del 20% circa a partire dall'aprile 1998. Altri tre Paesi (Bolivia, Burkina Faso e Costa d'Avorio) hanno raggiunto i requisiti di eleggibilità. La Banca mondiale ha avviato anche un altra inziativa, destinata all'Africa, per aumentare gli investimenti in capitale umano e nella costituzione di istituzioni moderne. Ma il più forte impulso è venuto dall'amministrazione Usa e dal Congresso, che hanno annunciato un'iniziativa che riguarda sia la concessione di aiuti, sia l'apertura ai prodotti dei Paesi africani.

Risorse finanziarie. L'impegno di Washington per l'Africa giunge in contrasto con la posizione assunta dal Governo americano sulle questioni delle risorse del Fmi. Gli Usa hanno messo il veto all'aumento delle quote del Fondo, proponendo un 35% contro il 55-60% ritenuto opportuno dal management dell'organizzazione e dagli altri Paesi membri. Bloccata anche l'allocazione di diritti speciali di prelievo, pari a 30 miliardi di dollari circa, da destinarsi principalmente ai Paesi ex comunisti di recente ammissione.

Anche per la Banca mondiale, il presidente Wolfensohn ha lanciato un avvertimento: gli utili di 1,2 miliardi di dollari ottenuti l'anno scorso sono in diminuzione e questo rischia di limitare le risorse disponibili per aiutare i Paesi più poveri. La Banca ha di recente approvato una ristrutturazione interna che punta ad aumentare l'efficacia delle sue operazioni.

Alessandro Merli

In a related story, Il Sole 24 Ore (Italy,5/1,p.5) says aside from the HIPC debt plan, some African members of the World Bank have launched an initiative for Africa aimed at increasing investment in human capital.

EDUARDO LACHICA
Staff Correspondent
The Asian Wall Street Journal

Mr. Lachica is the Washington-based correspondent of The Asian Wall Street Journal with the assignment of reporting U.S. diplomatic and trade relations with Japan, China and other Asian countries.

He began his journalistic career with the English-language Philippines Herald in Manila. In 1970 he won the Rotary Club of Manila journalism award for a series of articles in the Herald about the spread of the New People's Army. His reporting on this leftist insurgency later formed the basis for a book published by Praeger Publishing Co. under the title "Huk: Rural Society in Revolt."

Mr. Lachica worked as a journalist in Japan for nine years. In the early 1970s he was the Tokyo correspondent for The Asian, a pioneering regional newspaper owned by Japanese, South Korean and Southeast Asian publishers. He subsequently reported from Tokyo for The Christian Science Monitor and The Australian. He joined the staff of the The Asian Wall Street Journal in 1976, assigned first as a roving Southeast Asian correspondent and later as its Tokyo bureau chief.

In 1981 Mr. Lachica was assigned to Washington as the Asian Journal's U.S. correspondent. He was for eight years a diplomatic and trade reporter for The Wall Street Journal, reporting a number of international events including the Philippines' People Power revolution.

In 1992 he was appointed editor of The Asian Wall Street Journal Weekly, the New York edition of the Asian Journal. In 1995 he returned to Washington for a full-time reporting assignment for the Asian Journal and other Dow Jones & Co. publications.

Mr. Lachica is a Bachelor of Literature graduate of the Ateneo de Manila University. He was a Nieman Fellow at Harvard University in 1967-68, specializing in Japanese politics and history.

Sri Lanka Is Set
To Again Become
Top Tea Exporter

By Eduardo Lachica
Staff Reporter of The Wall Street Journal

The Wall Street Journal via Dow Jones

WASHINGTON -- Sri Lanka is poised to regain its top position among the world's tea exporters but it has to sharpen its marketing skills in order to increase its earnings from this traditional commodity, the World Bank says.

The bank issued this advice as part of an assessment of the recent privatization of Sri Lanka's 23 estate firms. But the prescription can apply as well to other Asian tea producers that are facing increasing competition from soft drinks, fruit juices and alcoholic beverages in overseas markets.

In a study, the bank urges Sri Lanka and other Asian producers to direct more of their marketing efforts at the Mideast, Russia and Eastern Europe where local tastes still favor tea to bottled beverages, without neglecting their established niches in the developed world. The bank also suggests that producers do more direct selling and rely less on the tea auction markets in London, Calcutta and Mombasa, Kenya, to dispose of their highly perishable inventories.

The world tea trade currently is dominated by a handful of British conglomerates including Unilever PLC, Associated British Foods PLC and Cadbury Schweppes PLC, but the bank sees some room for Asian producers to do their own marketing.

The bulk of this global trade is in black tea. Most of the green tea grown in China, Japan and Taiwan is internally consumed. The value of world tea exports in 1995 was $1.42 billion, by the World Bank's estimates.

Sri Lanka had been the world's leading tea exporter for a number of years until 1995, when it was edged out by Kenya by less than a percentage point in volume terms. A number of British planters who were displaced by the nationalization of Sri Lanka's tea estates in the 1970s brought their business to that African country, which made it a particularly successful newcomer to this trade. However, the bank expects Sri Lanka, with its stronger, reprivatized tea industry, to retake the export leadership from Kenya in the next several years.

Restoring the industry's profitability would be a tougher assignment, though, for Sri Lanka and other producers. World prices fell more than 67% in real terms from 1970 to 1995, in part because of increased production in Asia and Africa. In addition, demand has been slipping in the industrialized countries.

On the positive side, growing soft-drink consumption in the U.S. has hurt coffee imports more than those of tea. U.S. coffee consumption has been declining since 1992 because of the rising prices of coffee beans and health considerations. The bank, moreover, expects the demand for black tea to grow in Egypt, Pakistan, Iraq and in the improving economies of the former Soviet republics.

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Diego Hernández	July 24, 2025

Business Briefing

02May97 USA: NEWS - INTERNATIONAL NEWS - WOLFENSOHN SHAKING UP THE WORLD BANK.

By COLLEEN RYAN. -- Australian Financial Review
WASHINGTON OBSERVED

Jim Wolfensohn was talking like an investment banker. "I thought it would be a nice idea to give the board a cold shower and tell them these are the facts." As the **World Bank**'s spring meeting wound up this week in Washington, Wolfensohn, its president, was sharing these facts with the world.

The **World Bank** is not making any money on loans. It has an income problem. It has US$15 billion ($19.23 billion) in loans on which it is making a margin of one quarter of a per cent gross. Not a lot to spread around more than 10,000 staff and thousands of projects in poor countries. Something has to give.

Wolfensohn has been in the top job at the **World Bank** for two years now and his influence is beginning to show, but so is his frustration.

It is a long way from Wall Street - where, incidentally, his investment bank was sold to Bankers Trust earlier this month for US$200 million. In fact, one of his anecdotes this week suggested banking, whether in the private or public sector, was not his ideal job.

"My father once said to me, `Never lend money to anybody because if you ever have to get them to repay, they will be your enemies.' "

Wolfensohn was relating this story to describe how he feels about the extraordinary controversy which has erupted over what he refers to as "the debt initiative".

It is the program under which highly indebted poor countries can have their debts written off by both creditors and multilateral agencies, such as the **World Bank**, provided they undertake certain economic reforms. It is known as HIPIC and the first successful candidate, Uganda, was announced this week.

Uganda is to have US$700 million written off from total debts of some US$3.4 billion beginning April next year.

Critics said Uganda had to wait too long, and that the eligibility criteria were too stringent. Wolfensohn was mortified.

"I am finding myself now in this idiotic situation in relation to Uganda and the developing world," he said. "I was hoping ... that when all this happened, I would come in and I would get a standing ovation, instead of which people say, `You are a son of a bitch.' "

Uganda, he points out, is happy with the situation. It is the armchair critics who are not.

Despite the obvious disappointments, Wolfensohn, one of the most successful Australians ever to grace the international stage, clearly has a passion for his new role.

He has visited more than 50 of the 146 nations to which the **World Bank** lends. And he has an encyclopaedic knowledge of its activities. At press conferences he skips from one country to another, answering detailed questions from financial journalists from all over the world. He rarely misses a beat. Bulgaria was the only country he was stuck on this week as he was asked yet another obscure question on economic development.

Wolfensohn socialises with the Clintons and the Greenspans and is doing the job he has coveted since 1980, but it is a difficult one.

At a recent **World Bank** function held to launch the new Development Indicators - a Wolfensohn initiative which measures quality of life, not just dollars - he was not hobnobbing with Washington society. Instead, he was being harangued by a development devotee who had taken up the cause of an indigenous group in India which had allegedly been moved to make way for a **World Bank** project. Wolfensohn, nevertheless, was polite, sincere and patient.

The job has its compensations. Two of his pet projects are eliminating corruption and changing the culture of the monolithic **World Bank**. He talks about these issues with infectious enthusiasm.

"When I first came to the bank, you didn't go in and talk about corruption. Now it is an item in practically every discussion you have. And I think that is a very positive step forward."

Under Wolfensohn, a new anti-corruption policy has been instituted. If corruption is found in a **World Bank**-funded project, the people involved are blackballed, and the project, or that portion of it which is affected, is immediately cancelled. There are spot audits under way throughout the world as part of the policy.

Turning around the culture of the **World Bank** is another one of those "big issues". Two months ago, Wolfensohn launched his Strategic Compact, which aims to change the orientation of the bank; to make it more focused on achieving development objectives. At this stage, it is hard to tell whether it is just words or whether it will have a real impact.

"This has been a year of giant clean-up and it is a year of giant reorganisation in the bank," Wolfensohn said this week.

"And I guess the betting is equally divided amongst you as to whether or not we will succeed in this. It is probably equally divided in the bank too.

"I am optimistic. And I can only tell you ... that we are working our tails off to try and get this done."

Leah Nathans Spiro

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JOURNALISM

11/88- present — BUSINESS WEEK/McGraw-Hill — Staff Editor
Cover investment banking beat. Write and edit news and feature stories on Wall Street trends, companies and personalities. Specialties include the junk bond market, the Japanese presence in U.S.financial services, and LBOs. Stories include profile of Phibro Energy, CS First Boston, Kolhberg, Kravis, Roberts, & Co., Wasserstein Perella & Co. Edited Feb. 1991 cover story on 'The Mess at Pru-Bache.''

6/86- 11/89 — BUSINESS MONTH/Inc. Publishing — Senior Writer
Report and write feature stories on major trends in finance and banking. Stories include: a cover article on the structural problems facing U.S. banks;the push in Washington to curb takeovers; a profile of an aggressive Japanese corporate raider. Promoted after one year from Associate Editor.

12/85- 6/86 — SECURITIES WEEK/McGraw-Hill — Reporter
Wrote two stories a day on Wall Street topics.

3/84- 11/85 — FINANCIAL NEWS NETWORK, BUSINESS TIMES — Producer/Reporter
Produced, wrote and edited a weekly TV show on technology for F.N.N. Developed story ideas, supervised TV crews and edited features for Business Times, a morning business TV program.

6/83- 12/83 — WALL STREET LETTER/Institutional Investor — Associate Editor
Reported fast-breaking financial news.

OTHER

6/79- 12/82 — J.ARON & CO./Goldman, Sachs & Co. — Credit Analyst
Managed credit risk and analyzed financial results of gold, foreign exchange and coffee trading operation.

1/78- 6/79 — SENATOR JACOB K. JAVITS/U.S. SENATE — Economic Aide
Wrote speeches, letters and memos on economic and trade issues.

EDUCATION

9/74- 12/77 — COLUMBIA UNIVERSITY/BARNARD COLLEGE
Bachelor of Arts in Economics

THE MAN WITH THE GOLDEN ROLODEX

Can Wolfensohn's clout and contacts help save the Reichmanns?

It was late March, and Olympia & York Developments Ltd.'s Paul Reichmann desperately needed to appease his restless bankers. His $20 billion real estate empire was crumbling before his eyes. Reichmann signed on J. P. Morgan & Co. and Canadian broker Burns Fry Ltd., but he also recruited a small New York investment bank, James D. Wolfensohn Inc., as his adviser.

The firm provided Reichmann with something more valuable than real estate savvy: credibility. By hiring Wolfensohn, Reichmann got the services not only of its chief executive, James D. Wolfensohn, a former investment banker with Salomon Brothers Inc., but also those of Robert S. Miller Jr., the former vice-chairman of Chrysler Corp., who played a key role working with banks on Chrysler's 1980 bailout, and Paul A. Volcker, the former Federal Reserve chairman. "We are the ones putting our reputations on the line," says Miller, who is advising Reichmann in Toronto.

Reputation is Wolfensohn's stock-in-trade. Over the past decade, Jim Wolfensohn, the firm's 58-year-old founder, who still speaks with a trace of his native Australian accent, has built a thriving business by cultivating an aura of prestige and probity around himself and his firm. Unlike most securities firms, which have diversified into trading and underwriting—businesses that sometimes bring them into conflict with their clients—he maintains a purely advisory role, which has helped him develop close friendships with movers and shakers. Wolfensohn counts some 30 CEOs among his steady clients. "Jim is probably the most charming, worldly, sophisticated operator in the financial world," says a rival banker. "He has probably got the best Rolodex of any individual, bar none. He makes Henry Kissinger look second-rate."

'TROPHY BANKER.' But competitors also claim his success is a triumph of atmospherics over substance. "You've heard of trophy wives. He's a trophy banker," says one. Says another: "He's one-third psychiatrist, one-third concierge, and one-third business adviser. If your jet breaks down, he will lend you his." Retorts Wolfensohn: "We've done over $16 billion in transactions in the last two years. You don't do that by being a concierge." Clients agree. "He's a good person to bounce ideas off," says Vernon R. Loucks Jr., head of Baxter International Inc. "He is not looking to do deals but what makes good financial sense for the corporation."

Wolfensohn has woven together his business, personal, and philanthropic lives to form a single, reinforcing web of interests. He takes small groups of friends and an occasional client on fishing trips to Alaska but is careful not to talk business. He not only serves as chairman of the Kennedy Center in Washington, D. C., but is also an accomplished cellist who counts famous artists like Mstislav Rostropovich as friends.

Maintaining a high profile in the performing arts has been good for business. Take Edgar S. Woolard Jr., chief executive of Du Pont Inc. Four years ago, Woolard invited Wolfensohn to speak about ethics at Du Pont and subsequently became a client and a good friend. Wolfensohn later recruited Woolard to head a group of 25 business leaders who raise funds

CARDS FROM JIM WOLFENSOHN'S FILE

Wolfensohn's links with corporate chiefs combine business and pleasure

Longtime friends. Sat on Rockefeller Foundation board	DAVID ROCKEFELLER, FORMER CHAIRMAN, CHASE MANHATTAN
Advised on purchase of C&S/Sovran. Has known McColl for 25 years	HUGH L. McCOLL JR., CEO, NATIONSBANK
Serves on CBS board	LAURENCE TISCH, CEO, CBS
Represented Du Pont in 1991 divestiture of coal division. Recruited Woolard to raise money for Kennedy Center	EDGAR S. WOOLARD JR., CEO, DU PONT
Advised AmEx on sale of subsidiary. Works with Robinson at Kennedy Center, Carnegie Hall	JAMES D. ROBINSON III, CEO, AMERICAN EXPRESS

DATA: BW

PHOTOGRAPH BY NINA BARNETT; ILLUSTRATION BY LAURIE DAUNS/BW for the Kennedy Center. When Du Pont sold its coal business in 1991, Wolfensohn brokered the deal. "He has an unusual blend of skills, knowledge, and contacts that are very useful," says Woolard.

Volcker, who joined the firm in 1988, adds enormously to the firm's clout—and its mystique. "He has immense integrity," says Scott E. Pardee, chairman of Yamaichi Securities and a former Federal Reserve official. Recently, Volcker flew to Tokyo to host some 30 Japanese CEOs and meet with Bank of Japan head Yasushi Mieno. He then attended a Nestlé board meeting in Zurich and flew on to Moscow to talk to Russian President Boris Yeltsin.

Wolfensohn learned the value of contacts early. In his Manhattan office are photos of his three mentors: British financier Sir Siegmund Warburg, a master of old-fashioned relationship investment banking; Lord Richardson, who ran Schroders Inc., the British investment bank where Wolfensohn worked in the 1970s; and William Salomon. As head of Salomon's corporate finance department, Wolfensohn worked with Robert Miller on the Chrysler bailout, which first placed Wolfensohn in the public eye. He opened his own firm in 1981.

CLIENT 'BONDING.' Wolfensohn's business strategy was simple: court a small group of CEOs. Instead of prospecting for business, depend on word of mouth. And offer clients strategic advice that is totally disinterested.

Wolfensohn now presides over a thriving firm of 100 employees, with joint-venture partners in Tokyo and London. In 1991, Wolfensohn advised on about 11 deals, including the $4.3 billion merger of NCNB and C&S/Sovran, and acquisitions for Kmart and Daimler-Benz. He charges a retainer, ranging from $250,000 to several million, which gives CEOs regular access to him, plus another fee if the firm advises on a specific transaction. "There's a difference between being a hired gun and having a sense of intimacy with a client," says Wolfensohn. "A CEO has got to feel he can call you on a personal matter. There has to be some sort of bonding."

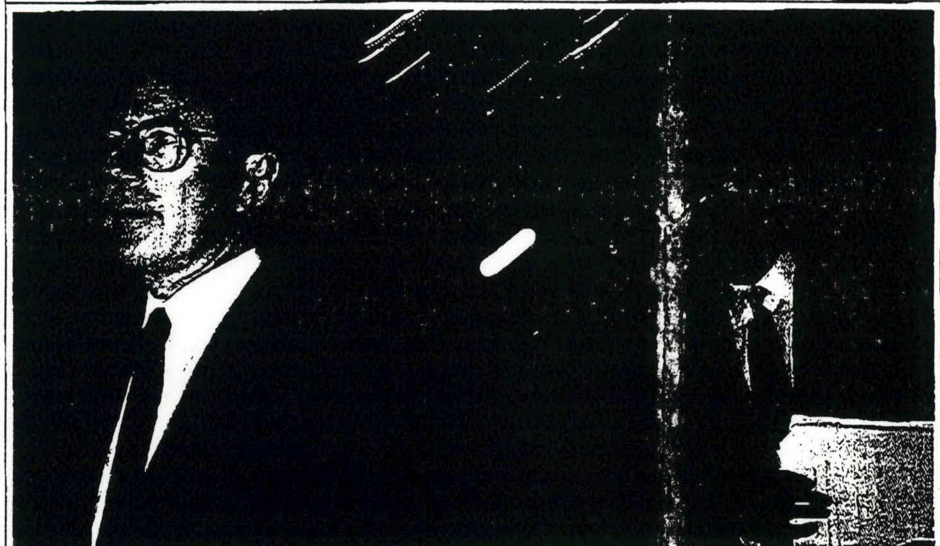
Right now, Jim Wolfensohn has a lot riding on Olympia & York. Miller is playing a key role in selling the Reichmanns' restructuring plan to bankers. Although Wolfensohn says Volcker is not involved, observers speculate that Reichmann believes having the former Fed chairman on his team might help incline skittish bankers to negotiate rather than pull the plug. With O&Y in deep trouble, having Volcker in the wings certainly can't hurt.

By Leah Nathans Spiro in New York

REAL ESTATE

IS OLYMPIA & YORK TOO BIG TO SINK?

The developer's hard-line bargaining with lenders just may pay off



PETER SIBBALD

GREENWALD (LEFT) AND MILLER WILL BE AFTER BANKERS TO KEEP FUNDING CANARY WHARF

Paul Reichmann is the soul of soft-spoken audacity, quietly maneuvering over the past three decades to build the largest real estate empire on earth. Now, though, most of the planet is in a commercial real estate slump, his own buildings are in bad trouble, and he's behind on debt payments. But Reichmann, whose murmuring speech makes listeners strain to hear, has lost none of the old nerve.

The chief strategist for his family-owned Olympia & York Developments Ltd. brazenly told its 91 bank creditors at an Apr. 13 meeting in Toronto that he wants not only to retain control of the empire but to keep it intact. To accomplish this, he is counting on a critical fact: O&Y is too big to fail without widespread pain to others. Banks holding the $12 billion in real estate loans would face a horrendous crisis. If Toronto-based O&Y goes under, says a key adviser, former Chrysler Corp. executive Robert S. Miller Jr., that would be "a disaster for all concerned." Foreclosures would leave banks holding many problem buildings, which they would have little hope of selling at a time of huge office-vacancy rates. That could destroy some banks' balance sheets.

If O&Y can hold on to all its properties, it would be a feat that no other big-time deadbeat developer, from Donald Trump to John C. Portman Jr., has accomplished. To top that, Reichmann wants some fresh loans, including $175 million to keep afloat its woebegone Canary Wharf project in London. And he wants a halt on debt principal and interest payments while working out a permanent loan restructuring—with the promise that lenders will eventually be made whole (table).

THE REICHMANNS' SURVIVAL STRATEGY

- Stay in charge of Olympia & York and keep all of its equity
- Resist large-scale asset sales, which would fetch a pittance in today's depressed market
- Promise lenders they'll come out whole, but get them to defer interest payments and loans coming due, pending a restructuring agreement on the $12 billion bank debt
- Get new loans of $175 million to continue work at Canary Wharf and $85 million to meet O&Y operating needs

DATA: BW

Can O&Y pull this off? It may come closer than many people think. Restructuring experts predict that the Reichmanns may eventually only have to hand over about 20% of their equity to lenders. The family may also be forced to sell some of its stock in such O&Y-controlled public companies as papermaker Abitibi-Price Inc. and oil

BusinessWeek

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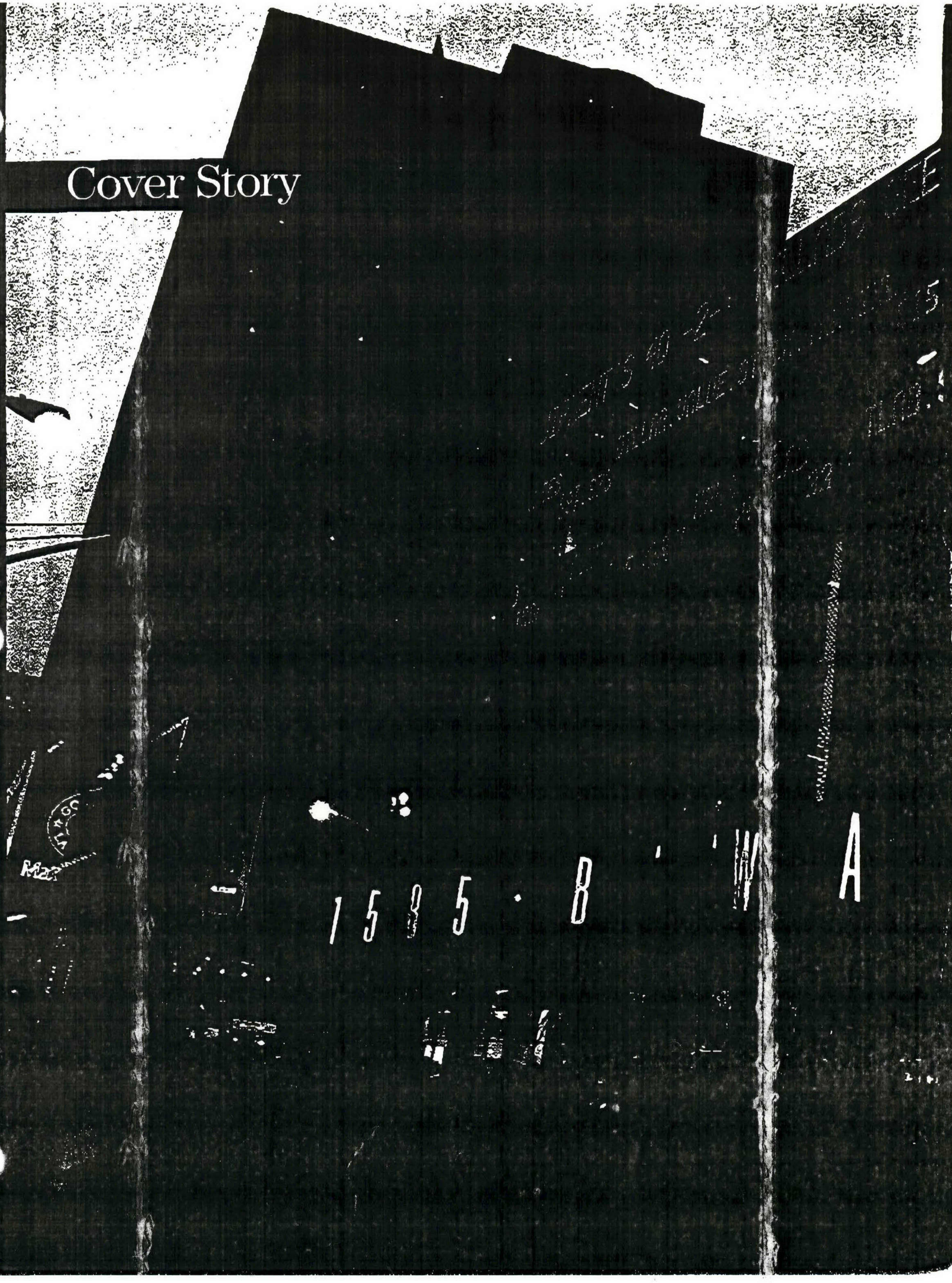
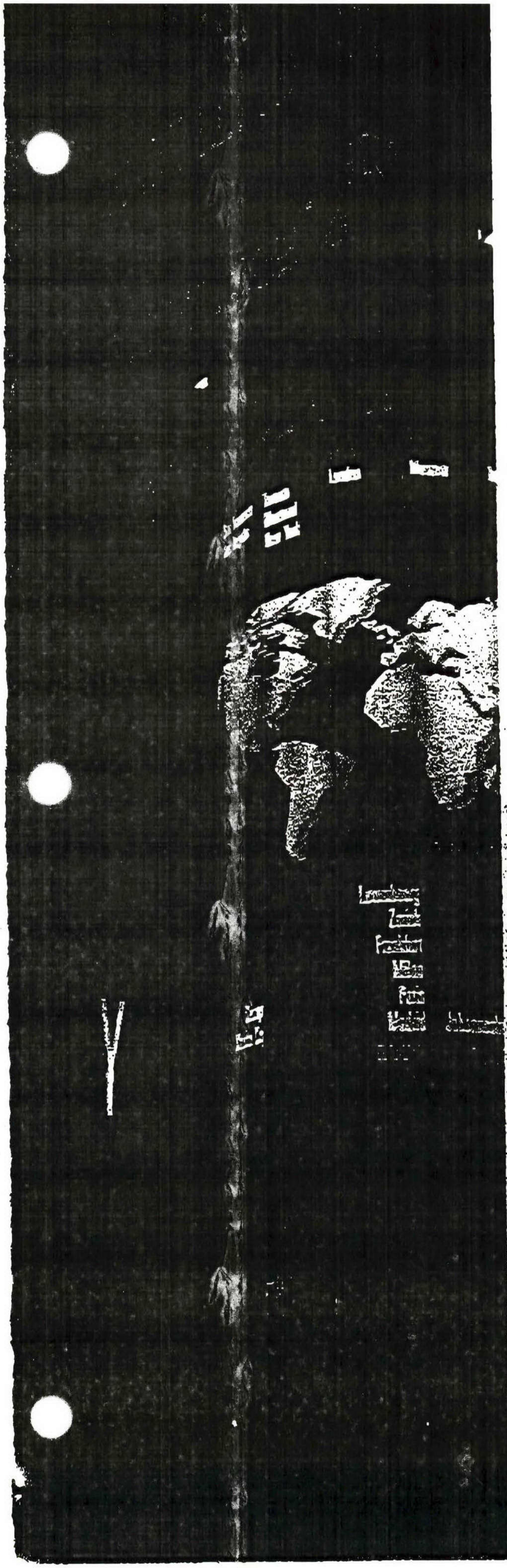
Cover Story





GLOBAL GAMBLE

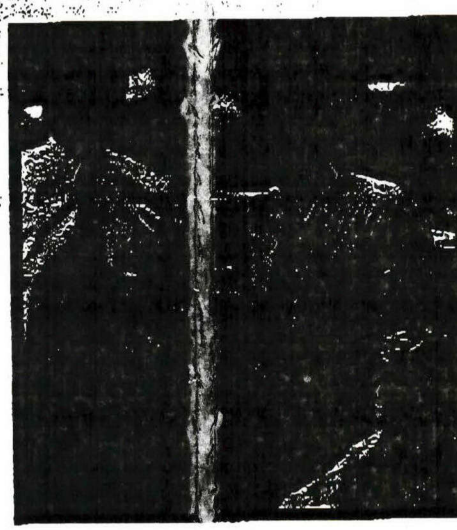
Morgan Stanley is charging into the Third World. Will it get burned?

The 90-year-old landmark building is anything but prepossessing—here in the Fort section of Bombay. The elevator is broken, forcing visitors to walk up the dilapidated stairs. But on the fourth floor is a modern office, with its own power and telecommunications lines and Indian employees working at computers. Welcome to fortress Morgan Stanley, a key beachhead on the subcontinent for the prestigious investment bank. Since 1992, Morgan Stanley Group has invested $25 million and recruited 62 employees, with plans to expand to 150 by 1998.

Despite India's ragged infrastructure—phones in this city of 14 million are unreliable, and the Bombay Stock Exchange is swamped by mountains of paper—Morgan Stanley is now the largest American investment bank in India. The firm's goal is to capitalize on the dramatic expansion of the Indian economy unleashed by extensive reforms. Morgan is convinced that it is getting in on the ground floor. "The advantage of being first is you can help shape things and events," says Pradip Darooka, executive vice-president of Morgan Stanley Trust Co.

India is far from the only place Morgan Stanley is planting its banner. The firm has been opening offices, raiding local talent, and scrambling for deals from Beijing to Johannesburg to São Paulo. Morgan is betting that the capitalist revolution sweeping through much of the world is irreversible and that newly minted free markets will generate red-hot economic growth and, eventually, profits. "High growth rates create wealth," says Richard B. Fisher, Morgan Stanley's chairman. "Wealth is what generates business for us."

SMALL TOWN. Leading the attack is Morgan Stanley's hard-charging president, John J. Mack. Lately, he has been skiing with Mexican clients, setting up a joint venture in Beijing, and angling for a role in the privatization of Indonesia's phone system in Jakarta. Mack, 51, hardly fits the mold for the quintessential white-shoe firm and lacks the pedigree one associates with Morgan Stanley. The son



(L TO R) PHOTOGRAPHS BY FREDERICK CHARLES; JOHN ABBOTT

CULTURE SHOCK AT HOME

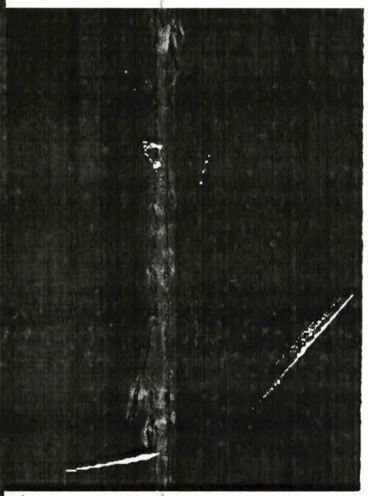
ABOVE In their push overseas, Mack and Fisher are remaking the firm's white-shoe mold

LEFT Morgan Stanley's glitzy Times Square headquarters is wrapped in currency and stock quotes of Lebanese immigrants, he grew up in a small North Carolina town and worked throughout boyhood and college. A former bond trader, Mack is pushing Morgan Stanley to change its conservative culture, to become bolder and more aggressive. "It's grow or die," says Mack. "The biggest risk is not to invest."

Cover Story

Morgan Stanley's new Times Square headquarters symbolizes the transformation. It's an attention-getting glass box wrapped with neon bands of real-time currency quotes and stock prices. Inside is a high-tech hub of emerging-market information. Morgan Stanley staff have access from their desktop personal computers to an online database with exhaustive information on 65 countries. And Morgan Stanley Capital International, based in Geneva, creates and maintains 3,500 different international-market indexes that are the standard for the industry.

"MOST DARING." Morgan is not alone in betting on the Third World. It is waging a fierce battle with such U.S. archrivals as Merrill Lynch, Goldman Sachs, J.P. Morgan, and too many foreign banks and brokers to mention. Some are ahead of Morgan in certain markets, such as CS First Boston in Russia. Merrill Lynch has been lead manager of more large privatizations. But while it's hard to evaluate the extent of a firm's global presence, Morgan Stanley earns kudos for its all-around leadership position. "They are the premier emerging-markets firm," says J. Mark Mobius, president of Templeton Emerging Market Funds, a client and rival. "They are the broadest in scope and the most daring to move into new places, and they have a very large commitment."



NEW-MARKET GURU

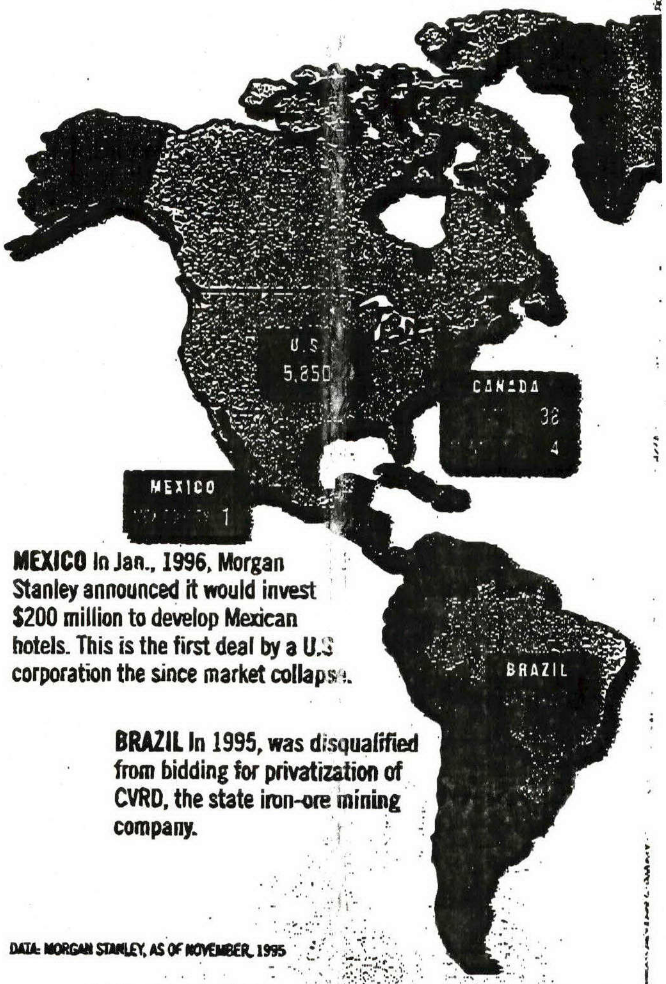
Biggs popularized investing in emerging countries, so "you have to listen to him"

That commitment is driven by the need to develop new sources of high-margin business. In 1995 Morgan had a banner year, earning $600 million and ranking third in worldwide underwriting and first in U.S. and international mergers and acquisitions, says Securities Data Corp. But in the U.S., margins on such activities as underwriting are under extreme pressure. New markets are by nature more inefficient and thus more profitable than mature markets. Morgan Stanley is trying to repeat the success it had in Tokyo in the 1980s: Along with other U.S. securities firms, it reaped handsome profits with superior technology and sophisticated financial products.

In the process, Morgan Stanley could emerge as an important architect of modern financial markets in countries such as India and China. As such, it would have considerable impact there. Morgan Stanley now acts as these nations' link to the world capital markets, which helps foster economic growth. For example, Morgan Stanley is pushing to set up a better system for clearing trades in Bombay and is building the first Chinese investment bank (page 68)—in much the same way it pioneered country funds, which brought long-term capital into developing countries.

Mack and Fisher are not betting the ranch. If Morgan Stanley's entire emerging-markets business dried up, the

Morgan Stanley's Worl



MEXICO In Jan., 1996, Morgan Stanley announced it would invest $200 million to develop Mexican hotels. This is the first deal by a U.S corporation the since market collapse.

BRAZIL In 1995, was disqualified from bidding for privatization of CVRD, the state iron-ore mining company.

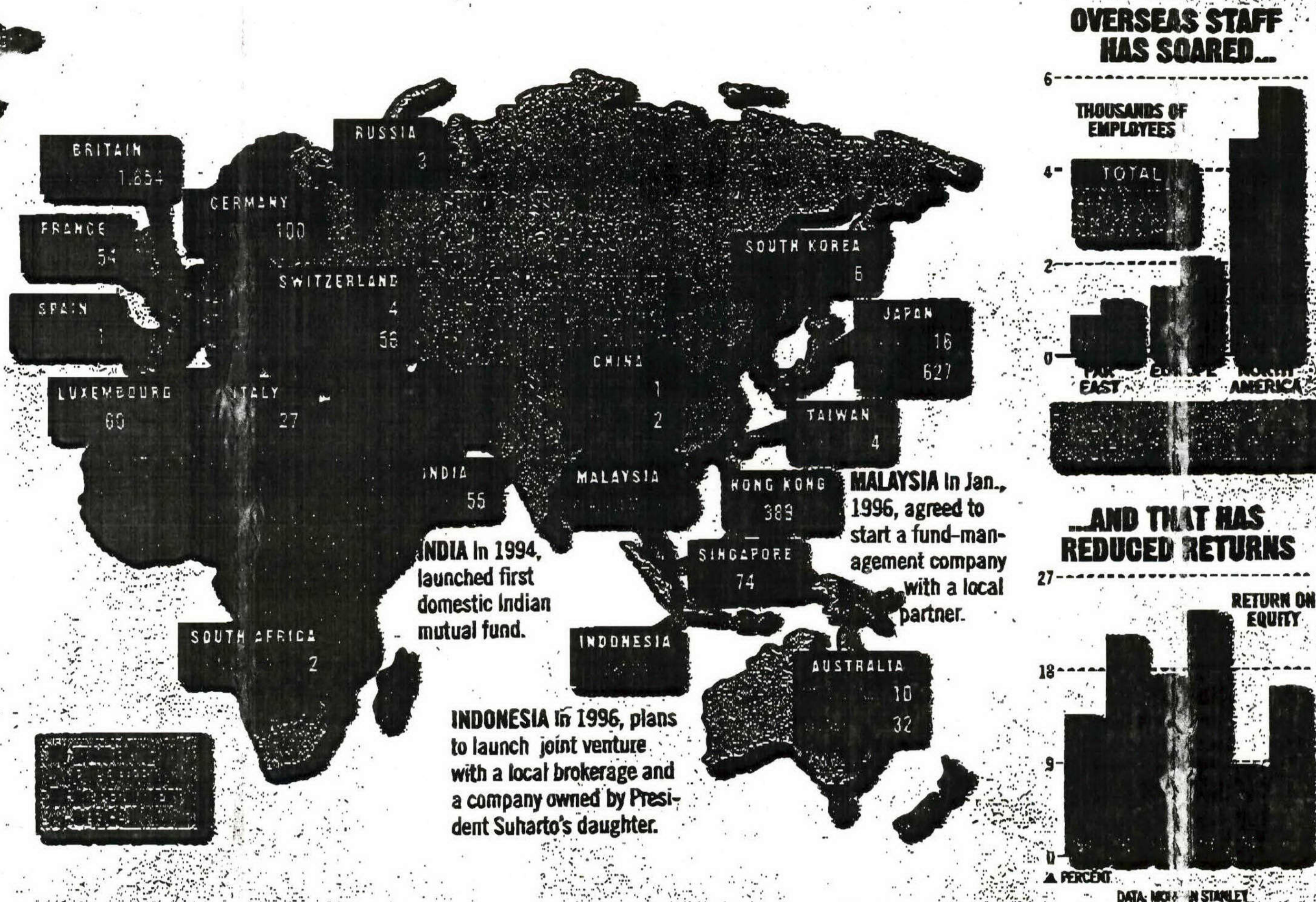
DATA: MORGAN STANLEY, AS OF NOVEMBER, 1995

damage would be limited: It accounted for only 10%-15% of 1995 revenues, by one estimate. Morgan Stanley's strategy is to build for the long term in a focused, gradual, and cost-conscious manner. For instance, the firm opens an office only when a specific U.S. business unit, such as asset management or commodity trading, agrees to pay for its startup. Other businesses are then added gradually. In parts of the world where Morgan Stanley has no offices, it relies on frequent visits by bankers and analysts based in New York, Hong Kong, or London. "You can't look at it on a year-to-year basis," says Mack. "It's a marathon, not a race."

Nevertheless, Mack and Fisher are taking a big gamble with significant risks. Emerging markets are complex and treacherous. Most immediate is the financial impact. To build for the future, the firm is accepting lower earnings. Morgan's 17% growth in overseas personnel in 1994 cost the firm four percentage points in return on equity: Its ROE was 8.8%, instead of 12.8% in 1994.

TURBULENCE. The external risks are also huge. Business could dry up if U.S. pension, hedge, and mutual funds get cold feet about investing in emerging markets. When emerging-markets mutual funds fell 5% in 1995, many investors switched their investments to other funds. The firm itself could incur big trading losses in turbulent emerging markets, which it did in 1994. And there's the constant danger of political instability stalling market reforms. Many foreign financial markets are decades behind the U.S. and lack legal and regulatory protections, accounting systems, and clearing

Reach The investment bank is scrambling to establish outposts around the globe. It has joint ventures in China, Indonesia, and Malaysia. And it is pursuing many types of business: privatizations, asset management, investment banking, global custody, and merchant banking.



mechanisms. They can also be rife with fraud and corruption.

Perhaps Morgan Stanley's biggest risk is harm to its vaunted reputation. In 1994, to loud fanfare, Morgan launched India's first mutual fund. But the launch was rocky, and the fund's performance mediocre. In 1995, the Bombay index fell 20.8% while the fund was down 28.2%. The effect was to tarnish Morgan Stanley's image in India (page 70). "Emerging markets are very imprimatur-conscious, and Morgan Stanley is a name they all understand," says Samuel B. Hayes III, a professor at the Harvard business school. "If they lose their good name, they're in trouble."

Fisher believes the risks are manageable. "We would not hesitate to change course if the situation changed," he says. "But everything we see as we get into these businesses convinces us we're right."

Morgan Stanley has a history of transforming itself to adapt to change. The firm was formed in 1935, after the government forced commercial banks to shed their investment banking arms. Howard Stanley and Henry S. Morgan, son of J. P., resigned from J. P. Morgan & Co. and formed Morgan Stanley. Until the 1970s, Morgan Stanley was a private partnership. In the 1970s, it began a trading operation and by the late 1980s had built a major presence in London and Tokyo. The firm went public in 1986. Yet Morgan Stanley is 40% employee-owned, and it retains its partnership culture.

The commitment to emerging markets comes right from the top. Fisher is the father of the firm's globalization push, but it took Mack's management muscle to break down fiefdoms within the firm to carry out the plan. Mack has worked for Fisher for his entire 21-year tenure at the firm, and the two are extremely close. While both visit clients, Mack runs the firm day-to-day, and Fisher concentrates on strategy. Fisher, 59, is a measured, private, Princeton man who is viewed as the firm's best salesman. "Dick makes you feel like you're the only person he has to see that day. There's a tremendous grace to that," says Robert Matschullat, ex-head of global investment banking at Morgan Stanley and now vice-chairman of Seagram Co.

By contrast, Mack is impatient, willing to trust his instincts, and runs a tight ship. Mack was furious when a budget for Morgan Stanley's Chinese joint venture, requested in August, 1995, hadn't been delivered by December. With the O. K. of his Chinese partners, he quickly replaced the head of the joint venture, Edwin Lim, even though Lim was the architect of the venture. "Running the bank was never really part of my assignment," Lim insists.

TIGHT SHIP. Mack is also known for bluntness. After moving to New York in 1968, he met broadcaster Charlie Rose and Rose's then wife, Mary, at a party. Mack's first question upon meeting Mary was, "Do you have a sister?" It turned out she had a sister named Christy, whom Mack later married.

Mack, the youngest of six boys, grew up in Mooresville, N. C. (pop. 11,000). His father ran a wholesale grocery business. Mack went to Duke University on a football scholarship and worked at a small brokerage—earning $325 a month.

Moving to New York, Mack took his first Wall Street job at

MAP GRAPHIC BY ALBERTO MENA/BW; CHART BY RAY VELLA/BW

Smith Barney, as a municipal bond trader and [illegible] 1972, Fisher, then head of fixed-income, hired him at Morgan Stanley. Mack made his name building Morgan Stanley's bond-trading operation, which became hugely profitable in the late 1980s. Mack earned respect as a tough, sometimes brutal manager. In 1993, he replaced investment banker Robert Greenhill as president.

Despite the $2.5 million Mack made in 1994 in salary and bonus, he remains down-to-earth. He lives in Westchester County, N.Y., with his wife and three children and has houses in North Carolina and Utah. His office is dominated by a large, realistic painting of a woman swimming underwater, and he keeps the TV on CNBC with the sound off. Mack enjoys hobnobbing with all types, from Senator Jesse Helms (R-N.C.) to Argentine President Carlos Menem to IBM CEO Louis V. Gerstner Jr. "For the head of a corporation, he doesn't surround himself with a lot of the trappings," says New York Police Commissioner William J. Bratton, a friend.

Cover Story

Morgan Stanley's push into emerging markets began in earnest when Mack became president. At the time, several rivals were [illegible] ment to push hard. And he didn't want to repeat a 1989 blunder: The firm cut staff in Hong Kong by 50 and deactivated its seat on the Hong Kong Stock Exchange, only to build back up in 1993. Competitors still love to remind clients of Morgan's fickleness. "In 1989, we decided to take our chips off the table in Hong Kong," says Mack. "We realized it was a mistake."

Asia is clearly Morgan Stanley's top priority: From 1990 to 1995, the number of employees in Asia outside Japan soared from 90 to 540. Staff costs alone total $200 million a year.

INFLUENTIAL FRIENDS. A key to Morgan's success so far has been its ability to adapt to local unwritten business rules, which are infused by relationships and politics. A good example is Morgan Stanley's campaign in Indonesia. Initially, the firm lost the 1994 competition to underwrite the privatization of PT Telkom, Indonesia's local phone system, to four other Wall Street firms. Although Morgan said it could raise $2 billion, its rivals promised an impossibly large $3 billion. The deal, which raised only $1.7 billion, was a fiasco.

Morgan Stanley had to settle for a secondary role—of financial adviser to PT Telkom—but it won points with government officials for giving more realistic advice. That helped

IN BEIJING, THE LONG MARCH IS JUST STARTING

O[illegible]

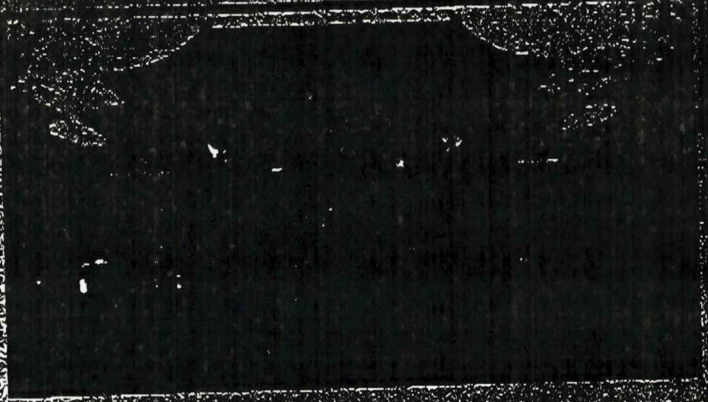
[illegible] Chinese and Western executives at CICC's office in Beijing often have to communicate through bilingual secretaries. And tenfold pay discrepancies between bankers with international experience—both Americans and Chinese—and bankers who have only worked in China are causing motivational problems. "The biggest challenges we face are cultural," says non-English-speaking Tang Shisheng. He and Fang Fenglei are CICC's deputy chief executives.

LEAPFROG. Despite these difficulties, CICC holds a long-term promise of enormous opportunity for Morgan Stanley, a relative latecomer to China. CICC, the firm's largest single investment in an emerging market, is [illegible] helping the [illegible] will help it leapfrog earlier arrivals such as Merrill Lynch and [illegible] Boston—in getting China's international business.

Even these contenders acknowledge that CICC is a daring gamble, like any other joint venture in China. "We all thought CICC was very brave," says a major rival. Says another: "If they hang in there, I ex[illegible]

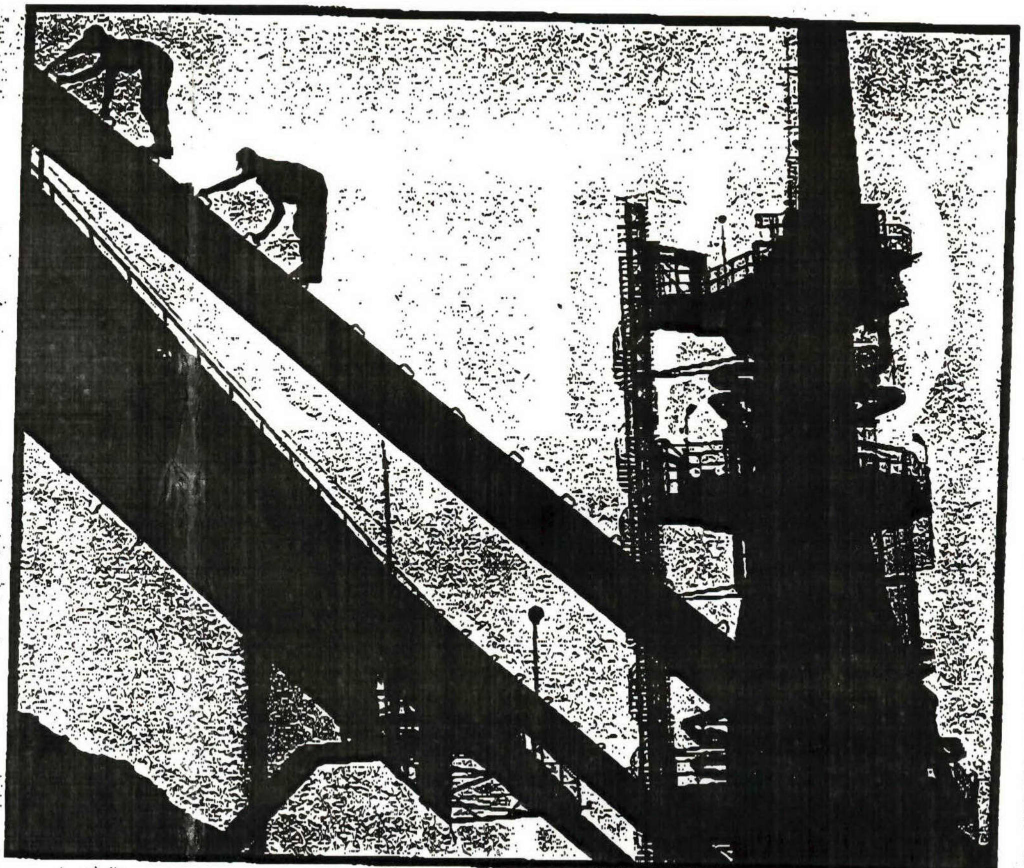
[illegible] connections is producing some business, even though China's capital markets are in a slump. CICC is helping Jilin Oil search for an investor in the company's oil field. And CICC is holding discussions with several foreign corporations about finding local partners. Says John S. Wadsworth Jr., chairman of Morgan Stanley Asia Ltd.: "Things are about where we expected them to be." Pioneering in China isn't for the faint-hearted, and CICC could be the supreme test of Morgan's global strategy.

By Dave Lindorff in Hong Kong



GREG GIRARD/CONTACT

LANGUAGE HURDLE To communicate, Tang, Young, and Fang often rely on bilingual secretaries



FREDERICK CHARLES

ASIA PULP & PAPER

In seeking such Indonesian clients, Morgan Stanley will rely on its ties to Suharto's family

Morgan proceed with a longstanding plan to set up a joint venture with two well-connected, local partners. The partners are a holding company owned by Siti Hardiyanti Rukmana, a daughter of President Suharto, who has held power for three decades, and PT Makindo, an Indonesian brokerage. The venture will be capitalized at $10 million and should be up and running this year. If all goes well, Morgan Stanley will underwrite lucrative initial public offerings as the government gears up to privatize 50 of the companies it owns.

Morgan is also gaining entrée to developing countries by using its established global businesses. Take Morgan Stanley Asset Management (MSAM), which manages $100 billion. Morgan is a top manager of institutional and retail emerging-markets funds: Its only serious Wall Street competitor is Merrill Lynch. In emerging-markets assets, it ranks fourth—after Templeton, Fidelity, and Capital Guardian—with $5.2 billion. In Thailand and Indonesia, being in early with country funds gave Morgan an edge in winning investment-banking deals. "Our presence through MSAM in traded financial markets is clearly the most important advantage we have," says Fisher.

LOQUACIOUS. MSAM's chairman is Barton Biggs, who played a key role in giving Morgan Stanley a headstart in emerging markets. Biggs worked with International Finance Corp., an arm of the World Bank, in the mid-1980s to get Morgan Stanley to launch some of the first country funds, such as the Malaysia Fund in 1985. Some of Biggs's calls have been wrong, and others have landed the firm in hot water with local authorities. Yet the persuasive Biggs gets credit for popularizing investing in emerging markets. For years, he has been promoting such remote places as Myanmar and Vietnam. He has a following among a group of influential U.S. and foreign institutional investors who accompany him on his annual trip to different emerging markets. "He moves markets, so you have to listen to him," says one money manager.

MSAM is not the only unit that gives Morgan Stanley great on-the-ground intelligence on emerging markets. Morgan Stanley Capital Partners, the firm's merchant-banking fund, has $100 million invested in three Chinese and Indonesian firms. Its global custody business, the mundane business of clearing and settling trades for clients in 64 countries, provides Morgan with an intimate familiarity with the nuts and bolts of each nation's markets. Morgan Stanley is the only U.S. investment bank in this business, where it competes with U.S. commercial banks. It ranks 11th, with $117 billion worth of assets in custody. Morgan Stanley executes trades through a worldwide network of banks and a sophisticated computer system.

HIGH HURDLES. Will Morgan Stanley's global bet pay off? The firm has done a solid job entrenching itself around the world, but it faces many hurdles because of primitive financial infrastructures in many countries. In Russia, for example, stockholders don't legally own stock until their names are written on a list maintained by the companies' registrar. This means that to process trades, Morgan agents must travel to the registrars to make sure the names are on the lists. In India, it takes 12 days for a trade to clear, and a stack of paper a foot high is generated to clear one trade.

The firm must deal with cultural challenges as well. Some 34% of its employees are locals in their respective countries—and they span 20 different nationalities. This makes it more difficult to maintain high standards and its cohesive WASP culture, which dictates even where headquarters staff should live, namely, Greenwich, Conn., or Rye, N.Y. "We have to work hard to demonstrate we're not a bunch of white guys from Greenwich," says Thomas DeLong, Morgan Stanley's chief development officer.

More serious, though, is its vulnerability to well-heeled rivals. For example, in December, 1995, it lost to Merrill Lynch in vying for the job of selling Brazilian mining giant Companhía Vale do Rio Doce (CVRD)—likely to be Latin America's largest privatization ever. One miscue was Morgan's bidding strategy: It went from a front-runner to being disqualified because its bid was too low even to be considered.

But that was only part of the problem. Morgan Stanley has strong Latin American credentials, with its team led by Francisco Gros, former president of the central bank of Brazil. He and other Morgan bankers and analysts in New York frequently visit Latin American clients. But Merrill Lynch, which won the $5 billion CVRD mandate and could take in the bulk of a juicy $95 million fee, has nearly 100 employees in Brazil and is highly visible in local financial circles. Rivals say Morgan lost because it lacks local presence and experience. "Your level of understanding is different when [illegible] rill Lynch in São Paulo.

Morgan Stanley faces tough competition from commercial banks with investment-banking capabilities. In 1994, for example, Morgan Stanley won over 40% of all Mexico's equity issues. But in December, 1994, when the new government devalued the peso and plunged the country into recession, Morgan Stanley's business dried up overnight. Mexican company stocks plummeted, and the international markets snapped shut.

Cover Story

But commercial banks with investment banking arms as well, particularly J.P. Morgan and CS First Boston, were able to offer corporate clients emergency bridge loans during the crisis, a capability Morgan just announced in January, 1996. Grateful clients rewarded those banks with their first international debt issues when capital markets reopened six months later. "The banks that wear two hats [investment and commercial] are in a particularly advantageous position in Mexico today," says Peter T. Hutchison, who was chief financial officer of Grupo Alfa, a Monterrey conglomerate. Even the recent privatization plums have gone elsewhere: J.P. Morgan is advising the government on the petrochemical sell-off, and CS First Boston beat out Morgan for the government contract for the railroads.

[illegible] terests. In Europe, Morgan Stanley is fighting accusations about its conflicting roles in the collapse last year of the $120 million Global Opportunity Fund, registered in the Cayman Islands. Morgan Stanley's Luxembourg operation was the fund's custodian and administrator. While Morgan's London office lent $84 million to the fund's investors, 20 investors claimed losses of $70 million and are suing the firm in a Luxembourg court for gross negligence, mainly over Morgan Stanley's inflated valuations of the fund. Investors also say that when the fund tanked, Morgan Stanley's first priority was to recover the $84 million. A firm spokesperson denies this and blames the collapse on the fund manager, saying he misled them on the fund's value and made unauthorized trades.

Given the hazards of the markets in which it is playing, Morgan Stanley could well stumble as often as it succeeds. It believes, though, that it is taking intelligent, cost-conscious risks. "I think we have the most resources and the most conviction," says Fisher. "We could be wrong. We won't know for five years whether we are right."

By Leah Nathans Spiro in New York, with Sharon Moshavi in Bombay, Michael Shari in Jakarta, Ian Katz in São Paulo, Heidi Dawley in London, Geri Smith in Mexico City, and Dave Lindorff in Hong Kong

A SPRINT TURNS INTO A STUMBLE

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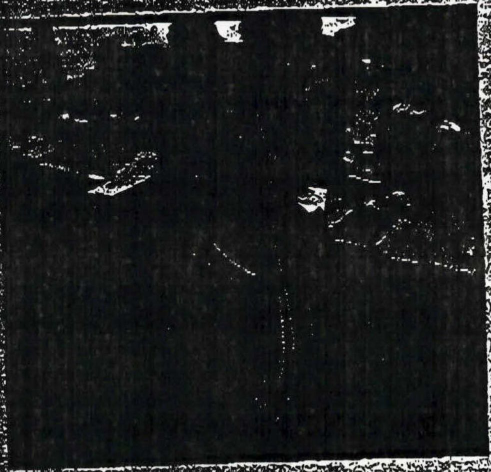

GREG GIRARD/CONTACT

BANKER KIDWAI

Morgan Stanley's perspective is "long-term" after its rocky start in India

[illegible] would [illegible] believe Morgan Stanley [illegible]

TATTERED REPUTATION. [illegible] Bombay Stock Exchange, the units started trading illegally [illegible] instead of the initial price [illegible] when the fund hit the market, the units crashed [illegible] Since the launch, the fund's performance has been lackluster. Since 1994, the fund has declined [illegible] with a [illegible] drop for the Bombay index. Morgan Stanley was not accused of wrongdoing in the ensuing investigation into the gray market trading, but its sterling reputation was in tatters and still hasn't fully [illegible] says Prem [illegible] an independent [illegible] agent in New Delhi.

Morgan Stanley says the main problem is that Indian investors didn't understand mutual funds. "People thought they were buying a Morgan Stanley share, not an emerging-market fund," says K.N. Vaidyanathan, vice-president of Morgan Stanley Asset Management India Private Ltd.

Barry Hall, a former Peace Corps volunteer who [illegible] Morgan Stanley's India office, acknowledges that this has [illegible] to a long-term [illegible] problem. Others [illegible] Morgan Stanley [illegible] the nuances of the Indian market. Says Sanjeev [illegible], head of research at James [illegible] in Bombay: "You cannot necessarily use global or even Asian parameters to understand things here."

Morgan Stanley is also viewed with a bit of suspicion because it has become so big in the Indian market. Its asset management portfolio of $1.6 billion is 1.25% of the capitalization of the Bombay market, and it represents about 7% of trading volume. That makes the firm the largest owner of Indian stocks after Unit Trust of India, the government-run mutual-fund operator. Some Indian traders say Morgan could move the market, and that makes people nervous.

Morgan Stanley officials say they will continue to expand their many businesses in India. "Only a few firms can afford to take a long-term perspective," says Nama Lal Kidwai, Morgan Stanley's investment banking chief in Bombay. By forging ahead, Morgan Stanley is proving it won't be discouraged by one setback.

By Sharon Moshavi in Bombay

Record Removal Notice

File Title	Barcode No.
President Wolfensohn - Briefing Book for President's Meetings and Events - Pre-Brief - Press Roundtable - September 3, 1997	30488586

Document Date	Document Type
19 August 1997	CV / Resumé

Correspondents / Participants

Subject / Title
CV - Simon Beck

Exception(s)
Personal Information

Additional Comments

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Withdrawn by	Date
Diego Hernández	July 24, 2025

The anti-capitalist side of Japan's economy is readily appar-

The short answer, some experts suggest, is it will. Japan so far has

consumer society with better housing and higher living stan-

Analysing the China threat

Simon Beck

With the widest-reaching, most determined intelligence-gathering operation in the world, can the United States possibly be in the dark about China's military buildup?

And, while you ponder that one, how about the suggestion that Washington is also "out to lunch" when it comes to Beijing's own spy network on the American mainland?

It's not clear what the Central Intelligence Agency, Defence Intelligence Agency, Office of Naval Intelligence, National Air Intelligence Centre, National Security Agency, Federal Bureau of Investigation, the White House Intelligence Programme and other impressive pieces of nomenclature would make of such assertions.

With barely a university in the country that lacks its own plethora of Sinologists, one also wonders how academia views the notion.

Congress, however, has determined it is time to spend more money on researching and analysing the China threat, and is preparing to pass legislation that will surely propel the equivalent of a few intellectual and political Silkworms across the Washington skyline.

The House of Representatives – home of some notably hawkish sentiments when it comes to China and its looming presence in East Asia – has tagged an amendment on to this year's funding programmes for the Pentagon – granting an initial US$5 million (about HK$38.7 million) to create a Centre for the Study of Chinese Military Affairs, to "narrow the understanding gap" on the subject.

The House says "the US Government's current ability to develop sound security and military strategies is hampered by a limited understanding of Chinese strategic goals and military capabilities".

The body has also ordered the FBI and CIA to prepare an annual report on any of China's intelligence-gathering activities that affect the US. According to a House aide close to the issue, what congressmen really want by setting up a new centre to study the People's Liberation Army is a source of information on the subject that is independent and "intellectually honest". This is a euphemism for saying that Capitol Hill believes the Clinton administration is continually playing down the China threat because it doesn't want pesky legislators throwing a spanner into the works of its nicely developing China policy.

This column has discussed the tension between the legislative and executive branches before – not least concerning allegations (which it barely bothers to deny these days) that the administration is sitting on explosive reports of China's arms proliferation conduct because it is not prepared to impose the sanctions that are required by law.

What also sticks in many members' throats is the sight of the Pentagon falling over backwards to co-operate and share information with the PLA, when the received wisdom on both sides of the aisle is that China poses the greatest military threat to the US in the coming century.

They mutter that such shenanigans would never have taken place with the Russian bear at the height of the Cold War.

But there is a cruel irony in the choice of institution where this new centre would be set up – the National Defence University (NDU) which, with affiliated bodies such as the National War College, is already the pre-eminent centre of expertise on China's military activities – and which might be inclined to take offence at Congress' suggestion its current output is not "intellectually honest" enough.

"The NDU is stuck with this, but it doesn't want to touch it with a barge pole," said an academic source in Washington. "The House is upset with the NDU's analysis, and they say it doesn't put enough weight on China's modernisation. What they want to hear is that there is a China threat – and I don't know that is going to work out."

Another source of input into the argument could be the navy's intelligence hawks, who are keen to play up China's growing strength in order to justify increased spending on the Seventh Fleet in the Pacific.

The House aide denied any implied criticism of the NDU and disputed suggestions there were already enough experts in Chinese military affairs to go round. Most Sinologists in the US focused on political and cultural issues, he said, and lacked adequate military and strategic expertise.

In a town with more "think-tanks", "policy research institutes" and "study centres" than potholes in the road, it is hard to agree with such an assertion. One recent 300-page tome contained enough inside information on the PLA to satisfy the short attention span of any member of Congress.

If Washington suffers from anything, it is too much rather than too little information. And if, as is suggested, the new military studies centre is being paid for by Congress in order to tell Congress what it wants to hear about Beijing, then it is debatable whether such analysis is worth much more than some of the meaty intelligence the White House stands accused of hiding.

Of course, legislators are elected to be watchdogs and express the kind of uncomfortable truth that the executive branch – burdened with the paradoxes and hard decisions of governing – would prefer to gloss over.

And in terms of US interests, China's emergence presents clear reason to be concerned: the news earlier this week that Beijing is looking to Europe to invest in the hi-tech logistics aspects of the PLA's modernisation did not go unnoticed.

The proposed study centre is unlikely to tell anyone in power what America's spy satellites do not already know. But it will send a message to the White House that when it comes to keeping an eye on Beijing's military might, Congress means business.

Record Removal Notice

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File Title	Barcode No.
President Wolfensohn - Briefing Book for President's Meetings and Events - Pre-Brief - Press Roundtable - September 3, 1997	30488586

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3 September 1997	CV / Resumé

Correspondents / Participants

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Withdrawn by	Date
Diego Hernández	July 24, 2025

.bwa:e:n:zhai jingsheng:e:hsz:97/05/23/19/49 eaed052309hke -- World Bank Approves Financing for Brazil's Agricultural

Research

WASHINGTON, May 23 (Xinhua) --The World Bank today announced the approval of a 60 million U.S. dollar loan to the government of Brazil to help finance its agricultural technology development project.

The agricultural sector has been a key source of economic growth in Brazil, with an average annual growth rate of 4 percent from 1950 to 1986. Between 1992 and 1995, the agricultural sector was the fastest growing sector in the economy, accounting for 10 percent of the GDP, 30 percent when agriculturally related industries are taken into account, 30 percent of the value of exports and 25 percent of employment.

The Northeast region, which will be one of the beneficiaries of the project, holds the largest concentration of rural poor population in the country and generally throughout Latin America. One of the priorities for research and development will be the generation and transfer of technology for poor, smallholder farmers, particularly in the Northeast. Other priorities areas will be the improvement of natural resource management, advanced technologies and agribusiness development.

The total project costs are estimated at 120 million dollars. In addition to the World Bank's loan, the remaining cost will be financed by the government of Brazil with a 30.5 million dollar contribution and the beneficiaries and other participants will contribute a total of 29.5 million dollars. Enditem

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T.V. Parasuram, Press Trust of India Washington Correspondent since 1962.

Before that, covered the UN for 3 years from 1959-62 upon completion of the Nieman Fellowship at Harvard for a year 1958-59.

Prior to coming to the U.S., was Chief Parliamentary and Defence Correspondent of the Press Trust of India (Defence because he wasan Indian Army Observer during the Kashmir war and Hyderabad operations with the rank of Major).

Was attached at various times to Mahatma Gandhi's camp to cover the Indian leader's activities.

Have traveled widely in Europe, Middle East and North and South America, covering Nehru, Indira Gandhi, other Prime Ministers and President Radhakrishnan.

Covered the Supreme Court and Constituent Assembly of India and Indian National Army and Mahatma Gandhi murder trials.
Was Washington Correspondent of "The Indian Express" for 20 years.
Author of three books--"Defending Kashmir," "A Medal for Kashmir" and "India's Jewish Heritage," tracing the history of India's links to the Jewish community from ancient times to the modern.

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The Financial Express
NEW DELHI • FRIDAY, JULY 18, 1997

IMF asks India to hike petroleum prices to maintain growth

Press Trust of India
Washington, July 17

The International Monetary Fund (IMF) has urged India to effect a substantial increase in petroleum product prices as part of a larger effort at fiscal consolidation coupled with structural reforms to maintain the momentum of growth.

The IMF, in its statement on Indian economy which followed the July 2, 1997 meeting of the Fund's representatives with Indian officials, said the gross domestic product (GDP) rose by 6.5 per cent in fiscal 1996-97, and averaged nearly seven per cent over the last three years.

"This robust growth, together with rising saving and investment rates, points to the continuing strong response to the economic reforms initiated in 1991. Nevertheless, the growth momentum weakened during the year," it said.

Among the reforms which the IMF listed as being essential to maintain the momentum of its economic growth are a substantial increase in petroleum product prices, more flexible exchange rate management, exit policy, privatisation of state-owned firms, removal of remaining import quota barriers on consumer goods and reduction of reservation for the small-scale sector.

It also recommended easing of restrictions on foreign banks, reduction of tax exemptions and early elimination of remaining restrictions on current account transactions. The earlier practice to keep the results top secret has been dispensed with by the IMF, and it now issues a press summary of the executive board's comments.

The deficit on the oil pool account, pegged at Rs 15,500 crore at the end of fiscal 1996-97, and estimated to go up by another Rs 9000 crore during the current financial year, rose sharply, mainly because increasing oil import prices were not passed fully on to consumers. The IMF has also recommended using part of the savings made by keeping defence expenditure low on social sector like health and education. It also urged India to cut down deficits of the central and state governments and state-owned corporations which are now pegged at 9.5 percent of the gross domestic product. Other recommendations included vesting the Reserve Bank of India with more operational independence, further liberalising equity inflows and foreign direct investment, reduction in subsidies and more focussed targeting of such welfare measures, and increase in the private sector's role in bank management with a view to enhance efficiency.

Praising the Indian economy's strong growth, achieved without any major sign of escalation in inflation, the IMF said it was a sign of "continuing robust supply response to the structural reforms initiated in the early 1990s."

It said the economy's external situation strengthened considerably during 1996/97 as despite a sharp fall in export growth, the current account deficit declined to just over 1 per cent of GDP.

The capital account benefitted by strong inflows of private capital although foreign direct investment remained low by south east Asian standards.

While the IMF directors, who had visited India earlier this month under a procedure for annual consultations with member states, commended the authorities for pursuing policies that had set the economy on a new course of modernisation to fit in with the global markets, they also cautioned that vigilance was required to avoid a build up of demand pressures. The IMF said the Reserve Bank of India responded to upward pressures on the exchange rate with substantial foreign exchange purchases, and international reserves rose to $ 24.5 billion, equivalent of over six months of imports, by end-May 1997.

Despite some reduction at the central level, the overall public sector — comprising central and state governments, oil pool account and central PSUs — is estimated to have increased slightly to 9.25 per cent in 1996/97. The directors welcomed India's target of lowering the central government deficit to three per cent of GDP by the turn of the century but emphasised that there was a need for more ambitious efforts to reduce overall public sector deficit decisively. A few directors expressed disappointment over India's failure to reach agreement at the World Trade Organization (WTO) for phasing out quantitative restrictions on imports on balance of payments.

2/80/8

Financial Express, June 30, 97

IBRD cautions on PSE autonomy

Press Trust of India
New Delhi, June 29

The World Bank has warned that greater autonomy to public sector enterprises (PSEs) could breed corruption and encourage arbitrariness in countries which have not been able to establish control over inputs.

Outlining steps for an effective public sector, the bank, in its world development report 1997, has said countries can begin by introducing performance measurement on a selective basis before giving them greater flexibility.

"When output measurement is strengthened and credible control over inputs are instituted, managers can be granted more flexibility in exchange for accountability for results," it says.

Further, the bank emphasises the need for re-establishing credibility of government policies, making sure they operate in practice, setting hard budget limits, implementing budget and other polices and accountability for use of financial resources.

It underlines the need for a well-functioning policy-making mechanism which can make transparent the cost of competing policies and encourage debate and consultation among all stakeholders. The bank suggests use of the market to deliver services, which are now the sole domain of government.

In order to improve efficiency, reduce burden on over-stretched capacity and build partnerships with markets and NGOs, the bank suggests that PSEs contract out some activities.

Stating that reformers need rely only on internal controls to enhance PSE efficiency, the bank points out that feedback from firms and people who use public services can do a lot to generate external pressure for better services. At the same time it stresses the need for developing internal capacity and enforcement mechanisms to bring about efficiency.

JAMES D. WOLFENSOHN

BRIEFING ON CHINA

FOR PRE-ANNUAL MEETINGS INTERVIEWS

AUGUST 26, 1997

CHINA DEPARTMENT

CHINA

PRESIDENT'S ROUNDTABLE BRIEF

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OVERVIEW

<u>CHINA OVERVIEW</u>

1. Where Are We Today?

What a difference a generation makes. Less than 20 years ago, China was among the world's poorest countries, with 80 percent of the population eking out a meager existence tilling the soil and most earning incomes of less than a dollar a day. One-third of all adults could neither read nor write. Against this impoverished backdrop, the late Deng Xiao Ping launched the economic reforms that transformed China. Real per capita incomes have nearly quadrupled since 1978. Illiteracy has fallen to below 10 percent of the population, and China's high life expectancy and low infant mortality rates are the envy of much richer nations. Today, China is the tenth-largest trading nation in the world and attracts more foreign direct investment than any country except the United States.

Impressive as these achievements are, *China has yet to break free from poverty and underdevelopment.* Despite nearly two decades of blistering growth, per capita incomes in China today are only approaching those enjoyed by the Philippines and are still less than half those in Brazil. Some 270 million Chinese remain below the dollar-a-day poverty standard--about one-fifth of the world's poor. More worrisome, income and social inequality have increased and the pace of poverty reduction has slowed.

Alleviating poverty in China therefore remains a high priority on the global development agenda. But this can happen only if China can sustain rapid growth well into the 21st century--a far from certain prospect. To date, China's approach to reform has been incremental, a process of learning by doing and continuous national consensus-building to ensure a balanced approach and popular understanding. Chinese leaders have sought to keep the pace of reforms aligned with institutional capabilities in order to avoid social and political instability. However, *China now faces a formidable set of challenges* thrown up by swift growth and structural change. If unmet for much longer, these challenges could undermine future growth and dim the promise of China's future.

China is mid-stream in its transition from a command to a market economy. The demarcation between State and market is blurred in many parts of the economy, leading to conflicts of interest within the Government that could eventually harm the economy. *Separating Government and markets, and clarifying their roles and responsibilities, will help lay the foundation for sustained rapid growth and a better quality of life.*

2. CHINA'S UNFINISHED DEVELOPMENT AGENDA

Laying the Foundations for a Market-Oriented Economy. China's *industrial* sector and its mechanisms for *internal resource allocation* are only halfway through the transition from plan to market.

The red ink of *state enterprises*, half of which are loss-makers, has seeped into the balance sheets of increasingly fragile state-owned banks, threatening the viability of China's nascent *financial sector* and the future of economic reforms. Priority needs to be given to, first, opening the whole state-owned enterprise system, including the largest industrial SOEs, to market forces, and, second, cleaning up the balance sheets of four state banks holding 90 percent of banking system assets and two thirds of financial system assets. This will be difficult, but is imperative.

China's *capital markets* are just emerging, with barely 0.3 percent of investment financed with stock issues and the bond market dominated by the government. Development of the domestic capital market is a high priority. China should begin leveraging its significant domestic savings to meet its huge capital needs. This would improve efficiency in the allocation of financial resources and become an important intermediary for long-term investment, especially for infrastructure. In parallel, strengthening the Government's regulatory oversight of equity markets should begin, along with developing the fledgling corporate bond market and installing a legal framework for the issuance of asset-based securities to finance infrastructure projects.

The *fiscal system* is weak, fragmented, regionally unbalanced, and geared to financing revenue-raising investment such as toll roads, rather than core government functions. China needs an improved tax administration system, expanded tax base, and new taxes--to provide increased social sector funding, to tax pollution and other externalities, and to contribute revenues for the Government's infrastructure investments. The many current tax exemptions should be phased out gradually.

The most urgent *budgetary issue* is the exclusion of about 40 percent of government spending from the budget. This expenditure needs to be integrated into the official budget.

Reforms in state enterprises and the financial sector would be less effective if not matched by reforms to ensure *labor market flexibility.* Migration is discouraged by an urban welfare system that largely excludes migrants and a legal system ambiguous about their rights.

Dealing with the Pressing Social Agenda. From 1978 to 1995, China's growth raised about 200 million people out of poverty. But the economic boom has been accompanied by *increasing income inequality* (urban-rural, coastal vs. inland provinces, and gender-based), and *some 270 million Chinese live on less than a dollar a day*. This includes about 70 million in absolute poverty.

The Government's fiscal and budgetary problems hit its spending on poverty alleviation, health and education hardest. One of the unwelcome effects of China's awareness of market principles and the need for cost recovery has been the impact on the rural poor, who must now pay for medical care and school fees. These expenses are often subsidized for urban workers. While some spending increase for the poor occurred in 1996, the authorities now need to: (1) reallocate available resources to ensure that the poor have access to health services and education, (2) enhance labor mobility, and (3) sharpen the focus of government poverty alleviation programs for the poor and vulnerable. Ongoing industrial restructuring also creates the need to accelerate development of the national pension system and to put in place an adequate unemployment insurance system shaped to the new economic structure.

China's growth took a major *toll on the environment*. Air pollution alone now kills more than a quarter of a million people a year and, overall, pollution costs the economy an estimated 7 to 8 percent of GDP annually. Improving and protecting the environment requires: market-based incentives--like coal pricing to reflect social as well as economic costs and water pricing to recover costs; improved planning and tightened, *enforced* regulation; and investments in energy-efficient industrial equipment, sewage treatment, etc. More responsive governance structures for enterprises are also critical.

China's *food security* has also been questioned. China can remain food secure over the next 20 to 30 years and domestic food production can largely keep pace with population growth--if it can overcome obstacles to growth in agriculture and infrastructure and implement several policy reforms. Greater spending on research and extension, irrigation development and flood control is needed, along with a loosening of market controls. China should also consider importing about 5 percent more grain in the medium term, which world markets could deliver with little impact on prices.

Integrating with the World Economy. China has already begun to realize the benefits of foreign direct investment and deeper integration with world trade and the international financial system.

Accelerating the virtuous circle of *trade* and growth will require a firm timetable for reducing trade restrictions to acceptable international levels, supplemented by better procedures for resolving trade disputes. While the domestic consequences of import liberalization will be felt in some capital-intensive industries--which are often in areas of already high unemployment--adjustment must proceed. China's further trade liberalization would benefit everyone. Its easing of import restraints would allow it to import state-of-the-art technology that would normally spread across the economy, enhancing productivity benefits. And industrial countries would benefit from China's rising demand for capital goods and advanced technology and through significant terms-of-trade gains.

China's *accession to the WTO* is imperative. Good progress is being made in its negotiations for accession, although China's offer for liberalizing its services sector is still awaited. Jiang Zemin's October 1997 meeting with President Clinton may stimulate further progress.

Cumulative *Foreign Direct Investment* to China totals about $200 bn. Actual FDI in 1997 is likely to be $30 bn to $35 bn, down from an atypically high $40 bn in 1996. To sustain the level of flows and channel them to priority sectors (technology and infrastructure) and the less advantaged inland areas, the complex FDI policy regime needs to be made more transparent.

On China's *financial system integration*, the issue is how the forces of integration can be managed for the benefit of the economy, and how to prevent high growth from being damaged by destabilizing capital flows. It would be wise to proceed cautiously, but steadily.

3. The Bank's Role in China

Lending. China has been the Bank's largest borrower since 1992. In FY97, $2.8 bn of Bank funds went to China, of which $2.5 bn was IBRD and the balance IDA. Cumulatively, we've lent $28.5 bn, of which $19.3 bn was IBRD and $9.2 bn IDA. IDA resources for China will terminate after FY99. The quality of the loan portfolio is one of the best in the Bank. Increasingly, our lending--including that for transportation and energy development-- is directed to the less developed inland provinces and to poverty alleviation via agriculture, health and education investment in rural areas.

Why We're Needed. Despite China's past development successes and large private capital inflows, the rationale for continued World Bank involvement in China is strong. To meet the challenges noted above, the successful collaboration that the Bank and Government have had on policy reforms will be as important in the future as in the past. China also still accounts for about a fifth of the world's poor, and the Bank's mandate in this regard remains as valid as ever. And, with its current institutional and financing mechanisms still unable to channel sufficient domestic resources into key areas like infrastructure, education, health and the environment, China continues to need Bank financing and institutional support for its future growth. We can help China most by assisting it to develop appropriate economic and sectoral policy frameworks and to improve the financial soundness of government institutions at every level. We can also play a catalytic role by stimulating innovative techniques to mobilize long-term private development finance from foreign and domestic sources.

Vikram Nehru, Former Principal Economist for China, and Patricia Brereton-Miller, Country HQ Country Unit

ISSUES

China's Economy - Recent Developments

During the first half of 1997 economic growth further slowed but continued to be robust, while inflation dropped to new lows. There are heightened concerns with rising unemployment reflecting structural changes rather than insufficient aggregate demand. While capital markets will play an increasingly important role in channeling resources, recent financial market behavior underscores the urgencey of developing a strong regulatory framework to assure their orderly and sustained development.

Recent Developments

The economy continued to meet growth and inflation targets in the first half of 1997. GDP grew 9.5 percent in real terms, down from 9.8 percent in the first half of 1996. Aggregate demand appeared stable. Growth in retail sales of consumer goods was down slightly. Exports continued to rebound strongly (up 26 percent) while recorded imports were flat. Foreign exchange reserves climbed further to about $120 billion (nine months imports). In real terms, investment growth was comparable to the previous year. Its structure has improved, in particular, with a move away from real estate investment. Investment lending by the large state banks has been declining as they seek projects that offer good returns. State banks are under pressure to improve the quality of their portfolios. Commitments for new direct foreign investments fell by almost 50% compared to the first half of 1996 (to about $23 billion), but actual investment continued to grow.

Inventory accumulation (which was very strong in the preceeding 12 months) appeared to be stabilizing. The sales ratio for industrial products for the first half to 1997 was up to 94.6 percent. Growth of inventories of 5000 medium-and large-sized state owned enterprises (SOEs) in the first quarter was about half of the same period last year.

Despite a sharp increase of currency in circulation in the first part of 1997 (linked to speculation in equity markets), inflation moderated further in the first half of 1997. In the 12 months to June 1997, the consumer price index rose by 2.8 percent and the retail price index by 0.8 percent, well below the official inflation target of six percent for 1997. Moderately tight monetary policy contributed to abating inflation along with consecutive years of bumper grain harvests, which helped contain food prices. Relatively large inventory levels for a wide range of consumer durables and industrial inputs, also served to reduce inflation. One concern over the moderating inflation is that real official interest rates rose to significantly positive levels. By June 1997 the real rate (as deflated by the CPI) was 4.7 percent on deposits (1-year) and 6.4 percent on lending. However, these developments have helped align administered rates more closely with market conditions and dampened speculation in the stock market.

Premier Li Peng singled out SOE reform as the leading economic challenge in his annual report on the government's work program to the National People's Congress, in March. In a major subsequent speech to the Party School, President Jiang Zemin went even further and hinted that a more aggressive approach to ownership diversification for large SOEs might be put on the agenda. It is now widely expected that the 15th Party Congress, due to start in September or October, will endorse new initiatives with regard to SOE and associated banking reform, possibly including some forms of privatization. This would be a political breakthrough of great importance. Although the deterioration in aggregate performance of industrial SOEs appears to have halted in the first half of 1997, the urgency of state enterprise and banking reform has not diminished.

The selection of a new Premier is not expected to change the direction of China's economic reforms, but could have important implications for the pace and the quality of reform management. There is much speculation in China that Zhu Rongji will succeed Li Peng as Premier.

A major current focus of the government's economic adjustment program is to facilitate the re-employment of affected workers resulting from enterprise restructuring. In addition to 5.5 million registered unemployed workers (3 percent of the urban labor force), SSB estimates that more than 10 million people are "xia gang" workers, of whom about 30 percent face structural unemployment, that is, have not been reabsorbed into the rest of the economy for over a year. The situation is more serious in certain localities, some of which are further hampered by weak fiscal capacity.

On the fiscal front, the Finance Minister reported a stable budget situation for 1996. Fiscal decline was reversed for the first time since market reforms began in 1978, as the ratio of revenues to GDP increased by 0.2 percent. The budget for 1997 is fairly conservative, projecting the same (1 1/2 - 2 percent) deficit/GDP ratio as in 1996. Some progress was made on integrating fiscal resources; about Y100 billion of extra budgetary funds were included in the 1997 budget. However, the recent practice of passing laws to mandate expenditure increases in selected sectors, such as education and agriculture, reduces the flexibility of budget management--and may even threaten the Government's goal to eliminate the budget deficit.

Equity Market Developments and Macroeconomics Stability

Of special importance are recent developments in China's emerging equity markets. Stock market prices continued to surge in early 1997. The unauthorized use of cash balances by SOEs (including some state banks) is believed to have contributed to the surge. To cool the markets and reduce or eliminate speculation with public funds, the Government raised stock transaction fees from 0.3% to 0.5%, expanded the quota for new issues from 10 billion yuan in 1996 to 30 billion yuan in 1997, prohibited the participation of SOEs and state banks in the stock market, punished the management of some for violations of regulations, and restricted the participation of securities companies in the repurchase market for government bonds.

Since the introduction of these measures, share prices have experienced volatile movements and finally seem to have lost their earlier upward momentum.

Rapid rises in share prices had induced both households and enterprises to switch a greater part of their incremental savings into the stock market. Because of the lack of an in-depth equity market and its relatively small size, a small reduction in the portion of financial savings allocated to bank deposits can result in sharp equity price increases and volatility.

Finally, there is no concern at present that China's currency is vulnerable to the kind of instability and speculative attack that has recently created so much turmoil in the currency markets of other East Asian countries. China has had a current account surplus in recent years, reserves are very high and capital account transactions remain controlled. The situation may change, however, if China's balance of payments should come under pressure as a result of reduced competitiveness, following the recent currency depreciations in some other East Asian countries.

RMC/EAP
15 Aug. 1997

China - Political Developments

The coming year promises important developments on the political front, with: (a) the probability of stronger support for China's reform initiatives (including, in particular, greater flexibility regarding SOE ownership) emerging from next month's Communist Party Congress; (b) hoped for improvements in relations with the U.S. arising from President Jiang Zemin's visit to Washington in November; and (c) the election of new national leaders during the spring meeting of the National People's Congress, possibly including Zhu Rongli (who has worked closely with the Bank in the past) as Premier.

Recent and Upcoming Events:

- The annual August meeting of party, government and military leaders at a beach-front resort near Beijing is currently "brainstorming" the issues likely to be the focus of attention over the coming year. Local press reports would suggest that President Jiang Zemin is further consolidating his support for the next phase of the reform program, an effort initiated in a speech last May to senior party officials in which he argued for a faster pace of reform.

- The Fifteenth Communist Party Congress (a once-every-five-years affair) will convene in September or October (possibly before the Bank's Annual Meetings), the first such meeting in 20 years without the presence of the late Deng Xiaoping. It is generally expected to extend further the ideological underpinnings of the reform movement, with important implications for the nature and pace of future progress in reforming fiscal management, SOEs, the financial sector, social security, housing and labor markets. The Government apparatus will then flesh out the specific reform programs over the coming year.

- President Jiang will visit Washington in November for meetings with President Clinton. This is the first such high-level visit since the events of 1989, and is likely to focus on a range of economic and political issues. Given the sensitivities on both sides, there are obvious risks, but there could also be quite positive results if the discussions (including with political leaders in Congress) are productive and forward looking.

- The opening session of the new National People's Congress (also a once-every-five-years affair) will be held in the spring to (inter alia) elect national government executives, including President, Vice President and Premier. Jiang Zemin is widely expected to serve a second term as President, with Premier Li Peng (who is completing the maximum two terms, and will no doubt remain within the top leadership circles) being succeeded, possibly, by Vice Premier Zhu Rongli. Zhu was credited with achieving a "soft landing" after taking strong measures to cool off an overheated economy in 1995/96.

A.Keidel/R. Calkins
August 20, 1997
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FINANCING CHINA'S INFRASTRUCTURE

KEY MESSAGES

- **China will need about $700-800 billion in the next 10 years to meet its infrastructure needs.**
- **But, because its mechanisms for internal resource allocation are still underdeveloped and only partly reformed, even with a high savings rate and build-up of international reserves, China needs foreign financing for its future growth.**
- **China's past efforts to attract private investment for infrastructure resulted in only a few large projects. The international business community is leery because China lacks a basic framework for private investment in infrastructure, making risks high.**
- **If China wants more bankable projects for financing by the markets, but without much reliance on government guarantees, it needs to make some changes. First, establish national laws and regulations that protect investor rights, expedite dispute resolution, and provide freer access to foreign exchange. Second, make fundamental reforms in sectors--break up national monopolies, increase prices, and put in an adequate legal and regulatory framework and agencies to administer the framework. Third, simplify the government decision-making process and adopt a more transparent and competitive contracting and bidding process. Last, develop domestic capital markets, particularly for long-term debt.**
- **There are some promising developments. Private investors' access to foreign exchange won't be an issue once full currency convertibility is achieved. New BOT regulations clarifying the rules of the game for private investors were drafted with World Bank input and submitted for high-level review. Five pilot BOT projects testing the new regulations have been authorized. And the power sector is reforming fast.**
- **The World Bank is helping China to design and implement the private investment framework, as indicated above. IFC, MIGA and the Bank are participating an a few projects sponsored by the private sector. And Bank investments promote continued sectoral reform.**
- **China has started to securitize assets, including those with Bank financing, to mobilize private foreign capital for infrastructure development. We have endorsed this principle, but are reviewing its legal implications for the Bank. If funds raised in this manner increase public debt, the Bank's negative pledge clause may have to be invoked.**

ISSUES

1. China faces a major challenge in meeting its huge infrastructure needs. These needs are driven by the following:

- the urgency to overcome existing serious bottlenecks and backlog of investments (e.g., telecom, urban transport, roads, water supply and power supply);
- the projected high economic growth rate of 7-8% for the foreseeable future, combined with rapid urbanization;
- the social and political importance of integrating inner provinces with the coastal economies which will require major investments in roads, railways, power and water supply; and

- the rapid growth in imports and exports as China continues to integrate more and more with the global economy.

2. Our estimates are that China would need to invest $700-800 billion in the next 10 years to meet the above huge infrastructure needs. This investment will be over 7% of GDP, one of the highest rates in the world.

3. Like other high growth economies, China is unable to satisfy its infrastructure demands through the public sector alone. The public sector has neither adequate financial resources nor the management skills needed. Indeed, its fiscal situation is much weaker than most other economies who are seeking a significant increase in private investment infrastructure. For example, China's fiscal revenues amount to 10-11% of GDP compared to 16-17% of GDP in the Philippines where private sector accounts for over 30% of new infrastructure. China's scarce fiscal resources need to focus on the social sectors (e.g., health, education) and on the poorest regions of the country; China can not use them to increase investments in infrastructure. Thus, enhancing private participation in infrastructure is particularly urgent in China.

4. In the past 4-5 years, the Chinese authorities have attempted to attract private investment in infrastructure. The international business community has also shown a keen interest. However, the results to date have fallen short of expectations. While a few large projects have been completed (e.g., Hopewell sponsored power plants and toll roads), only a small fraction of the hundreds of memorandum of understanding have reached the stage of financial closure even after years of discussions and negotiations.

5. The modest private infrastructure investments, until recently, are in sharp contrast to China's role as the leading recipient of private capital flows ($40 billion in 1996) and foreign direct investments. The vast bulk of these private investments are in export industries, or in real estate and other short term opportunities in the coastal provinces. Very little had flowed, until recently, into infrastructure or the interior provinces.

6. The Bank Group (Bank, IFC and FIAS) have been working with the Chinese to review the reasons for this slow progress and to help formulate solutions. In these regions, we have consulted extensively with the *international* business community. A number of roundtable meetings--involving senior policy makers and private executives--were organized as well as many sector reports and policy notes prepared. The fundamental conclusion of this extensive work is that China had lacked a basic framework for private investment in infrastructure. As a result, the risks perceived by the private sector were too high and the transaction costs involved in the case by case negotiating approach excessive. The lack of clear rules of the game and of transparency were seen as serious hurdles despite the enormous market potential. Equally, under developed domestic capital markets have led to excessive reliance on international debt markets despite China's very high domestic savings rates.

7. The preparation of more bankable projects that can be financed by the markets without undue reliance on government guarantees is key to enhancing private participation in infrastructure development. This requires a framework that will simultaneously increase financial profitability, reduce risks and transaction costs as well as increase competition and transparency through:

- passage of national laws and regulations that protect investor rights, expedite dispute resolution, and provide freer access to foreign exchange to service obligations to investors;

- implementation of fundamental reforms at the sectoral level (e.g., breakup of national monopolies, price increases, new legal and regulatory framework and agencies);

- simplification of government decision making process and adoption of more transparent and competitive contracting and bidding process; and

- development of domestic capital markets, particularly long term debt markets.

Recent Developments

8. In the past two years, there have been a number of promising developments, though China is still a long way from a fully satisfactory framework:

- The authorities have clarified the right of private investors to access foreign exchange and simplified procedures, a major issue until 1995. This will cease to be an issue once China achieves full currency convertibility as projected.

- New BOT regulations drafted with Bank input have been submitted to the State Council. These regulations will significantly improve and clarify the rules of the game for private infrastructure projects and will *inter-alia* eliminate an earlier informal cap on the rate of return on investment. They will also put in place more transparent bidding and contracting procedures.

- Major reforms have been agreed for the power sector, including the breakup of the old electric power ministry, separation of generation and transmission facilities, creation of an independent regulatory body, and the design of a modern legal and regulatory framework.

- Authorization of five pilot BOT projects (two in power, two in transport and one for water supply) to test the new BOT regulations. The results from the first pilot Laibin B power complex were positive. The bid was won by a consortium led by EDF at very attractive prices and bid selection made much faster than earlier projects.

- A number of smaller private power, road and ports projects at the municipal or county level entered implementation in recent years.

9. There have also been successful attempts to tap domestic and foreign capital markets in an innovative manner. In the past year or so, owners of existing highways in China have raised substantial resources from both domestic and international capital markets by securitization of revenues to finance new investments. Transactions completed or planned on the Shenzhen and Hong Kong Stock Exchanges total nearly US$2 billion involving a dozen different highways. Some of these are World Bank financed toll highways. One of the first examples is the equity offering of B shares on the Shenzhen Stock Exchange by the Guangdong Provincial Expressway Development Company. The listing was backed by US$170 million of operating assets. The offering of 135 million B shares (for foreign investors) representing 30.5% of equity of the company was completed in July, 1996. The offering was more than two times oversubscribed, raising US$62 million. Prior to the listing, 6.5% of the company's shares were placed with a strategic investor from Malaysia. The following month, August 1996, the Zhuhai Highway Company completed a $200 million Eurobond issue. Proceeds of the financing, which is secured by dedicated revenues from road tolls and automobile ownership fees in Zhuhai will be used for additional road infrastructure in the municipality. An attempt to apply this same approach to raise private foreign funds for the financing of a new hydroelectric dam are under way.

10. This Chinese expertise demonstrates that securitization of existing assets, if properly planned and executed, can raise substantial equity and debt financing at attractive terms by offering to investors completed infrastructure projects which do not involve development and construction risks. This

instrument can attract a broader spectrum of private investors and operating companies which are not interested in participating in new "greenfield" involving higher risks. Ultimately, however, it is extremely important for China to develop domestic long-term capital markets to raise funds for infrastructure. Excessive reliance on foreign debt financing for infrastructure has to be avoided.

Bank Group Role

11. Given the immense challenge faced by China in meetings its infrastructure needs, the Chinese authorities are keen for continued Bank Group assistance. Our response is support at three levels. First, assist the authorities in the design and implementation of a more conducive framework for private investment along the lines mentioned above. Second, IFC, MIGA and Bank participation in a limited number of projects sponsored by the private sector. And, third, continued support for institutional reforms of existing public institutions and financing of public projects in sectors (water supply, rural roads, railway) or in interior provinces in which the private sector is not interested. In addition, the Bank continues to consult closely with the international business community to inform its policy dialogue with the governments. There is no basis at all for the allegation (sometimes expressed by a major shareholder) that the Bank is insufficiently active in supporting private sector participation in China's development or that Bank funds would compete with private finance.

Negative Pledge

12. While we have endorsed the principle of China's new "securitization of assets" approach toward the mobilization of private foreign capital for infrastructure development, there are potential legal implications for the Bank. These are now being reviewed. If the funds raised in this manner increase public debt, the Bank's negative pledge clause may have to be invoked. If the funds raised are of an equity nature, the negative pledge clause does not apply, but the Bank may still be involved because promoters in China and Hong Kong sometimes wish to use the Bank's name in the prospectus as a seal of good housekeeping. In one recent case, the Bank had to insist on substantial revision in project design and wording of the prospectus before we would issue a letter of no objection.

Pieter Bottelier, Former Chief of the Resident Mission in China, and Harinder Kohli, Senior Operations Adviser, East Asia and Pacific Region

CHINA: DEVELOPMENT IN TRADE SECTOR AND WTO ACCESSION

KEY MESSAGES

- **Since 1980, the value of China's trade increased nearly tenfold, from $36 billion to $300 billion, making China the world's tenth largest trading nation, accounting for 4 percent of world trade.**
- **The trade policy regime has major inefficiencies. Reforms are needed to dismantle the maze of nontariff barriers, remove restraints on foreign trading, eliminate export restrictions, move import policies toward a more transparent system with lower tariff rates, and abolish import quotas.**
- **Reforms being implemented in the context of China's bid for accession to the WTO are removing some impediments to trade. Negotiations with the WTO are proceeding fairly well.**

TRADE GROWTH: ITS CHARACTERISTICS

- Since 1980, the value of China's trade increased nearly tenfold, from $36 billion to $300 billion, making China the world's tenth largest trading nation, accounting for 4 percent of world trade. With this growth, China caught up with global norms. About half of China's trade is imports processed into exports, with little effect on the domestic economy. Its trade has been relatively diversified in terms of commodities traded and trading partners. This spared China the insecurity of volatile commodity prices. Finally, Hong Kong played a crucial role by channeling goods and capital in and out of China. As a result, the two economies became closely integrated well before their political unification.

IMPEDIMENTS TO TRADE

- Many of China's foreign trade institutions involved in setting and implementing policies are oriented toward direct control of trade, incompatible with a liberalized trade system. Their trade controls are complex, and frequently overlapping.

- The trade policy regime has major inefficiencies. Reforms are needed to dismantle the maze of nontariff barriers, remove restraints on foreign trading, eliminate export restrictions, move import policies toward a more transparent system with lower tariff rates, and abolish import quotas.
- Currently, 26 categories of imports are subject to quotas.

- After tariff reduction agreed in 1995 (on coal, gas, textiles, apparel, leather, etc.), the simple unweighted average tariff rate fell from 36 percent to 24 percent and the weighted rate from about 30 percent to 21.6 percent. If China's current formal WTO offer is implemented, weighted average tariff rates wil fall to 17.2 percent by 2005. Benefits would go to exporters of manufactures, less so to raw materials exporters.

STATUS OF CHINA'S WTO ACCESSION: ACCELERATED PROGRESS IN PAST EIGHT MONTHS

- **March 1997 Meeting.** The Chinese proposal was recognized as offering an improved basis for negotiation. The meeting concluded positively, with progress achieved on: (1) China's commitment on **trading rights**, granting all Chinese enterprises the--revolutionary--right to engage in foreign trade within three years of China's acceptance to the WTO; (2) China's acceptance of the full obligations of the WTO **TRIPS (intellectual property rights)** agreement from its date of accession; (3) progress on **price control and export duties;** (4) a basic consensus on **judicial review;** and (5) start of development of **texts on non-discrimination and non-tariff measures**.

- **Key Issues Outstanding:** the subsidy regime and lack of transparency of the trade regime. The working group will also focus on issues of safeguards and balance of payments provisions.

- **August 1, 1997 Meeting**. The following major advances in China's offer were achieved: (1) an across-the-board **reduction in the periods over which China is offering to remove quantitative restrictions**, and (2) China's **renunciation of the use of export subsidies for agricultural products**. Two major documents were issued; the first revises protocol annexes listing products subject to state trading, subsidies due to be phased out, and products subject to statutory inspection on importation. It also gives information on agricultural support measures. The second document revises a draft protocol on non-tariff measures subject to phased elimination. China also made offers on bilateral tariff negotiations, which according to the Chinese would bring China's overall average tariff level down to lower than the 15% average previously announced.

- **The Main Disappointment:** China's **failure to produce a promised revision of its liberalization offer for services**. The delay was due to domestic coordination difficulties, and an offer was promised by end-August. However, the Chinese insisted that liberalization would have to be progressive and linked with the growth of China's own service industry. Other negotiating group members raised concerns about statutory inspection requirements, on which further details have been requested, together with reassurance that they are in conformity with the WTO rules on technical standards and sanitary and phytosanitary inspection. Countries also want assurances that tariff quotas for agricultural products will be administered in a non-discriminatory way.

- The **United States** and some other speakers stressed interconnections between the liberalization of trade in goods and services, pointing out the difficulty of assessing China's overall offer without an offer for services.

- **Subjects not Mentioned but Which Affect the Negotiations:** the US desire that the Chinese sign the new Information Technology Agreement calling for zero tariffs on a wide range of electronic equipment; and the IMF's continuing concern regarding commitments on exchange controls, where it believes that China should respect the Fund's jurisdiction.

- **Next Stage:** Will follow proposed Washington summit between President Clinton and President Jiang Zemin, in October 1997.

BANK INVOLVEMENT ON CHINA'S TRADE POLICY

- China requested the Bank for Institutional Development Funds for institutional strengthening aimed at WTO accession. Assistance particularly sought for establishment of an inquiry point, strengthening China's capacity to meet notification requirements, and training of staff in Ministry of Foreign Trade and Economic Cooperation and other concerned agencies in areas related to WTO membership. We await confirmation of the extension of the IDF facility.

- The major FY97 China economic report has a chapter on "China in the World Economy" (with IEC taking the lead) and a freestanding annex volume on China's external regime.

- Two studies have started: one on China's capital flows, to pave the way for analysis on the liberalization of the capital account, and one on "Industrial and Trade Policy Reform."

- The 1994 report, *China: Foreign Trade Reform*, said the time was ripe for China to liberalize further its trade regime to sharpen competitive pressures for improved enterprise performance, to make better use of the country's large reserves, and to address the concerns of China's trading partners.

Bank and WTO Relations

- The Bank's Board recently approved an agreement on more formal sharing of information between the two institutions. The agreement is similar to one the WTO and the IMF has had in the past (which is being renewed).

FOREIGN DIRECT INVESTMENT IN CHINA

KEY MESSAGES

- **China now accounts for 40 percent of all FDI inflows to developing countries and is the largest recipient of FDI after the U.S. Actual FDI**
- **FDI has played a major role in China's push towards a market-oriented economy.**
- **Past FDI was concentrated on coastal areas, for real estate and processing of tradable manufactures.**
- **The challenge now is to improve the transparency of its investment regime and diversify FDI sources in order to sustain FDI flows and direct them to priority sectors (technology and infrastructure) and the less advantaged inland areas.**

FDI FLOWS: LEVEL AND DIRECTION

- Newly *committed* foreign investment in China in the first half of 1997, at $23.6 billion, was half that of the same period last year. *Actual* investment for the year is projected at $30 billion to $35 billion, down from $40 billion in 1996.
- For many reasons, including the elimination of tax concessions for foreign investors in 1996 and the slowdown in the surge of transfer of labor-intensive assembly operations from neighboring countries, it's likely that high FDI inflows in China in 1993-95 (at 6.0-6.5 percent of GDP) were exceptional and have fallen to levels sustainable in the long term.
- **90 Percent Went to Coastal Areas Since 1989.** This was initially spurred by incentives, including preferential tax policies, offered by the government to attract foreign investors to special coastal economic zones. But the geographic concentration of FDI is probably more due to the inland regions' inadequate or underdeveloped infrastructure networks and facilities, which tend to play an important role in foreign investors' location decisions worldwide.
- **Real estate and the processing of tradable manufactures (like cars) got the largest share.**

FUTURE FDI DIRECTION: TO INLAND AREAS, INFRASTRUCTURE AND TECHNOLOGY

- **Macroeconomic Stability and Strong Growth Performance: Necessary but Not Sufficient FDI Determinants.**
- **FDI Policy Regime: A Constraint.** It's insufficiently transparent, involves excessive levels of government approval, is perceived by investors as one of the most complex in the world, and in many respects--particularly with regard to property rights, expropriation rights and investor-state dispute settlement--is below international standard.
- **Keep Markets Open and Competitive.** The best way to encourage foreign firms to bring in advanced technologies is to maintain open and competitive markets that force firms to be more efficient. China has used formal technology transfer requirements, but these haven't worked.
- **Diversify Sources.** China needs to diversify its FDI sources, which so far have been dominated by overseas Chinese. Diversification will help make FDI flows more sustainable, and bring wider benefits.
- **Why no FDI for Infrastructure?** China's proposed investment program for the next decade totals $600 billion, and can't be met by public financing. Despite a number of foreign investments in power generation, ports, highways and railways, FDI for infrastructure has been limited so far by: (1) lack of enabling legislation and weak

institutional frameworks. The perception of a cap on profitability has also hurt infrastructure proposals in China; (2) lack of a coherent national strategy and clear decision making rules for implementing FDI. Split national and provincial decision-making delays approvals and investments; (3) with full foreign ownership not in the cards, FDI projects usually involve state agencies, but performance obligations for these agencies have been difficult to obtain. Laws and regulations relating to mortgages, loan security, contract enforcement and foreign exchange access also need improvement.

CHINA'S EFFORTS TO PROMOTE MORE EQUAL DISTRIBUTION OF FDI

- The authorities are: (1) focusing on developing infrastructure facilities in previously disadvantaged inland regions to attract foreign investors and (2) fashioning policies to provide equal footing for FDI flows to certain manufacturing industries and underdeveloped services sectors.

- They still need to make the rules governing FDI more transparent and provide investors with better property rights to attract a wider range of FDI and insure greater competition. This in turn would help ease the skewed geographical and sectoral distribution of FDI inflows, bring in and disseminate better technology, and attract more investment in infrastructure sectors.

Dipak Dasgupta, Will Martin, Kwang Jun and T. G. Srinivasan, *China in the World Economy*, World Bank, to be released in September 1997.

PUBLIC EXPENDITURE: FISCAL AND BUDGETARY SYSTEM

KEY MESSAGES

- **Over 1978-96, budgetary revenues fell from 35 percent of GDP to 11 percent, in part reflecting the declining tax contribution from state enterprises that lost monopoly profits. Government budgetary expenditures also fell to about 12 percent of GDP.**
- **Income-earning investments continued to find off-budget financing--extra-budgetary investment spending is now about five times as large as budgetary spending. But the Government has yet to develop a revenue base to fund what governments typically finance: infrastructure and social sectors.**
- **To reverse declining revenues the Government needs to improve compliance (with VAT and individual income taxes) and eliminate tax exemptions. In the longer term, it needs to: (1) broaden the tax base; (2) introduce new taxes; (3) end off-budget investment financing; (4) increase funding for key reforms, social sectors, and the environment; and (5) expand intergovernmental transfers from richer to poorer areas.**
- **Government authorities have recognized the importance of expenditure management and begun to take action in all the right areas.**
- **The Bank supported government policy discussion with a series of relevant studies, while a technical assistance project is helping to develop a new National Tax Administration.**

KEY ISSUES:

- **Revenues Have Plummeted.** During 1978-1996, budgetary revenues went from about 35 percent of GDP to 11 percent. About 15 of the 24 percentage point decline was due to lower tax contributions from industrial state enterprises, as price reforms and more intense competition lowered their profits.

- **Government Budgetary Expenditure Fell.** The revenue decline and the Government's desire to limit the budget deficit caused a similar decline in government expenditures as a proportion of GDP. Today, government expenditures are about 12 percent of GDP, compared with a developing country average of about 32 percent. Worst affected by the decline has been investment, which declined from 16 percent of GDP in 1978 to less than 3 percent in 1996. Expenditures on the military and subsidies also declined as a share of GDP. Only civilian current expenditures--on administration, health, education and welfare--showed relatively little change.

- **Meanwhile Extra-Budgetary Spending Rose, But with Little for Social Activities.** The lack of central control over significant extra-budgetary spending hurt activities that are socially and economically important but not financially profitable--like health, education, poverty alleviation, pensions and the environment. One result, for example, is that most rural people no longer have access to primary education and health care. The overall expenditure shortfall in these high-priority areas is *very conservatively* estimated at about 5 percent. Most of the extra-budgetary spending and government-directed bank credit went to income-earning investments, largely for state enterprises. Extra-budgetary investment spending is now more than five times as large as budgetary investment spending, and almost 40 percent of government funds are excluded from the budget. In part, this has contributed to the repeated bouts of overheating in China's economy.

DIAGNOSIS

- **Restore Revenues**. After several years of decline, tax revenue as a share of GDP stabilized in 1996, thanks to wide-ranging tax reforms two years earlier. To reverse the earlier decline--a big task--the Government needs to improve tax administration in the short term to increase compliance (with VAT and individual income taxes) and boost revenues. Eliminating the plethora of tax exemptions could further add to revenues. In the medium- to long-term, the Government will need to broaden the tax base and introduce new taxes combining social, economic and revenue objectives, such as excises on fuel. And non-state enterprises must be brought into the tax net. An array of tax administration, accounting and auditing improvements should underpin the bigger policy changes. Together, these measures could raise incremental revenues to the equivalent of 6.0 percent of GDP by 2000, with further increases in the future if sufficient effort is expended.

- **Make the Budgetary System Transparent.** Public financing through extrabudgetary revenues and the banking system obscures actual spending. Consequently, the government deficit is much larger than the formal budget deficit. The overall figure may have averaged more than twice the 2.2 percent deficit in the official budget.

- **Spend Strategically.** The Government needs to increase funding of social programs and the environment, adequately support key reforms, and scale back government control of investments. Capital spending should mainly be financed by enterprises, the banking system or capital markets. Until this is possible--and it may take some time--government capital spending should be channeled through the four government policy banks set up for this purpose.

- **Expand Intergovernmental Transfers from Richer to Poorer Provinces and Counties.** Each level of government is now more or less fiscally independent, tailoring its public expenditures to the revenues collected at that level. Spending in poor areas on health, education, environmental protection and other public services has been hit hard as a result. Besides addressing income inequality, transfers would reduce migration pressure and improve infrastructure in poorer areas, which would open up markets and integrate poorer provinces into the economic mainstream.

GOVERNMENT ACTION

- **China's authorities have recognized the importance of expenditure management.** The 1994 Budget Law clarified responsibilities in the budget process, and restricted government borrowing from the Central Bank. The State Council has ordered that extrabudgetary funds be further integrated in the budget, and a wide-ranging review of those funds was conducted in 1996. Government has decided to eliminate the budget deficit by the year 2000. Experiments with Zero Based Budgeting and a rolling five-year budget plan are ongoing. Social functions of state enterprises are increasingly taken on by the Government. And speeches of budgetary matters by the highest officials emphasize expenditure management issues.

BANK INVOLVEMENT

- The Bank has engaged the Government in a dialogue on public expenditure and fiscal issues in the context of preparing four country economic memos since 1993 and a 1991 study on budgetary policy and reforming intergovernmental fiscal relations. Recent studies include those on *Quasi-Fiscal Issues* (1995), *Public Investment and Finance* (1995) and a major review, *Managing China's Public Expenditures for Better Results*, is upcoming in 1998. Project support has also been given under the *Fiscal Technical Assistance Project*, which is assisting in the implementation of recent fiscal reforms by developing a new National Tax Administration and by developing an intergovernmental grants scheme and improved budgetary practices.

Vikram Nehru, *China Rising: Development Issues and Options in the 21st Century*, World Bank, Report No. 16643-CHA, to be released in September 1997; and Burt Hofman, *Managing China's Public Expenditures for Better Results*, Concept Paper, March 1997.

Financial Sector Reform

Key Messages

- **The skeleton of a modern, diversified financial system exists, but four huge state commercial banks, with over $1 trillion in total assets and 125,000 branches, account for 90 percent of banking system assets and two thirds of all financial assets.**
- **These four banks are not genuinely commercial. Their capital-asset ratios are low and declining. If their non-performing assets are equivalent to about 20 percent of portfolios (the government estimate, we think it's higher), their net worth is actually negative.**
- **Two major factors cripple the banks: they're still not completely free to lend according to commercial criteria (the government at various levels tends to interfere), and interest rates remain controlled, with a limited spread between deposit and lending rates.**
- **Improving bank performance would entail: (1) the transfer of government-directed lending to policy banks; (2) promotion of a more competitive environment, perhaps by splitting up the largest state commercial banks into separate entities; (3) when the domestic system is up and running under its new legal and regulatory framework, entry of foreign banks into China; and (4) interest rate policy reform, which the Government has, diffidently, begun. Improvements in monetary management, institutional and human resources development in widely diverse areas would also be required, along with careful synchronization of financial sector reforms with reforms in other sectors of the economy, especially of the state enterprises.**
- **Central Bank capacity to supervise the activities of banks and NBFIs will also need beefing up.**

Issues

- Despite acceleration of financial sector reforms in the last three years and progress made to date, China still has a long way to go to establish an efficient market-based financial system.

- The banking sector dominates the financial system. The latter comprises the People's Bank of China; four huge state commercial banks, created initially as specialized banks for specific sectors; and 14 small commercial banks, most set up in the past six years. Non-bank financial institutions include thousands of rural and urban credit cooperatives operating as near-banks, over 300 trust and investment companies, and foreign bank branches. Two securities exchanges at Shanghai and Shenzhen, 23 regional securities trading centers, two electronic securities trading networks and myriad securities companies complete the system.

- The banking sector is dominated by four state commercial banks, accounting for about 90 percent of banking system assets. These banks are very large (over US$1 trillion in total assets, 125,000 branches and over 1.6 million employees) even by international standards.

- They face major problems in transforming themselves into commercial banks. Having served until recently as the fiscal agents of the government, the banks lack corporate governance and commercial bank systems and procedures (for example, financial accounting, internal audit, credit and risk management). Banking skills are also deficient and banks have limited capabilities in identifying and controlling the multiple risks in an increasingly market economy.

- A large proportion of credit continues to be directed (by the State Planning Commission and/or local governments), mostly to state enterprises, over one half of which are loss-making. All interest rates are administered by the Central Bank, lending margins are narrow, share of non-performing loans is high (20 percent according to the central bank, but likely to be substantially higher if international accounting standards are applied), loan loss provisioning cannot exceed 0.8 percent of portfolio, and income and other taxes take over 60 percent of banks' (paper) profits. The banks' net worth may actually be negative.

- This situation prompted a Brookings Institute scholar to go before the Congressional Committee on Banking and Financial Services in March 1996 and recommend that Chinese banks be not allowed to open branches in the U.S. because they do not meet the key criteria laid down by the Foreign Bank Supervision Enhancement Act of 1991.

  The only saving grace in the system is the successful deposit mobilization effort, reflecting China's high (35 to 40 percent) domestic savings rate.

- Intricately linked to financial sector reforms are issues related to fiscal and enterprise reforms. Unlike other transition economies, China has adopted a policy of gradualism in their deregulation and reform program, and large scale privatization is not now in the cards. Slow progress in fiscal and enterprise reforms have limited progress on banking sector reforms. The financial sector is the soft underbelly of China's reforms, and is the most vulnerable to shocks.

- While China is unlikely to encounter problems currently faced by countries like Thailand--China does not have an open capital account, there are restrictions on off-shore borrowings, reserve level is very comfortable and domestic savings rate is very high--the country runs the risk of not been able to sustain high rates of economic growth due to gross misallocation of resources, if sufficient progress is not made in resolving major reform issues in the coming years. The cost of recapitalization of the banks, already very large (15-20 percent of GDP to bring the banks to conform to BIS guidelines), will mount further.

The Bank and China's Financial Sector

- Macroeconomic and structural reforms continue to be central to the Bank's assistance strategy in China. Incomplete reforms of the financial sector, state-owned enterprises and public finances constrain development of strong macroeconomic management tools and threatens sustained rapid economic growth.

- The Bank is following a multi-pronged approach in the banking sector consisting of the following main elements:

(a) Policy dialogue with the authorities on financial sector and enterprise reform issues through economic and sector work and dissemination of findings and experiences of other countries in various workshops and seminars. In addition, annual consultations with the Central Bank are held on financial sector issues;

(b) Assistance in the establishment and strengthening of sector infrastructure--legal, prudential, accounting and payments system--under the ongoing Financial Sector Technical Assistance Project, and skill upgrading of staff of the central bank, commercial banks and other financial institutions under various grants and loans and a multi-year training program managed by EDI;

(c) Assistance in well-managed transformation of core Chinese banks that would institutionalize the principal building blocks and establish a framework for improving individual financial institutions as well as complement the capacity building and financial sector infrastructure upgrading activities under (b) above [China Construction Bank Transformation Project (FY98) and the Agricultural Bank of China Commercialization Project (FY99]; and

(d) Enhancing the role of smaller Chinese commercial banks through institutional development programs, participation as financial intermediaries under Bank's lines of credit, and closer relationship with IFC, including possibly equity participation.

Surinder Malik, Principal Economist, Finance and Private Sector Development Sector Unit, East Asia Region; Vikram Nehru, *China Rising: Development Issues and Options in the 21st Century,* World Bank Report, No. 16643, to be released in September 1997.

STATE ENTERPRISE REFORM

KEY MESSAGES

- **In 1996, 50 percent of state-owned enterprises (SOEs) had operating losses equivalent to 1 percent of GDP, and factory capacity utilization rates for major industrial products fell below 60 percent.**
- **SOEs absorb more than three-fourths of domestic credit, and their borrowing comprises about 60 percent of the total nonfinancial public sector deficit. This crowds out investment by nonstate firms, the engines of China's growth. It also undermines a weak state-dominated banking system: 20 percent of bank portfolios contain nonperforming loans to SOEs, resulting in state banks with negative net worth.**
- **The government has avoided massive SOE privatization for the sake of social stability. Its use of an ineffectual state asset management system to promote SOE commercialization has not only been ineffective, it has also created new problems. Excessive reliance on enterprise managers --but in a corporate governance vacuum-- led to asset-taking of SOEs' good assets, leaving debt-ridden shells.**
- **The next phase of SOE reform should focus on rapid introduction of policies to better align the state asset management system with market principles. Attention should be paid to clearer property rights within a sound economic legal framework, organizational reform, strengthened corporate governance, and implementation of financial accounting procedures in line with international standards.**
- **A ripening climate exists for reform. In 1996, over 6,000 mostly small SOEs with no economic future and no buyers were closed. Budget subsidies to loss-making SOEs have been sharply reduced. Even more promising, in recent speeches to party leaders both Jiang Zemin, the President and Communist party chief, and Premier Li Peng have singled out SOE reform as the leading economic challenge. It therefore seems likely that SOE reform will dominate the policy agenda of the upcoming Fifteenth Party Congress.**

STATUS

- The inefficient and loss-producing state enterprise system is a major challenge to China's continued growth and to development of a modern enterprise system.

- China's state owned enterprises (SOEs) number about 305,000, including 118,000 in industry. They account for one third of production, over one half of total assets, two thirds of urban employment and almost three quarters of investment. But their financial performance has deteriorated, especially in recent years, partly because SOEs, unlike their nonstate competitors, are required to provide job security and a range of social services such as housing, education and health care. Poor past investment decisions and an "iron rice bowl" system that did not penalize low productivity also cast a pall over SOE performance.

Thus far, China has avoided systemic, widespread privatization of SOEs, and instead has sought to maintain state ownership of key enterprises and improve their performance by establishing market-oriented incentives. The State, or its agents, carry out "shareholder" functions that private owners perform in market economies. But the Government, as "owner," has neither the appropriate information nor the administrative capacity to provide effective oversight. As a result, many SOEs are controlled completely by their managers, but with no adequate corporate control structures, only a multi-layered network of state asset management bureaus.

PROBLEMS

- These initiatives haven't been fully implemented. Only 5 percent of SOEs have been corporatized, and although relevant portions of the economic legal framework have been enacted, implementation and enforcement of laws and regulations remain weak, and SOE property rights are not clearly delineated. The lines between government administrators and enterprise managers remain unclear, and many SOEs still cannot survive in a competitive environment.

- As a result, despite a boost to SOE total factor productivity growth rates, SOEs are still in the red. Industrial SOEs' profits declined from 6 percent to below 1 percent of GDP in recent years, and many are still technologically inefficient, obligated to provide "cradle-to-grave" social services to workers and their families, and carry a rising proportion of redundant employees and retirees on their payrolls.

- In 1996, SOEs' return on assets was only 6 percent, compared to 8.4 percent for collectives and 9.9 percent for joint ventures. The number of loss makers grew from 26 percent of the total in 1992 to 50 percent in 1996. As a group, they reported operating losses in 1996 equal to 1 percent of GDP. Factory capacity utilization rates for major industrial products fell below 60 percent.

- Yet SOEs continue to absorb more than three-fourths of domestic credit, and their borrowing comprises about 60 percent of the total nonfinancial public sector deficit. This crowds out investment by nonstate firms, the engines of China's growth. It also undermines a weak state-dominated banking system: 20 percent of bank portfolios contain nonperforming loans to SOEs, resulting in state banks with negative net worth.

- Even worse, the reforms created new problems. Excessive reliance on enterprise managers --but in a corporate governance vacuum--led to asset-taking of SOEs' good assets, leaving debt-ridden shells. A 1994 survey of 124,000 SOEs showed that asset losses and unaccountable expenses accounted for 11.6 percent of the total assets of firms. Along with asset-stripping, there has been tax evasion, decapitalization, wage manipulation, and socialization of losses and liabilities. By spilling over to the fiscal and financial sectors, SOE problems jeopardize other critical elements of the Government's economic reform program and undermine resource allocation and macroeconomic stability.

THE BANK'S VIEW

- A recent Bank report, *China's Management of Enterprise Assets: The State as Shareholder*, argues that the next phase of SOE reform and establishment of a "modern enterprise system" should focus on rapid introduction of policies to better align the state asset management system with market principles. Attention should be paid to clearer property rights within a sound economic legal framework, organizational reform, strengthened corporate governance, and implementation of financial accounting procedures in line with international standards.

- More specifically, policies need to promote diversified ownership, simplified organizational structures, further development of property rights and asset exchanges, increased incentives to meet debt-service obligations, and requirement of independent audits of financial accounts.

- The Government intends to maintain its control over 1,000 SOEs, including 880 industrial firms accounting for most industrial SOE assets and profits. For this nucleus of a modern enterprise system, there needs to be a clear separation between the firms and the Government. The state can reduce its involvement by appointing a custodian--either through joint ventures or public shareholding with the nonstate sector--to act on its behalf and manage SOE assets. And besides giving these enterprises a modern corporate structure and professionalized management, they should also be fully exposed to domestic and international competition and, when borrowing from banks, be subject to the same scrutiny and safeguards as other borrowers.

- For the remaining 304,000 SOEs, the state should withdraw completely from industries that are competitively structured, that is, where small and medium-sized firms predominate. These firms should have the freedom to organize leases, mergers, or sales, or, if necessary, permit them to be liquidated. This would signal credibility in the government's commitment to both deeper SOE reform and encouragement of nonstate enterprise competition for stronger business performance and growth.

WHERE THE GOVERNMENT STANDS

- A ripening climate exists for reform. In 1996, over 6,000 mostly small SOEs with no economic future and no buyers were closed. Budget subsidies to loss-making SOEs have been sharply reduced. Even more promising, in recent speeches to party leaders both Jiang Zemin, the President and Communist party chief, and Premier Li Peng have singled out SOE reform as the leading economic challenge. It therefore seems likely that SOE reform will dominate the policy agenda of the upcoming Fifteenth Party Congress.

Harry Broadman, *China's Management of Enterprise Assets: The State as Shareholder*, World Bank, Report No. 16265-CHA, June 5, 1997.

<u>POVERTY AND RISING INCOME INEQUALITY</u>

KEY MESSAGES

- **Despite China's stunning growth, some 270 million Chinese--about one fifth of the world's poor--live on less than a dollar a day. And income inequality--between rural and city dwellers, the coast and inland areas, and now between men and women--is increasing with growth.**
- **Inequality is still at about the same level as in the United States, but China needs to ensure that the benefits of growth are extended to all society since high inequality in other countries has impeded growth, weakened poverty alleviation and contributed to social tension.**
- **In particular, it should correct social policies with an urban bias, economic policies favoring the coast, decreasing access of the rural poor to education, health care and labor mobility, and more pronounced gender disparities in the marketplace.**
- **While the Government's poverty alleviation program for 1993-2000 has benefited the poor in areas targeted under the program, it is underfunded and somewhat ill-focused.**
- **IDA resources have supported the Government's efforts to combat poverty. Agriculture projects raised incomes, education projects provided people with basic skills that gave them some choices, and health and water supply projects made them fitter and able to work. In no-hope areas, projects are helping people to go elsewhere.**
- **The end of IDA availability for China in FY99 puts Bank Group poverty alleviation and social sector assistance to China in jeopardy. Decentralization of budgetary and financing responsibilities in China requires beneficiaries to pay for investments. However, China's poorer provinces cannot afford IBRD terms, and budgetary compartmentalization makes even wealthier provinces reluctant to take on IBRD terms but cross-subsidize their poorer regions. The Central Government has been noncommittal about substituting IBRD for IDA funds, but discussions continue on the possibility of blending IBRD financing with government grants for poverty reduction, education and health projects. The better-off areas do seem interested in using IBRD funds strategically, for high-priority agriculture and social sector activities like tertiary education.**

Issues

- **Increasing Income Inequality.** China's impressive growth since 1978 raised 200 million people out of poverty. But the benefits of growth--which depend on peoples' education, mobility and land--are being distributed unevenly, as indicated by the rise in China's Gini coefficient from a low 28.1 in the early 1980s to 38.8 in 1995.

- While emerging inequality goes hand-in-hand with increased growth, government policies--or their absence--are heightening inequalities. Social policies tend to have an urban bias; economic policies favor the coast; access to education, health care and labor mobility remains or has become more unequal; and gender disparities in the marketplace appear more pronounced.

- Rural-urban disparities--accounting for half of total income inequality--increased, as an elaborate set of publicly provided services--housing, pensions, health, education and other entitlements--have augmented urban incomes.

- **The Absolute Poor and the Near Poor.** In 1995, about 70 million Chinese lived in absolute poverty. They are concentrated in resource constrained remote upland areas in the interior northwest and southwest, where the land is of such low quality that it is impossible to achieve even a subsistence level of crop production. However, using the World Bank definition of poverty (i.e., income less than US$1 a day in 1985 prices adjusted for purchasing power parity), some 270 million are poor. Many of these people derive almost half their incomes from grain, a heavily regulated subsector.

Diagnosis

- While China's income inequality is still moderate--similar to that in the U.S. and close to East Asia's average--Chinese policymakers should combat this trend since high inequality in other countries has impeded growth, weakened poverty alleviation and contributed to social tension.

- The large rural-urban gap results from imperfect mobility in factor markets, especially for labor. Despite increasing out-migration, continuing impediments to mobility reflect the government's desire to control the pace of migration and ensure grain self-sufficiency. The absence of a housing market and limited access to social services in urban areas pose additional constraints to labor mobility.

- Widening regional disparities between coastal and inland areas are rooted in the coastal areas' more developed infrastructure system and the central government's preferential treatment of coastal economic zones to stimulate foreign investment.

- Unequal access to opportunities to improve incomes and welfare encompasses: (1) differential access to education and health care as a growing market orientation encourages cost recovery in public institutions; (2) rising discrimination against women in the labor market; and (3) imperfect labor markets.

- Even if income inequality continues to rise during China's transition to a mature market economy, this need not deter either growth or social harmony if the government ensures that the benefits of growth reach all of society by maintaining equity in access to social services, enhancing labor mobility, and creating programs to protect the poor and vulnerable.

Government Initiatives

- **National 8-7 Poverty Reduction Plan (1994-2000)**. This program, better known as the "8-7 Plan," aims at eliminating extreme poverty among the rural poor with an annual per capita income of less than US$30. The Plan targets specific areas where inhabited predominately by the rural poor and calls for equipping poor households in those areas with land and livestock assets; improving infrastructure (water, local roads, electricity); and improving education and health care. The challenge is to find resources to implement the ambitious program.

The government is also developing a strategy for increasing the number of small cities, far from large urban centers, to attract rural-urban migrants and thus alleviate some migratory pressure.

Bank-Sponsored Studies

- **Analysis of Current Problems.** A recent Bank report, *Income Distribution in China,* suggests better targeting of the Government's poverty alleviation efforts, since in 1990 almost 50 percent of the poor lived outside the areas designated for special assistance. Priority should also be placed on providing basic education and health services for the poor, along with help in finding employment in economically more advanced areas. The near poor would benefit from shifting out of low return grain production into higher value crops or off-farm employment. While urban poverty in China is negligible today, enterprise reform and further urbanization may increase it. A social safety net system comprising pensions, health care, unemployment compensation, and labor training and retraining should begin to be put in place. In addition, policy biases favoring those in urban and coastal areas, and siphoning funds off that might be used for needier populations, should be ended, and efforts made to ensure that women are educated and receive fair treatment from employers.

- **A Previous, Seminal Study.** A collaborative Government-Bank comprehensive poverty assessment, *China: Strategies for Reducing Poverty in the 1990s,* was released to the public in conjunction with an October 1992 International Conference for Poverty Alleviation in China, attended by high-level officials from the government, the Bank, UN organizations, NGOs, and academics. While previous analysis of poverty's causes and effects had been done, this study marked a turning point in the Bank's involvement in China. The ensuing Government-Bank dialogue deepened understanding of poverty issues on all sides, and the report's recommendations were incorporated in the 8-7 Plan. Since then, Bank studies on income inequality, health care finance, social expenditure, and pension system reform have contributed to our dialogue.

Bank Operational Involvement

- **Will the Bank have a Social Sector Program after IDA-11?** The end of IDA availability for China in FY99 puts Bank Group poverty alleviation and social sector assistance to China in jeopardy. Decentralization of budgetary and financing responsibilities in China requires beneficiaries to pay for investments. However, China's poorer provinces cannot afford IBRD terms, and budgetary compartmentalization makes even wealthier provinces reluctant to take on IBRD terms but cross-subsidize their poorer regions. The Central Government has been noncommittal about substituting IBRD for IDA funds, but discussions continue on the possibility of blending IBRD financing with government grants for poverty reduction, education and health projects. The better-off areas may be interested in using IBRD funds strategically, for high-priority agriculture and social sector activities like tertiary education.

- **A Successful Partnership with China to Date.** During FY91-97, the Bank lent about $2.1 billion, almost all IDA funds, for poverty alleviation efforts in agriculture, rural health, education and rural water supply. These resources benefited more than 104 million people in aggregate, recognizing that some areas may have been included in more than one project. Lending went to areas of concentrated poverty--the northwest and southwest.

- **An Enviable Agriculture Program.** Even when not focused on the absolute poor, the Bank's agriculture and rural development projects have helped relatively disadvantaged farm families. A number of these projects also include poverty reduction components in extremely poor areas. Cumulatively since 1981, 50 agricultural investments (including some of the targeted poverty interventions) channeled over $7.7 billion to rural development.

- **Project Approaches: Some Illustrations.** Some early experimental projects developed an approach to reducing poverty by providing opportunities for voluntary resettlement to newly irrigated areas for hundreds of thousands of absolute poor living in upland areas of the Loess Plateau. This north-central area is one of China's poorest, where geographical features and centuries of inappropriate land use had led to severe soil erosion. The **Loess Plateau Watershed Rehabilitation Project**, a direct outgrowth of all this work, should triple per capita farm incomes for 1.2 million rural people. And under the **Hexi Corridor Project**, 200,000 people living in absolute poverty in a mountainous part of Gansu Province, have opted to emigrate to newly irrigated land in another part of the Province.

- **The Southwest Poverty Reduction Project** in FY95 was China's first multi-sectoral attack on absolute poverty in a severely resource-deficient area where single-sector programs could not achieve sustained poverty reduction. This operation includes improved health services and education for the very poor, and provides labor training and mobility, rural infrastructure like drinking water and village roads, land development and farmer training to raise agricultural productivity. The recently approved **Qinba Mountains Poverty Reduction Project** applies a similar approach to another area of the country. And a third multi-pronged activity is now being prepared.

- **Education.** To help remedy high illiteracy rates and funding constraints in poor villages caused by the decentralization of funding for education, a quartet of basic education projects, with aggregate IDA support of $415 million since 1992, are sharply focused on the rural poor, including minorities. These project also aim at overcoming barriers to girls' education. Importantly, the projects' funding needs are carefully tailored to likely local budgets both during and after implementation. Of course, Bank-assisted teacher training projects not explicitly poverty focused also benefit the poor and near poor.

- **Health.** Operations aimed at the poor include the **Rural Health Workers Development Project** for better quality health services, improved health status, and the development of new financing models for health services in the poorest areas. The comprehensive **Maternal and Child Health Project** addresses the high maternal and infant mortality rates that remain widespread among China's absolute poor. The **Infectious Diseases Project** seeks to reduce the incidence and risk of infection of two severe diseases (tuberculosis and schistosomiasis) which are most prevalent in poor areas. And the **Disease Prevention Project** will provide immunization coverage and greater accessibility to health care to ten poor provinces.

Tamar Manuelyan, *Income Distribution in China,* World Bank, Report No. 16685-CHA, to be released in September 1997.

FOOD SECURITY

KEY MESSAGES

- **China can remain food secure over the next two to three decades and domestic food production can largely keep pace with population growth--if it can overcome the obstacles to growth in agriculture and infrastructure and implement several policy reforms.**
- **China's aim of being grain self-sufficient is understandable but inefficient. It's also accompanied by policies for grain pricing and labor migration that contribute to large rural-urban income differentials. International grain markets could accommodate a 5% hike in China's grain imports with little price impact.**
- **But if China decides to import more, 10% of total consumption rather than the current 5%, it will need major investment in ports and bulk grain handling logistical systems along with more outward, market oriented policies governing imports.**
- **On the domestic front, China's impressive agricultural productivity growth of the 1960s and 1970s has declined with decreased investment in research, lower fertilizer use, water shortages in the north, and market controls. Without action in these areas, food security (and rural income growth) will be elusive.**

ISSUES

- China's risk-averse goal of being 95 percent self-sufficient in grain is largely precipitated by historical grain shortages and famines - China's most recent famine was in 1959-61 when an estimated 30 million people starved. But, feeding one-fifth of the world's population using only 7 percent of the world's arable land, is costly and uses scarce resources that could be better directed to its economic transition.

- Besides limiting food imports, agricultural policies and investments have curtailed productivity growth. Both research investments--which in the 1960s and 1970s led to the production and adoption of high-yielding crop varieties--and use of fertilizers have declined. And market reforms to allow greater private participation have been rescinded.

DIAGNOSIS

- A recent Bank study, *At China's Table: Food Security Options,* concludes that China can remain food secure over the next two to three decades and domestic food production can largely keep pace with population growth--if it can overcome the obstacles to growth in agriculture and infrastructure and implement several policy reforms.

- In particular, greater integration with international markets would permit food security at a lower cost, allowing cereal self-sufficiency to decline to 90 percent. This would benefit China as well as its trading partners, through lower production costs and higher farm incomes, as each country's comparative advantage is exploited.

- The best estimate of China's grain demand in 2020 is about 697 million tons of rough (unmilled) grain. Of this, China will likely produce 90 percent and import the balance--about 70 million tons. The major grain-exporting countries can readily supply this amount without a large price increase. But China will have to invest heavily in port facilities and bulk logistical systems--otherwise, imported gain, if handled by the current outmoded systems, will be very costly. Market barriers to imports will also have to be dismantled.

- Meeting even 90 percent of its grain demand through domestic production will be achievable only if China increases its investments in infrastructure, agricultural research, and land and water development. Inefficient market controls should also be lifted. Government will continue to intervene in the grain market consistent with China's concern for stable grain supplies. But other large Asian countries, with similar social policies, have achieved stability with less intervention than China practices. The Government should reduce its procurement of grain from the current 75 percent of total production to 25 percent, and allow domestic grain markets to mature and expand grain purchasing and retail networks. Without these changes, imports will have to increase.

- And even with large investments, irrigation is likely to become a serious constraint to continued agricultural growth. The water-short North China Plain contains 40 percent of China's land, 45 percent of its population, but only 10 percent of its water resources. At the same time, flooding in the south is a constant threat for 450 million people, or a third of the population. Massive water transfer schemes from the water surplus Yangtze Basin in the south to the Yellow River basin would substantially alleviate the water shortage problem in the north - although improved irrigation efficiency also is required.

BANK INVOLVEMENT

- To date, 28 percent of total Bank lending to China has gone to the agricultural sector. The projects supported by IBRD and IDA resources have promoted agricultural productivity and rural development, alleviated poverty, promoted environmentally sustainable development and furthered market liberalization and commercialization. Projects are helping to expand the irrigated area, encourage use of improved seed varieties and other productivity-enhancing inputs, and check soil erosion over large--usually poor--areas.

- The recently approved Wanjiazhai Water Transfer Project will help finance a large system to bring water from the Yellow River to water-short Shanxi Province, one of China's poorer areas. Discussions of similar developments are ongoing. Other very large water resource development projects, including construction of the Xiaolangdi Dam, continue. Irrigated agriculture remains a focus of our involvement.

- The ongoing Grain Distribution and Marketing Project is aimed at modernizing grain handling in four major grain corridors spanning the country, including development of modern port terminals. Implementation has been difficult. The resurfacing of market controls along with parochial interests have posed barriers to corridor integration. However, Chinese authorities at the highest levels have understood the importance of this initiative and participated fully in the recent mid-term review and restructuring to relieve the bottlenecks encountered.

Albert Nyberg, *At China's Table: Food Security Options,* World Bank, report to be issued in September 1997.

CHINA'S ENVIRONMENT

KEY MESSAGES

- **China's environment has deteriorated steadily, reflecting the impact of economic growth, urbanization and industrialization. Air pollution alone kills more than a quarter of a million people annually.**
- **Despite measures already taken, like establishment of a national environmental protection agency, the underlying causes of environmental damage remain unaddressed.**
- **What's needed? First, market-based incentives to influence consumer and producer behavior, like coal prices covering social as well as economic costs, deregulation of gas pricing, water pricing aimed at cost recovery, and better designed and enforced pollution levies. Second, sensitivity to environmental issues in all planning and regulation. This means phasing out lead from gasoline, tightening automobile emissions standards, using a river basin approach to water resource planning and, in urban planning, relocating downtown industries to accessible industrial parks. Third, they need investments, in energy-efficient industrial equipment, natural gas development, public transportation, and sewage collection and treatment, among others.**
- **Bank studies, sometimes funded by the Global Environment Fund (GEF), have helped China analyze environmental issues ranging from the impact of coal use, greenhouse gas emissions, and energy conservation, to biodiversity conservation. And \$3.0 billion in Bank lending helped finance environmental technical assistance and urban environmental infrastructure.**

ISSUES

- **The Environment vs. Growth and Urbanization.** China's leaders recognize that the past two decades of rapid economic growth, urbanization and industrialization have taken an environmental toll. Air and water pollution increased, largely because of China's dependence on coal and booming urbanization. Underpricing of coal and water has contributed to much waste, while the sheer size of China's population and the country's natural resource constraints have exacerbated the situation--22 percent of the world's population live on only 7 percent of the world's arable land and China's water resources are about one third of the world per capita average.

- Coal supplies 80 percent of China's primary commercial energy demand because supplies are abundant and alternatives like oil/gas imports or hydro and nuclear power are considered expensive or inadequate. The result is choking urban air pollution and high levels of sulfur emissions--a cause of acid rain. Seriously high water pollution derives from industrial and municipal wastes--in 1996 less than a fifth of municipal sewage was treated--and chemical and organic fertilizer runoff. This limits access to safe drinking water and sanitation, raises the costs of providing drinking water, and aggravates water shortages, most importantly the tight water supply in the North China Plain.

- **Impacts Quantified.** As a result, ambient concentrations of particulates and sulfur dioxide as well as several water pollutants are among the highest in the world, causing damage to human health and lost agricultural productivity estimated at \$54 billion a year or about 8 percent of China's GDP in 1995.

- **Particulars.** Major Chinese cities have particulate and sulfur levels from two to five times WHO and Chinese standards. Chronic pulmonary diseases like emphysema and chronic bronchitis are the leading cause of death in China, with a mortality rate five times that of the U.S. Water pollution has destroyed 52 of 135 monitored urban river sections; water from these rivers can't be used even for irrigation--they're waste sinks. The impact of continuing use of leaded gasoline is felt by children in large cities, who have blood-lead levels averaging 80 percent above levels considered dangerous to mental development. And the government recently reported that acid rain affects as much as 29 percent of the country's land; acid rain just in the high-sulfur coal regions of south and southwest China could potentially damage 10 percent of the land area, and may already have reduced crop and forestry productivity by an average of 3 percent.

Diagnosis

- Despite steps already taken by China, including establishment of a system of pollution control programs and a national environmental protection agency network, the underlying causes of environmental damage remain unaddressed.

- Rapid growth can be an advantage to the environment, rather than a detriment, if additions to productive capacity are progressively cleaner. With industrial growth rates of 10 percent, half of all industrial capacity projected to be operating in 2005 has yet to be built.

- A mix of measures is needed to make an impact on the current haze.

  The foundation of environmental improvement is *market-based incentives to influence consumer and producer behavior in environmentally-supportive ways*. The latter include coal pricing to cover social as well as economic costs, deregulation of gas pricing, water pricing aimed at cost recovery, and better designed and enforced pollution levies. The current levies--too low and not well enforced--don't encourage firms to make even the most cost-effective investments in pollution abatement.

  Government *planning and regulation* of all types and at all levels need to pay more attention to environmental impacts. On the regulatory side, for example, lead needs to be phased out of the fuel supply and emissions standards need to be tightened gradually so that a Chinese car no longer emits the same amount of carbon monoxide as 30 or 40 U.S. autos. Area planning needs to have a regional perspective, particularly to bring strong leadership to the complex issues involved in integrated river basin management. Without this, rivers can die. And urban land use planning should generalize the practice of some cities to relocate urban industries from downtown areas to accessible industrial parks away from population centers.

  Finally, *investments* need to be channeled to energy-efficient industrial equipment, natural gas development as an alternative to coal, public transportation, and sewage collection and treatment, among others.

THE BANK'S INVOLVEMENT

- The Bank's most recent assistance to Chinese policymakers is its environmental study, *Clear Water, Blue Skies,* done in close collaboration with China's National Environmental Protection Agency and the State Planning Commission, under the auspices of the Ministry of Finance. Through the study, the Government and the Bank hammered out a short- and long-term policy matrix, as input to the Government's agenda.

- This followed a spate of studies from a basic consideration of the Bank's environmental strategy in China, to urban environmental management, the environmental impact of coal use, energy conservation, options in greenhouse gas emissions control, and biodiversity conservation.

- Following these studies' direction, the Bank has channeled almost $3.0 billion to environmental infrastructure improving air and water quality in urban centers nationwide and to other developments making Chinese cities better places in which to live. In addition, Bank-assisted power projects now routinely incorporate sustainable environmental practices in their design, while environmental action plans are carried out to minimize negative impacts for all projects.

- Bank-implemented projects underwritten by the Global Environment Fund and Montreal Protocol aim at phase out of ozone-depleting substances, natural gas development, nature reserves management in forests, ship waste disposal for the major Chinese ports, and design of efficient, small industrial boilers.

- And upcoming are two innovative projects promoting energy conservation and use of renewable energy, along with further environmental and urban development projects in China's large cities, particularly those in inland areas where pollution can be alarmingly high but available investment resources low.

Richard Newfarmer, Todd Johnson, Feng Liu, *Clear Water, Blue Skies: China's Environmnt in the 21st Century,* World Bank, Report No. 16481-CHA.

QUESTIONS &
ANSWERS

QUESTIONS

AND

ANSWERS

- **East Asian Financial System Turmoil: Implication for China**
- **Corruption**
- **Bank Policy on Lending to Countries, like China, Criticized for Human Rights Abuses**
- **Harry Wu**
- **Military Spending**
- **NGOs**
- **Resettlement: Experience with Xiaolangdi Dam**
- **Three Gorges**
- **Minorities**
- **IDA-11**
- **Hong Kong**
- **Taiwan**
- **1997 Annual Meetings**

Q. Will the financial turbulence affecting Southeast Asia in recent weeks affect China?

A. Probably not. China is in a good position to resist speculation against its currency because it does not have an open capital account, there are restrictions on off-shore borrowings, the reserve level is very comfortable and the domestic savings rate is high, at somewhere around 35 percent of GDP. China's foreign exchange reserves are expected to exceed $135 billion by year's end, and its trade surplus at end-June was $17.7 billion, compared to about $12 billion for all of 1996.

Q. What is the Bank doing about corruption in China?

A. Corruption is not a new problem for developing countries or a new concern for the Bank. The Bank has consistently sought to ensure that the funds it lends are used for their intended purposes, and that contracts for goods and services are awarded in a transparent and cost-effective way.

There is growing evidence that corruption harms the poor, impairs investment, undermines support for aid and erodes governance. The Bank's Board has recently been discussing what more it can do to help member countries, including China, to counter corruption and its negative impact on investment, equity and growth. In general, corruption tends to flourish where a lot of economic decisions are subject to opaque political or bureaucratic intervention: helping governments to reduce intervention and make decision-making more transparent is a key component of the fight against corruption. It's likely that the efforts will also involve strengthening of our own procedures for ensuring transparency and accountability in Bank projects, and also extending the assistance we offer to countries which ask for our help in combating corruption.

As far as China is concerned, we have not been directly involved, but it is not a secret that corruption--in terms of the use of public office for private gain--is a growing problem. The Chinese authorities themselves have been open about their quick action to crack down on corruption. Many people have been prosecuted and punished, even senior officials.

We've encouraged the Government to eliminate or reduce *the incentives* for corrupt practices. We see three major areas for action. First, reduce the discretionary power of government officials by increasing market competition, for example, allowing nonstate companies to compete with government in delivering public goods and services. Second, increase the transparency of government finances, e.g., by closer overview of the extrabudgetary funds available to officials. Third, in hiring civil servants, place priority on academic and professional qualifications. It might also be useful to establish an independent statutory institution, such as the Hong Kong Independent Commission Against Corruption, to act as a watchdog.

Q. What is Bank policy on lending to countries, such as China, which are criticized about human rights abuses?

A. The Bank is a development agency, not a human rights monitoring organization. The Bank does not have a mandate to promote democracy and political reform: its Articles of Agreement specifically stipulate that the IBRD and IDA and their officers "shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member or members concerned." The Bank is explicitly forbidden from basing its lending decisions on other than economic criteria.

However, the Bank, as an UN agency, upholds decisions of the Security Council. If the Security Council or the Bank's Board of member governments feel that a participant country deserves sanctions or isolation, the Bank's management will honor such decisions, and have done so in the past.

A large number of so-called human rights issues do factor into the Bank's approach. The aim of the Bank's work is to raise living standards and reduce poverty in client countries in order to create an environment where people can enjoy their human rights. For example, with the help of the Bank, huge numbers of Chinese participate more fully in social and economic life through access to education and health care in addition to other rights such as clean water and sanitation which they might otherwise be denied them by poverty. China is a major Asian success story. But it is still a very poor country, with million not yet benefiting from the progress of the rapidly growing regions of the country.

Therefore, the Bank's focus in China is on deepening Chinese reforms and widening China's engagement in the world economy, stressing a broader agenda of development, regional and social equity, and poverty reduction. Though China's size and ambitious development strategy make it the Bank's largest borrower, ($2.82 billion in FY97) lending to China is still the lowest per capita in East Asia. Considering the success of Bank projects in China and the fact that China is still home to 260 million poor, continued lending is the best way for the Bank to help broaden human participation and improve the quality of life in China.

Q. What is the World Bank's response to Harry Wu's allegations about some of the Bank's projects in China?

A. The Bank carefully examined Mr. Wu's April 1996 report and found the allegations to be unsubstantiated; many concern activities which were completed six or more years ago.

We are satisfied (as is the U.S. government) that Bank-funded projects in Xinjiang and elsewhere in China are being responsibly and correctly implemented. We will continue to supervise them regularly to ensure that this remains the case.

We oppose the use of forced labor and will not countenance it in any of our projects. We do not fund prisons or military ventures under any circumstances.

Q. What is the Bank's position on military spending by developing countries, especially China?

A. The World Bank acknowledges the legitimacy of military expenditures for sovereign countries. One of the functions of government is to provide its citizens security from external threat, and the armed forces may provide aid to the civil power in cases of national disaster. To tell countries what level of military spending they should have would be beyond the mandate and expertise of the Bank. We also recognize the complexity of the topic; for example, a direct inverse relationship between military spending and economic growth is difficult to establish, except for cases of very high spending. Nonetheless, the Bank has a legitimate concern that excessive military expenditure and other non-productive spending can crowd out economic and social expenditure essential to countries' development efforts - and we work with member governments to try to ensure a rational allocation of public spending resources, and raise the issue with government leadership when a satisfactory balance is not being achieved. The Bank has said that in extreme cases it may reduce lending to ensure that its own loans are not helping to provide indirect finance for clearly excessive levels of military expenditure.

In some countries, spending on the military accounts for 10 percent or more of GDP. China spends $28-36 billion annually on its military -- that's comfortably below 5% of its GDP. This level and its relation to other components of China's public spending have not given us cause for concern.

Q. What is the relationship of the Bank with Non-Government Organizations in China?

A. Only a limited number of international and domestic NGOs are currently active in China. The Bank is, however, working with the NGOs. We have an NGO liaison officer at our Resident Mission in China to promote NGO-Bank contacts and joint activities. This past April, we participated in an NGO workshop in Beijing, and we have assisted several local NGOs in applying for Small Grant funds. And at Headquarters we have hosted a panel discussion of the role of NGOs in China.

We are particularly interested in using the NGOs' complementary strengths to increase the impact of Bank interventions. Several of our recent poverty-alleviation projects, for example, rely on the All-China Women's Federation to assist us in bringing project benefits to women in rural areas. Their help in addressing emerging income disparities between men and women in China is welcome.

With the growth of NGO activity in China and the upcoming decentralization of our operations to Beijing, our joint work with them will likely expand.

Resettlement: Experience with Xiaolangdi Dam

Q. Does the Bank have any policies for projects requiring voluntary or involuntary resettlement? If so, have these policies been followed in the Xiaolangdi Multipurpose and Resettlement Projects?

A. The Bank is involved in some projects with major social and economic benefits that may, on occasion, entail resettlement. The Bank's resettlement guidelines are the strictest in the world; so strict that the Bank is involved in only 3% of the resettlement projects in developing countries. Bank-supervised environmental evaluations are also tough and pragmatic. The Xiaolangdi Multipurpose and Resettlement Projects are good examples of what's required.

The Xiaolangdi Multipurpose Project, costing about $2.8 billion, was approved on April 14, 1994. It consists of a 154-m high embankment dam, and an underground powerhouse containing 6 x 300 MW units. Its purposes are flood control, irrigation, domestic water supply and power. The multi-faceted project reflects the complexities of dealing with the Yellow River, and the configuration adopted was validated by comprehensive river basin modeling studies. A Bank loan of $460 million is helping to finance construction of the dam, and an IDA credit of about $110 million is supporting the resettlement program which will provide for relocation and re-establishment of livelihood of 181,000 people. A follow-up loan of $430 million was approved by the Board in June 1997.

An environmental assessment, completed over six years by a team from the Yellow River Conservancy Commission and supported by 88 Chinese experts and an International Panel of Experts, assessed the environmental impact of the project. The environmental study area extended about 1,000 kilometers along the Yellow River. An Environmental Lead Group and an Environmental Management Office have been created to ensure effective implementation of the environmental management plan.

In assessing resettlement projects, the Bank looks at whether or not the resettlement is avoidable, and if not, how to ensure better living standards in the new location. In accordance with the Bank's operational policies and guidelines, the Xiaolangdi resettlement plan was specifically designed to ensure that the communities affected by resettlement and "host" communities will not be disadvantaged by the project. The Bank is extremely cautious in its approach to resettlement -- we are not only concerned about the environmental repercussions but also about the effects of resettlement on individual families and communities. With a record of successful resettlement projects, the Chinese have proven their ability to respond to the needs and concerns of transplanted families and communities -- China has higher standards for resettlement programs than most countries -- and we are confident partners with the Chinese the Xialongdi project.

To ensure the economic well being of the 181,000 people to be resettled for the Xiaolangdi Project, the resettlement plan is designed to ensure that the people being resettled and "host" communities will not be disadvantaged by the project, and will share in the project benefits. Resettled families are established in new locations where the houses, yards and amenities will be at least as good as the family's previous situation; the earning potential will be at least as good as before; and the family's expenses and loss in income in making the transition will be compensated. People are resettled in groups whenever possible in order to reduce social disruption.

Chinese rural communities, such as villages, townships, and counties are financially autonomous and have considerable power to negotiate with the central government on compensation packages. People subject to resettlement are generally given options among resettlement sites. Grievances and complaints procedures are handled through a mechanism based on Village Committees, which represent the villagers independently of the regular government structure.

Q. What is the Three Gorges project in China and how is the Bank involved?

A. The Bank is not involved in the Three Gorges Dam, which is a large multiple purpose project to dam the Yangtze River downstream of the "Three Gorges".

In 1986 the Bank co-chaired and financed a panel of international experts to supervise a feasibility study which was carried out by a Canadian consortium of consultants under a bilateral arrangement between the Chinese and Canadian Governments. The feasibility study and the Bank-financed panel report were submitted to the Canadian and Chinese Governments in late 1988. Since that time, the Bank has had no involvement with Three Gorges.

Q. What has the Bank done for China's minorities?

A. The Bank is sensitive to the issues of indigenous peoples and vulnerable ethnic groups, and has issued stringent guidelines (Operational Directive 4.20) on protecting the rights of these peoples and ensuring their adequate consultation and participation in any Bank activities touching them.

In China, about 8.2 percent of the population, or 91 million people, belong to 55 officially designated "national minority peoples" or "minority ethnic groups." In China today, ethnic awareness and interest in local languages and cultures are rising. While over the years some aspects of minority culture that ran counter to Chinese government policy have disappeared--the prime example being the Tibetan theocratic government--much that might have disappeared without Chinese state intervention has also been preserved.

Since China's minorities tend to live in rural areas far inland from the booming growth of the coastal cities, the incidence of poverty in minority areas is significant. The Bank's focus on poverty alleviation in these areas--through investment in agriculture, health and education--is improving the lot of minorities along with other poor people there. Education projects, in particular, cater to the distinct needs of minority groups through use of native languages in instruction and textbooks, special training and placement of minority teachers and principals, research on getting minority girls into schools, and community input into decisions relating to the local curriculum.

To further assure that Bank staff understand the situation of the minorities and their specific needs, we have completed a fairly comprehensive study of the economic and governance status of minorities vis-a-vis the general population. The upshot of the study was a guide to the special vulnerabilities of the minorities--economic, demographic, environmental, educational and gender--that should be addressed in designing Bank interventions involving these groups.

Q. What amount of resources are allocated to China under IDA-11?

A. Over the three years of IDA-11, China has been allocated about $880 million dollars (SDR 635 million) of concessional financing for poverty alleviation and social sector projects. China is not expected to receive an allocation under the next IDA tranche.

In FY97, the Bank Group provided $325 million of these funds for basic education in poor and minority areas, poverty relief in the extremely poor Qinba mountains area, rural water supply development in other poor areas of the country, and reform of the vocational education system.

Hong Kong

Q. What does the Basic Law say? Why does the Bank think the Chinese government will adhere to it?

A. The Basic Law, signed in 1990, establishes the framework within which Hong Kong will retain its free market system for fifty years after its transfer to Chinese sovereignty. It was approved by the National People's Congress of the People's Republic of China and builds on the Sino-British Joint Declaration of 1984. Key features of the Basic Law are that the Hong Kong Special Administrative Region (HKSAR) will:

- protect private property rights, the private ownership of enterprises, and foreign investments;
- manage its public finances independently, enact laws on its own on matters of taxation and revenue collection, and strive to achieve fiscal balance;
- maintain an autonomous monetary and financial system and retain the Hong Kong dollar as legal tender;
- ensure the free convertibility of the Hong Kong dollar and manage the exchange fund solely for regulating the exchange value of the currency; and
- maintain the status of a free port, operate as a separate customs territory, participate in international organizations and trade agreements, and enjoy exclusively the export quotas and tariff preferences obtained or made by it.

China clearly understands that international and local confidence in Hong Kong is critical to its interests and the Bank sees no signs that the Chinese will wish to undermine that confidence and risk damaging Hong Kong's economic successes.

Q. What arrangements have been put in place to maintain confidence in the Hong Kong monetary system and the Hong Kong dollar?

A. The Hong Kong and Chinese monetary authorities announced seven principles governing the monetary relationship between the two countries that will help sustain confidence in Hong Kong's monetary system and the Hong Kong dollar:

- There will be two currencies and two monetary systems. The HK dollar will continue to be linked with the US dollar at a fixed exchange rate of HK$7.8 to US$1;
- The two monetary authorities will be mutually independent. The Hong Kong Monetary Authority will be accountable solely to the HKSAR Government;
- Supervisory cooperation will be maintained. The HKSAR will continue to supervise financial institutions in Hong Kong, including those from the mainland, in accordance with international rules and practices;
- The People's Bank of China will provide support for maintaining currency stability in Hong Kong. The People's Bank of China and the Hong Kong Monetary Authority signed a bilateral repurchase agreement of US Treasury Securities. Under the Basic Law, China will, under no circumstances, draw on or resort to Hong Kong's Exchange Fund or other assets in any way and for any reason;
- All financial claims and liabilities between the Mainland of China and Hong Kong will be dealt with in accordance with internationally accepted rules and practices;
- Mainland financial institutions in Hong Kong will abide by the laws of Hong Kong and will not enjoy any special privileges;
- Shanghai and Hong Kong will develop a complementary and mutually reinforcing relationship as financial centers, each with its own special characteristics.

Q. Does the World Bank lend to Hong Kong or have any other activities there? What will happen to these relationships in the future?

A. Hong Kong is part of China and China is a member of the World Bank. Hong Kong's long established commercial and financial links with the Bank will continue.

The International Bank for Reconstruction and Development (IBRD), which lends to creditworthy borrowing countries, obtains most of its funds through medium- and long-term borrowings in the capital markets of the world. Since May 1989 when the Bank first borrowed in Hong Kong Dollars, it has raised HK$ 6.1 billion (US$ 786.73 million). The Bank's most recent borrowing in Hong Kong was a 10-year HK$ 1 billion issue on April 7, 1997, which set a benchmark for longer term corporate paper.

In addition, Hong Kong companies have, over the years, won a considerable number of contracts to supply goods and services to World Bank-financed projects. As of April 1997, a total of US$ 1.8 billion (equivalent to HK$ 14 billion) had been disbursed to Hong Kong companies.

Q. Was Taiwan ever a member of the World Bank? What is Taiwan's standing now with the World Bank Group?

A. China is an original member of the World Bank, joining in 1945 before the establishment of the People's Republic of China in 1949. From 1945 to 1980, China was represented by the government of the Republic of China in Taiwan. The Bank funded 18 projects (4 IDA/14 IBRD) in Taiwan from 1961-1971, the loans and credits totaling $344.7 million. In May 1980 the Bank Group decided to accept the People's Republic of China (PRC) as the representative of its member China. The first loan to the PRC was approved by the Board in June 1981.

Suppliers and contractors from Taiwan and China can participate in Bank-financed procurement.

Annual Meetings

Q. Why did the World Bank decide to hold its Annual Meetings in Hong Kong so soon after the transfer? When was the decision made and by whom?

A. The Bank and Fund Annual Meetings are held annually in September or October, and every third year they are held outside Washington at the invitation of a member country.

All 180 members of the Bank (Fund 181) are represented on the Boards of Governors of the Bank and the Fund. In 1994, the Boards of Governors adopted resolutions accepting the invitation of the Government of China to hold the 1997 Meetings in Hong Kong; the Government of the United Kingdom extended its support for this invitation.

The World Bank expects to remain an important development partner for China for many years to come. The economic integration between Hong Kong and China during the past 18 years has been impressive. By holding the Meetings in Hong Kong this year, the Bank and the IMF are demonstrating their confidence in the continued success of this relationship after the historic transfer of sovereignty in 1997, to the benefit of Hong Kong, China and the whole world.

The project has been the subject of environmental assessment extending over six years by a team from the Yellow River Conservancy Commission, supported by 88 Chinese experts and also by an International Panel of Experts. In addition, the assessments of, and provisions for, dam safety are believed to be the most detailed undertaken for a major dam. The Environmental Lead group and the Environmental Management Office have been created to ensure effective implementation of the environmental management plan.

Q. Does the World Bank support China's MFN status? How about membership in the WTO? Why are you such a big supporter of China when the US government and Congress say China abuses its trade access?

A. Decisions about MFN are of course a matter for the US authorities. By some calculations loss of MFN, recently approved for another year, would cut into Chinese incomes and reduce GDP by 3-4 percent (Arce and Taylor, 1997). Reduction in trade would also be a setback to China's progress in controlling its environment, since access to energy-efficient capital goods as well as environmental technology have been driving forces in environmental improvements in China.

The Bank strongly supports China's engagement with the world economy on the basis of free and open trade, believing this has been good for China and the world. China is now the tenth largest trading nation in the world; export growth rose from 7.8 percent in 1993 to 19 percent in 1994 and 34.7 percent in 1995. With China's Special Economic Zones, coastal cities, and inland areas as favored locations for private investment, foreign direct investment grew from $2.3 billion in 1987 to $37 billion in 1995.

The Bank considers China's integration into bilateral, regional and international free-trade arrangements, including membership in the WTO, to be part of this process. Clearly, China's accession to the WTO requires agreements between China and its main trading partners as well as resolution of other outstanding issues. Widening China's engagement in the world economy is important for sustaining reform and growth: the Bank therefore supports the resolution of trade issues to allow that integration process to continue.

SUPPORTING MATERIAL

THE WORLD BANK IN CHINA: BANK LENDING PROFILE AND PORTFOLIO STATUS

KEY MESSAGES/ISSUES

- **The Bank has close to 20 years of involvement in China.**

- **Cumulative Lending.** Cumulative Bank Group lending to China through end-June 1997 totaled about $28.5 billion, of which $19.3 billion was IBRD and $9.2 billion IDA. This amounts to about $2.50 per person, the lowest proportion of lending per capita in the entire East Asia and Pacific Region. A total of 184 investment operations have been supported. The breakdown of total funding by sector is: 27% for agriculture (including multisectoral poverty alleviation projects targeted at specific areas and major water resource development operations for agricultural uses, among others), 24% for transportation (mainly railways and highways), 21% for energy, 11% for water supply, environment and urban development, 10% for industry, 8% for education and health, and less than 1% for free-standing technical assistance and public sector development.

- **$2.8 billion to China in FY97.** In FY97, as in all years since FY92, China was the Bank's largest borrower. Of this, $2.5 billion represented IBRD funding and $325 million was in IDA credits. The diverse investments supported by this lending include:

  In **education**, the fourth in a series of projects providing basic education to 6.2 million very poor, with a special focus on minorities and girls' schooling;

  In other aspects of **poverty reduction**, a Qinba Mountains Poverty Reduction Project targeted at 2.3 million absolutely poor in Sichuan, Shaanxi and Ningxia, continues a multi-sectoral approach to poverty that is proving effective. The Bank's Quality Assurance Group just reviewed the prototype operation--the Southwest Poverty Reduction Project--and found it a successful approach and going well. And for another 4.6 million poor people, a rural water supply project will bring clean water and better health to people in Hebei, Hubei, Jiangxi, Yunnan and Inner Mongolia.

  For **water resource development**, identified by a recent report as critical to China's food security, the second phase of the Xiaolangdi Multipurpose Project will enhance availability of irrigation and drinking water as well as power supply, while fulfilling its main purpose of protecting 103 million people living downstream of the dam from disastrous floods. And the Wanjiazhai Water Transfer Project transfers water north from the flood-prone Yellow River to a severely water-deficient area of the northeast. Benefits from such a project are many and large, in terms of employment, poverty alleviation, better health and hygiene, institution building and, key to rationalizing water use, introduction of water pricing that approaches the economic cost.

  In **agriculture**, the Heilongjiang Agriculture Development Project was initiated at the request of the Central Government to help one of the least reformist provinces begin to adopt a market orientation. During project preparation, the province quickly responded to the new ideas, began to commercialize operations where appropriate and did marketing studies on its own to ensure investment cost-effectiveness.

  Transport and power infrastructure, the lack of which has constrained growth and development, will be expanded with two major national highways and two power plants. One power investment, the Inner Mongolia (Tuoketuo) Thermal Power Project, will create an independent power company and power plant to increase the supply and trade of electricity in northern China. Energy efficiency will be enhanced, and pollution in large cities like Beijing and Tianjin controlled by generating power in a less populated area and using advanced, environmentally acceptable technology. Another project, developing the Shanghai Waigaoqiao Thermal Power Plant, also increases energy supply in an environmentally sustainable manner, while promoting power sector reform and private sector investment. The project company has already been listed on an international stock exchange.

- **The Current China Portfolio: Largest in the Bank.** In FY97, the active China portfolio comprised 111 Bank Group investments with commitments totaling $20.4 billion (up from $18.6 billion in FY96), four projects financed by the Global Environment Fund ($90.7 million in commitments), and three Montreal Protocol operations ($102 million in commitments). At the close of the year, China accounted for 14.4 percent of the Bank's total current commitments, followed by India with 10.7 % of current commitments.

- **Portfolio Quality: A Recent Decline but Still Very Good.** At end-FY97, 14 projects were rated unsatisfactory, representing commitments of $2.5 billion. Two of these projects closed at that time and one has since improved. At end-FY96, only 6 projects faced major problems. Still, few projects remain problems for long, and those that do have usually suffered from exogenous factors not addressable under the project or have been high-risk, high-reward operations requiring some time to put on track. Four main issues concern us:
  - insufficient counterpart funding, particularly for projects in poor, rural areas where limited investment resources are exacerbated by government credit tightening to check inflation;
  - municipalities' reluctance to raise tariffs for services developed under the projects, partly reflecting other anti-inflationary policies;
  - reluctance in some sectors to engage needed foreign technical assistance, which is perceived as unnecessary and/or expensive; and
  - the highly dynamic context of project implementation in China, which brings changes not foreseen in the project design.

  Problems were discussed during the year with China's senior officials, and authorities at the highest level have intervened to improve some projects. The country management team's upcoming move to Beijing should facilitate a faster understanding of and reaction to bottlenecks.

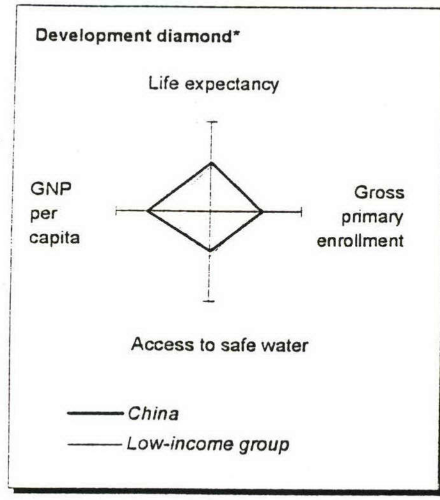
- **Disbursements.** By end-June 1997, cumulative disbursements totaled some $17.4 billion, leaving $11.1 billion undisbursed. Outflows in FY97, at $2.1 billion, were slightly below the $2.2 billion disbursed in FY96. This contrasted to FY92 to FY95, when annual disbursements rose from about $1.4 billion to $2.2 billion. The recent lag is associated particularly with the counterpart funding constraints felt by many projects to a greater or lesser extent. The disbursement ratio has also declined from 24.7 % in FY95 to 22.4% in FY96 and 21.2% in FY97.

China at a glance

11/27/96

POVERTY and SOCIAL

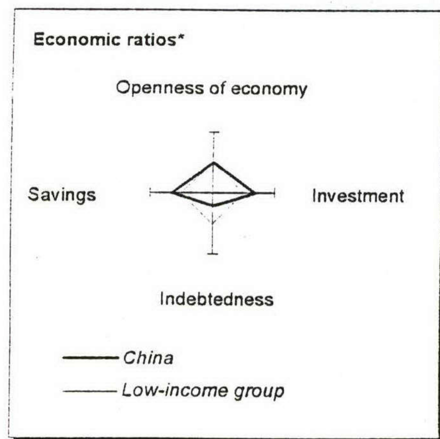
	China	East Asia	Low-income
Population mid-1995 *(millions)*	1,201.4	1,709	3,188
GNP per capita 1995 *(US$)*	620	830	460
GNP 1995 *(billions US$)*	744.9	1,418	1,466
Average annual growth, 1990-95			
Population *(%)*	1.1	1.3	1.8
Labor force *(%)*	1.1	1.4	1.9
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	22.2	..	..
Urban population *(% of total population)*	30	31	29
Life expectancy at birth *(years)*	69	68	63
Infant mortality *(per 1,000 live births)*	29	36	58
Child malnutrition *(% of children under 5)*	17	19	38
Access to safe water *(% of population)*	46	49	53
Illiteracy *(% of population age 15+)*	10	17	34
Gross primary enrollment *(% of school-age population)*	118	117	105
Male	120	119	112
Female	116	115	98



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

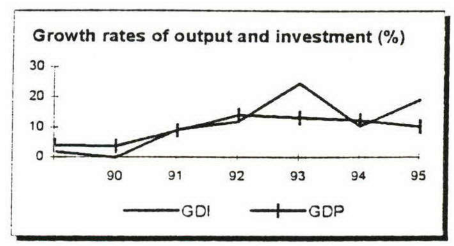
	1975	1985	1994	1995
GDP *(billions US$)*	160.3	304.9	540.9	697.6
Gross domestic investment/GDP	30.3	37.8	39.9	40.5
Exports of goods and non-factor services/GDP	5.2	9.9	22.0	21.0
Gross domestic savings/GDP	30.6	33.7	41.2	42.0
Gross national savings/GDP	30.6	34.0	41.2	40.5
Current account balance/GDP	-0.2	-3.9	1.3	0.2
Interest payments/GDP	..	0.2	0.7	0.7
Total debt/GDP	..	5.5	18.6	16.9
Total debt service/exports	..	8.3	8.9	9.9
Present value of debt/GDP	..	..	15.8	..
Present value of debt/exports	..	..	68.5	..

	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	8.0	9.8	12.6	10.5	8.5
GNP per capita	6.6	8.3	11.4	8.0	7.6
Exports of goods and nfs	17.9	13.3	28.1	9.6	8.6

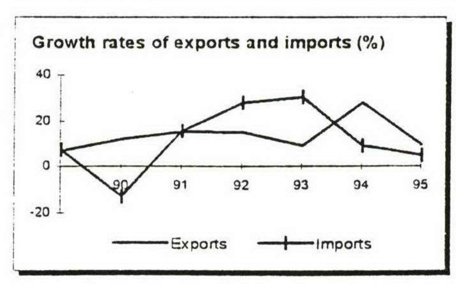


STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	32.0	28.4	20.3	20.6
Industry	42.8	43.1	48.0	48.4
Manufacturing	31.6	35.4	37.6	37.6
Services	25.2	28.5	31.7	31.1
Private consumption	61.9	53.1	45.9	45.7
General government consumption	7.6	13.2	12.8	12.2
Imports of goods and non-factor services	5.0	14.0	20.6	19.4



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	5.1	4.2	4.0	5.0
Industry	10.0	12.8	18.4	14.1
Manufacturing	13.1	12.3	18.4	13.3
Services	9.6	9.4	9.3	7.9
Private consumption	7.9	8.6	9.7	6.3
General government consumption	8.5	9.5	7.8	-3.4
Gross domestic investment	8.9	9.7	10.5	19.1
Imports of goods and non-factor services	21.1	9.0	9.3	5.0
Gross national product	8.0	9.8	12.6	9.0

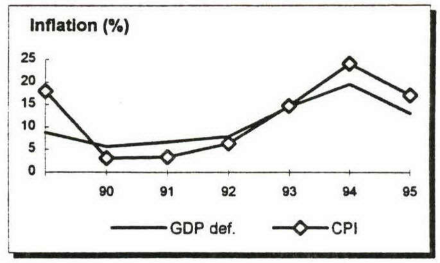


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

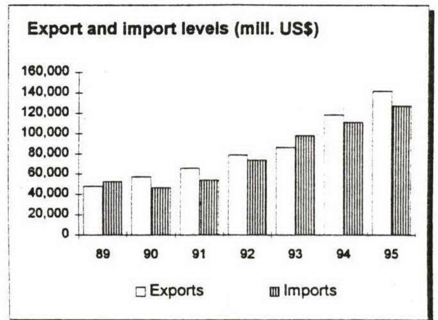
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	0.2	9.3	24.1	17.1
Implicit GDP deflator	-0.9	10.1	19.5	13.1
Government finance				
(% of GDP)				
Current revenue	..	25.5	12.0	11.6
Current budget balance	..	6.7	0.4	0.4
Overall surplus/deficit	..	-0.5	-1.6	-1.6



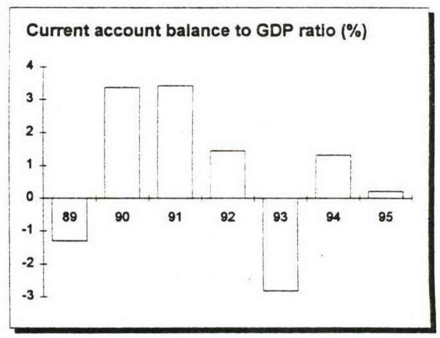
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	..	27,350	121,006	148,770
Food	..	3,803	10,015	9,954
Fuel	..	7,132	4,069	5,335
Manufactures	..	13,522	101,298	127,283
Total imports (cif)	..	42,252	115,614	132,078
Food	..	1,881	5,014	9,126
Fuel and energy	..	172	4,035	5,127
Capital goods	..	18,694	55,624	57,481
Export price index *(1987=100)*	..	92	123	133
Import price index *(1987=100)*	..	78	122	132
Terms of trade *(1987=100)*	..	118	101	101



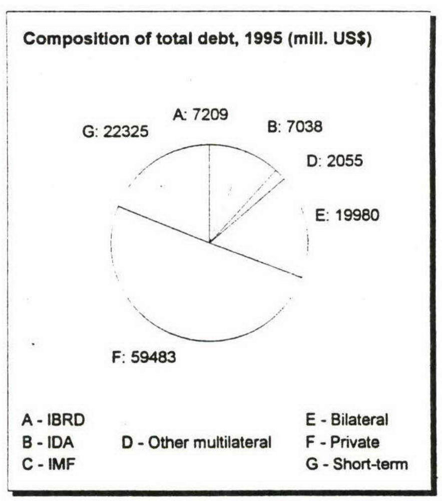
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	7,828	28,163	118,811	142,000
Imports of goods and non-factor services	8,097	41,149	111,472	127,600
Resource balance	-269	-12,986	7,339	14,400
Net factor income	0	932	-1,018	-14,300
Net current transfers	0	171	836	724
Current account balance, before official transfers	-269	-11,883	7,157	824
Financing items (net)	..	9,443	23,370	21,376
Changes in net reserves	..	2,440	-30,527	-22,200
Memo:				
Reserves including gold *(mill. US$)*	..	13,214	53,560	75,760
Conversion rate *(local/US$)*	1.9	2.9	8.6	8.4



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	0	16,696	100,457	118,090
IBRD	0	498	5,933	7,209
IDA	0	431	6,097	7,038
Total debt service	0	2,478	11,135	15,065
IBRD	0	26	679	810
IDA	0	4	50	63
Composition of net resource flows				
Official grants	0	117	337	326
Official creditors	0	1,117	3,121	7,203
Private creditors	0	2,867	6,690	5,683
Foreign direct investment	0	1,659	33,787	38,000
Portfolio equity	0	0	3,915	2,807
World Bank program				
Commitments	0	1,092	4,020	2,850
Disbursements	0	565	2,063	2,269
Principal repayments	0	0	324	364
Net flows	0	565	1,739	1,905
Interest payments	0	29	405	509
Net transfers	0	536	1,334	1,396



Note: The dollar estimate for China's GNP per capita is taken from the World Development Indicators and is a preliminary figure based on an on-going World Bank study of China's GDP. It was calculated to facilitate inter-country comparisons. Official statistics are used as the basis for all other economic analysis contained in this document.

CHINA COUNTRY STRATEGY
(EXTRACT FROM COUNTRY ASSISTANCE STRATEGY, FEBRUARY 1997)

KEY CHALLENGES AND THE GOVERNMENT'S STRATEGY

1. The forces behind continued high growth in China are many: its high savings rate, the relative stability of the economy, the administrative strength of the government, the country's high literacy rate, the industriousness of its labor force, the support of a wealthy Chinese diaspora, and the "advantages" of backwardness (as some areas will gain significantly from the first stages of reform). But the possibility of a virtuous circle of rapid growth, high savings, and relative stability confronts an array of challenges that could slow China's progress. These challenges, and a strategy to meet them, are articulated in the Ninth Five Year Plan and the Fifteen Year Perspective Plan that were approved last year by the National People's Congress. These plans differ from previous ones in that they focus on policies and programs, and place less emphasis on quantifiable targets. The intensive, not extensive, dimension of growth has become more important. The five key areas of concern are:

- ***Ensuring macroeconomic stability and maintaining the momentum of structural reforms***. China is in the midst of its transition from a centrally-planned to a market economy. Benefits from the next stages of reform for state-owned enterprises (SOEs), the financial sector, and public finance will be significant. Completion of reforms in these areas will facilitate macroeconomic management, provide efficiency gains and more rapid growth, and encourage the proper allocation of resources and discourage corruption.

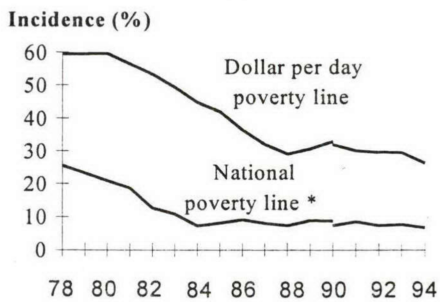
  The Government intends to reform state enterprises gradually, with initial emphasis on strengthening corporate governance in 1,000 large state enterprises and transforming them into modern corporate entities. Local governments will be encouraged to reform enterprises under their control, with small enterprises being sold, merged, leased, or restructured. In the financial sector, the Government will focus on transforming the state banks into genuine commercial banks, intensifying the supervision of financial institutions, establishing a modern payments system, strengthening the regulatory framework for capital markets, establishing a unified and transparent money market, reforming the reserve deposit system, and expanding open market operations. In fiscal policy, the Government's priority will be to broaden the tax base, eliminate tax exemptions, strengthen tax administration, and rationalize extrabudgetary revenues and expenditures. To ensure macroeconomic stability while these reforms are being implemented, the Government intends to keep a tight rein on monetary and fiscal policy and close control of state investments. With regard to trade policy, the Government has stated clearly its intention to continue to open further to the outside world.

- ***Reducing infrastructure bottlenecks***. Infrastructure shortages in China have constrained growth and affected the quality of life. Inadequate infrastructure has limited access to the interior provinces, and added to urban congestion and air pollution. The health of the urban population is threatened by unsatisfactory water, sanitation, drainage, and solid waste removal services.

  The Government will reduce infrastructure bottlenecks by adjusting the investment pattern in favor of water management, energy, transportation, and telecommunications. While power system expansion and reform remain as high priority, the Government also seeks to adjust the balance between energy development and conservation, and to develop alternative energy sources. In transport, the objective is to develop railway transport capacity and an integrated transport system. Infrastructure development is rapidly becoming more complex as the Government endeavors to attract private finance to the sector.

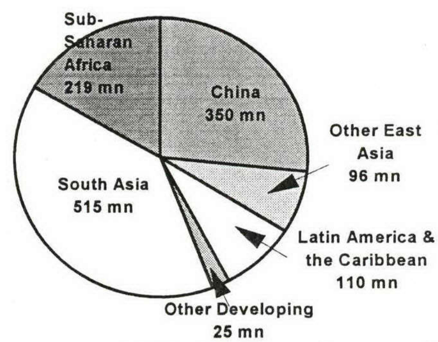
- ***Enhancing human development.*** China succeeded in reducing the incidence of poverty by some 170 million in 1978-85; but progress since then has been more difficult to achieve. Today, the number of Chinese absolute poor with a per capita income below the national poverty line is estimated to be around 65 million according to official Chinese statistics.[1] Maternal health in China is good by developing country standards, but women in poor areas face problems in access to affordable, quality health care. In addition, girls' enrollment rates in basic education in poor and minority areas still lag far behind national norms, and dropout rates of girls in lower secondary levels are too high. Recently, rural-urban migration has increased dramatically due to surplus labor in agriculture and higher growth rates in the coastal areas. Labor markets in urban areas remain rigid because urban employment continues to be dominated by state enterprises. The poor financial performance of state enterprises has contributed to rising unemployment and placed the urban social security system in jeopardy.

Steady gains in poverty reduction
(Poverty incidence in percent)



* Based on the income (expenditure) necessary to buy a minimum standard of nutrition and other basic necessities

...but many poor remain
(Population living below US$1 per day*)



* In constant 1985 dollars, using purchasing power parity (PPP) exchange rates

The Chinese Government's "8-7 National Poverty Reduction Program" is designed to eliminate poverty by 2000. It has been operating since 1993, but it remains *underfunded* despite determined government efforts to double expenditures on poverty reduction each year. There will be greater emphasis on coordinated regional development, with increased investment in interior provinces. To achieve the targeted urban unemployment rate of 4 percent, the government intends to create job opportunities for 40 million people in urban areas. Compulsory education will be extended to nine years and greater attention will be focused on vocational and technical skills, as well as on-the-job training. To improve rural health, authorities will give high priority to improving the quality of drinking water, controlling contagious diseases, and preventing occupational diseases. Increasing the overall efficiency of the health care system will be a priority.

The number of Chinese absolute poor depends on the poverty line used. Using the national definition of poverty results in a range between 65 to 100 million poor, whereas the number jumps to 350 million if international norms of minimum acceptable living standards are used. See *Poverty in China: What do the Numbers Say?* World Bank background note (June 1996).

Box 1: Government Strategy for Promoting Education of Girls

In the "Law of the People's Republic of China on the Protection of Rights and Interests of Women," which became effective on April 3, 1992, the Government recognizes the education of girls as a societal responsibility. The Law states that: (a) "schools and departments concerned shall, by implementing the relevant regulations of the state, guarantee that women enjoy equal rights with men in such aspects as starting school, entering a higher school, job assignment upon graduation, conferment of academic degrees and dispatch for study abroad "(Article 15)"; and (b) "the governments, society and schools shall, in the light of the actual difficulties of female school-age children or adolescents in schooling, take effective measures to ensure that female school-age children or adolescents receive compulsory education for the number of years locally prescribed" (Article 17).

Several other measures have been taken to create a supportive environment for the promotion of girls' education. Legal protection for the rights and interests of women and girls is enshrined in the Compulsory Education Law and The Law Regarding the Health Care of Mother and Infants. The State Council issued the "Outline for Women's Development in China" before the UN Fourth Conference on Women in Beijing, and further highlighted the importance of girls' education to women's development and social status. Publicity drives have been initiated and the Chinese Government has expressed its determination to keep girls' dropout rate and lack of attendance to under two percent. Teacher training is being bolstered, especially for female teachers and principals. Social action in the form of financial assistance through the "Hope Project" and the "Spring Bud Plan" illustrate national efforts to help retain girls in school by lowering direct costs of schooling to parents.

- ***Sustaining stable growth in agriculture and ensuring food security***. Agriculture and the rural economy have lagged behind other sectors in recent years, and rural incomes have grown much more slowly than urban incomes. China is constrained by its limited cultivable land area[2] and insufficient water in the north. Expanded and improved irrigation systems, flood control, and efficient water management will improve crop production significantly. China has progressed in liberalizing its agriculture policy and pricing, but further steps are needed. Institutional reform must also proceed, and allow the non-state sector to play a greater role in marketing and distribution of cotton and grain. In particular, improved cooperation and joint ventures among farmers, breeders, processors, and distributors could improve productivity, quality, and efficiency.

  The Ninth Five Year Plan places sustained and stable growth in agriculture and the rural economy at the top of its agenda. This is one of its most difficult challenges over the next 15 years. The Plan states four goals: to achieve greater self-sufficiency in grain (with production rising to 490-500 million tons by the year 2000); to raise farmers' standard of living; to make better use of technology and speed up the development of nearby industries that use agricultural products; and to eliminate poverty. To achieve these objectives, the Government intends to protect agricultural land, upgrade marginal lands, invest in water transfer, storage, and irrigation, further reform land tenure systems, as well as invest in agricultural research and technology, revitalize the fertilizer industry, expedite the commercialization of agriculture, and improve grain distribution. To absorb surplus labor in agriculture, the Government will devote greater budgetary and financial resources to rural and agricultural investments and develop township and village enterprises.

- ***Protecting the environment.*** Rapid economic growth, urbanization, and industrialization have been bought at the cost of a sharp increase in air and water pollution. Levels of total suspended particulates remain well above those considered safe by the World Health Organization; sulfur dioxide concentrations exceed the

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China accounts for seven percent of the world's arable land, yet feeds 22 percent of the world's population.

lowest acceptable Chinese air quality standard. Few urban rivers meet the national water quality standard; groundwater quality continues to deteriorate at an alarming rate, and petroleum discharges to surface waters are once again increasing.

The Ninth Five Year Plan will increase the use of economic incentives and environmental taxes within a clear regulatory framework to pursue environmental objectives. In rural areas, the Government proposes to protect land resources and improve management of soil, water, and forestry resources. All new construction projects will need to abide by environmental protection plans, and environmental education will be expanded to encourage the involvement of the general population in environmental protection. Urban planning and the development of small towns will take environmental concerns into account, wastewater treatment will be improved, and noise pollution will be reduced. Industrial pollution is to be controlled throughout the production process.

THE BANK GROUP'S OBJECTIVES AND STRATEGY[3]

2. This Country Assistance Strategy (CAS) has been built on agreement of priorities with the Chinese Government. The Bank Group's strategy and objectives remain essentially unchanged from the 1995 CAS. They have been grouped around the same **five major themes** (see para. 22) that concern the Government: (a) macroeconomic growth and stability; (b) infrastructure; (c) human development, comprising poverty alleviation, health, education and social protection; (d) agriculture and rural development; and (e) environmental protection.

Attachment 1 sets out the diagnostic matrix and the country program support matrix.

Box 2: Progress since the last CAS

Since the last CAS was reviewed about twenty-one months ago, the Government has adopted several new reforms:

1. **Macroeconomic and Structural Reforms**. The fiscal and monetary framework improved, with 1996 growth at 9.7 percent and inflation down to 6.1 percent. Tariff reforms in April 1996 lowered the average rate from 35 to 23 percent. The RMB convertibility on current account was achieved in December 1996. State-owned enterprise reform is proceeding gradually. Increased competition in a context of tightened budget constraints is forcing restructuring; more flexible labor policies have resulted in over one million SOE employees laid off during the first half of 1996; and the government recently adopted a strategy to retain one thousand large SOEs, mostly industrial, to form the "core" of China's *modern enterprise system* and let the rest go. Emphasis is on mergers and acquisitions for loss-making SOEs; some will be sold or merged with non-state enterprises.

China has undertaken several reforms in the financial sector, including: integrating the inter-bank market, freeing interest rates in the money market, and commencing open market operations; re-classifying the four specialized banks as commercial banks, increasing their autonomy in lending decisions, and allowing them to start writing off their bad loans; and separating ownership links between banks and non-banks, increasing competition through entry of new banks, and diversifying ownership of nationwide banks. In reforming public finance, the State Council issued a new policy in July 1996 on *extrabudgetary funds,* which integrates government funds into the budget; began auctioning government bonds in early 1996, and may have arrested the past declining trend in government revenues (as a percentage of GDP).

2. **Infrastructure**. The Electricity Law has come into effect. China has displayed new willingness to experiment with innovative financing mechanisms for infrastructure (such as BOT schemes), but needs to assure investors that China is serious, flexible and willing to share risks. Despite record domestic savings rates, few non-state resources go to infrastructure financing. The Chinese authorities' support of the orderly expansion of the domestic capital market will provide important financing possibilities for the future.

3. **Human Development**. Although domestic resources to fight poverty are still insufficient, the government has decided to spend 40 percent more each year than it now spends—bringing the total to about Yuan 100 billion (or about $12 billion) by 2000. Targeting of the core poor in projects has improved. In education, China has improved access by the poor—including women and minorities. Some rural counties have begun to increase accountability and transparency of fund uses. In health, the government is making better use of the limited resource envelope by helping the poorest, focusing on prevention, and prioritizing services.

4. **Agriculture and Rural Economy**. China has liberalized its agriculture policy and price structure, particularly for livestock products and fruits and vegetables. Rules governing the township and village enterprises (TVEs) have been relaxed to encourage competition and open rural employment opportunities. The Government has introduced new environmental guidelines that will restrict the TVEs' pollution practices. In the past year, China established a model river basin corporation and self-financing irrigation and drainage districts, and pricing increases of bulk water throughout China. Also, substantial increases in administered prices for grain and cotton—in line with world price trends—have improved rural incomes measurably.

5. **Environmental Protection**. In July 1996, Premier Li Peng affirmed key aspects of China's environmental priorities. He emphasized the importance of stricter environmental management as instructed by the State Council, the need for rigorous environmental impact statements for all new construction and renovation projects, and raised the awareness of the environmental effect of urban congestion and increased car ownership. A sizable number of small paper and pulp mills operated by TVEs have already been shut down as a consequence. User charges for environmental services have also improved.

Macroeconomic Stability with Growth

3. Macroeconomic and structural reforms continue to be central to the Bank's assistance strategy in China. Development of the non-state sector is key to ensuring stability and growth, and is a primary focus of IFC and MIGA programs in China. The Chinese authorities and the Bank agree on the overall content of the reform program, and the likelihood that completion of such reforms will necessarily span more than a decade.[4] The Bank Group's program has been designed to support the timely implementation of key elements of structural reforms of banking, SOEs, and in public finances. Progress in each of these areas has been uneven.

4. Financial Sector Reforms: The Bank Group's strategy rests on three pillars: (a) assist the Government in establishing a modern market-oriented framework through technical assistance and advice, (b) help existing banks to adapt to commercial banking practices, and (c) promote new entry of non-state banks and financial institutions. These pillars clearly support each other; the Bank Group's contribution in each of the areas depends on continued involvement in comprehensive sectoral reform.

5. We will continue to assess financial reform policy through analytical work and disseminate the findings in workshops and seminars. An example of this approach was the March 1996 annual consultation on the financial sector. We will assist in establishing the sectoral infrastructure (legal, prudential, accounting, and payments system), under the ongoing Financial Sector Technical Assistance Project (FY93), to be followed by a proposed second technical assistance operation that could help to set up a national payments system. The objective of the proposed Construction Bank Transformation Project (FY97) is to help its management create a more efficient, market-oriented commercial bank. The EDI is developing a multiyear training program for Chinese bankers, that should contribute positively in developing a market-oriented banking sector.

6. The Bank, under IDF grants, is helping the institutional development of the new Minsheng Bank, China's first non-state owned bank, and the China Securities Industry Institute. The IFC is providing advice and TA to develop programs for the new city banks, and exploring the possibility of taking a minority share in the Shanghai City United Bank as well as in other commercial banks. IFC is also considering lending to private non-bank financial institutions, such as the Orient Finance Company.

7. SOE Reform: China will need to deal with more problem SOEs that will emerge as banks become more commercial and policies shift away from subsidizing credit. Delinking provision of social benefits from SOEs' productive operations is essential to open the way to further reforms. Stronger, market-based incentives focused on internal governance mechanisms and accounting/auditing controls, as well as external disciplining forces, such as inter-firm competition and a market for managers, are badly needed.

8. The Bank's strategy is to assist the Government to: (i) confer *autonomous management rights* to the enterprises associated with improved internal governance, a modern and transparent accounting system, diversified ownership, and reduced budgetary and financial subsidies; (ii) reduce enterprise responsibility for housing, pensions, health, and education; and (iii) promote *competition* to foster greater efficiency.

9. We will assist China's SOE reform at two levels. First, building on earlier works (including China: Reform of State-Owned Enterprises - FY96), we will extend the analysis of SOE reform in studies of State Asset Management Reform (FY97), Municipal Finance (FY98), and Housing Reform (FY99). To follow up on the recently published study on Pension System Reform, EDI is planning to sponsor a conference on "Pension Reform: International Experience and Chinese Options" during FY97. Technical assistance to prepare for future lending operations will be considered at a later stage. Second, the Bank Group will finance projects that demonstrate how reform measures can be implemented. The Hubei Enterprise Reform Project under preparation (FY98) aims at reforming the manufacturing and services sectors in the municipalities of Wuhan

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For a recent analysis of structural reform issues, see "The Chinese Economy: Fighting Inflation, Deepening Reforms," World Bank Report No. 15299-CHA, May 1996.

and Huangshi. The project would help the government divest small SOEs and formulate measures to delink gradually social benefits from enterprises. The operation is designed as an integrated Bank Group project with IFC and IBRD closely collaborating. In agriculture, we plan two projects—State Farm Commercialization (FY97) and Heilongjiang Agriculture Development Project (FY97). The former will attempt to accelerate enterprise reform throughout the state farm systems in about 15 provinces, and the latter has already inspired ownership diversification in agribusiness in one of China's most commercially underdeveloped provinces. In infrastructure, the Tuoketuo Thermal Energy Project (FY97) aims to commercialize state power companies and will quantify the specific costs of their social responsibilities and the impact on profitability. As there are indications that labor shedding in SOEs has affected women workers disproportionately, future Bank projects in SOE reform will address this issue.

10. Public Finance Reform: The Bank is assisting China by: (a) the Fiscal Technical Assistance Project (FY95) that help develop the new National Tax Administration, a central-provincial grants scheme, budget management systems and, China's capacity to analyze tax policy; (b) a Public Expenditure Study (FY97/98) to advise on how to improve China's public investment process; and (c) a Municipal Finance Study (FY98), that will help the local governments to improve their financial management. The Bank supports legal aspects of macroeconomic reform, and legal and regulatory reforms in infrastructure, principally through the Economic Law Reform Project (FY95).

Infrastructure Development

11. In FY97-99, half of the Bank's new lending will be for infrastructure. This translates into 13 operations, comprising six power projects, five for highways, one for railways, and one for waterways. Each project aims to improve the *quality* of services by maintaining and upgrading existing assets, raising operating efficiency, meeting the needs of the users, and reducing environmental impact.

12. In **power**, generation capacity of some 17 to 20 gigawatts annually and rapid development of the transmission system will be needed at capital costs between $15-20 billion each year. The two power projects that will be presented to the Board in FY97 (Tuoketuo and Waigaoqiao), will support institutional and pricing reforms and mitigate the environmental consequences of coal use.

13. In **transport**, during the NFYP, overall investment requirements are estimated at about $45 billion for railways, $100 billion for highways, and an additional $15 billion to improve ports, airports and inland waterways. The Bank's projects will promote sectoral reforms that will allow competitive service providers. In railways, an important first step will be to separate ownership and management and reorganize the railway into lines of business operations. In highways, FY97 will be a year to assess how future projects can improve road safety, road maintenance, subsector finance, and road system management.

Box 3: Evolving Framework for Private Highway Finance in China

The transport centerpiece of China's NFYP is a national trunk highway system, which calls for construction of 35,000 km of expressways in 12 corridors over the next 15 years. This $150 billion capital program will far exceed any national highway system in the world. The Government estimates that it can fund roughly 20% of the country's future highway requirements, while the balance will be handled by the various provinces through both domestic and foreign loans. The Bank Group has an active program for highway development in China, with 10-12 major projects underway at any given time. However, the Bank's resources can only fund 30% of individual project requirements—far less than the foreign capital amount needed.

China operates some 4,000 km of toll expressways, but few have been constructed with private funds, and those mainly in Guangdong and Sichuan Provinces. Aside from Hopewell's GSZ Superhighway, projects are sponsored by a few Hong Kong developers using their own equity capital. Commercial debt financing is generally unavailable without sovereign guarantees. The process and framework for mobilizing substantial capital from international firms and foreign sources is not yet well defined, so policy on tariff adjustments, foreign exchange risk, and convertibility will be based on trial and error in individual projects. Until a 'critical mass' of experience is achieved, overseas commercial lenders will be reluctant to assume any project risks with private toll expressways. Therefore China must soon develop a legal and regulatory framework attractive to private investors and commercial lenders. Several project and policy initiatives of the Bank Group can assist the Chinese authorities through:

- Model procurement documents for BOT projects: The Bank Group is advising the State Planning Commission and the Ministry of Finance on draft procurement documents and standard project agreements for toll highways associated with the proposed Wuhan Junshan Yangtze Bridge BOT project which the Bank has been asked to support.
- Asset-based financing techniques: Through the innovative use of Bank-financed toll road projects in Guangdong Province, a successful B-share financing on the Shenzhen Stock Exchange was completed. Similar types of financing are expected to follow in China.
- BOT pilot project financing: A component of the proposed Third National Highway project (FY98) in Hubei mentioned earlier is expected to include the development of a bridge over the Yangtze River on a BOT basis with the private sector.

14. To promote **private financing of infrastructure**, China needs to:

- develop transparent and competitive contracting; enforceable legal, regulatory, and tariff structures; and clear identification and assignment of risks;

- design an administrative framework to balance state and non-state interests in infrastructure provision and streamline approval and regulatory processes; and
- strengthen the domestic capital market, particularly the bond market, to establish another stable source of domestic finance.

15. Currently, China is sponsoring a series of pilot projects to establish a more rational framework. One of these is the Yangtze bridge component included in the proposed Third National Highways Project (FY98). The MIGA is interested in providing support, and recently guaranteed a privately financed power project on Hainan Island. The Bank is actively seeking opportunities to use its *partial guarantees* to mobilize additional private

financing for infrastructure. The Government is reluctant to extend sovereign counterguarantees for private projects. The IFC encourages greater private participation in infrastructure by financing demonstration projects, which can serve as catalysts for improved legal and regulatory frameworks. It has approved investments in ports in Xiamen and Nanjing, and is actively pursuing opportunities in the water and power sectors. But concession frameworks require improvement, and adequate Government support mechanisms need to be put in place to attract larger private financial flows.

Human Development

16. Human Development projects in China encompass a broad range of activities in **education, health, poverty alleviation and social protection**, and are designed and implemented with particular concern for the **welfare of women and children**. Health projects have concentrated on improving maternal and child health and basic health services in poor areas, and girls' education is the focus of a series of education projects in the poorer provinces.

17. Gender issues are also part of the Bank's social protection agenda.. For example, preliminary findings show that labor market reforms in China appear to be having adverse effects on women's employment prospects and work conditions. A proposed labor market study (FY98) will study this issue in detail. The results of this study will inform the design of future projects.

18. Poverty Reduction. The Bank will assist China in further specifying the implementation needs of the "8-7 Poverty Reduction Program" (para. 22). We will address the underfunding issue by complementing Government resources targeted at poverty reduction with well-focused Bank Group financing, using innovative and workable strategies that can be replicated. During the IDA-11 period, we will devote over half of available IDA funds to direct poverty alleviation with the remainder for human resource development in poor areas, rural water supply, and a limited amount for technical assistance.

19. Education. The Bank Group's strategy is to improve the access and equity of China's basic education system, with emphasis on the poor, ethnic minorities, and girls. Our lending program incorporates basic education projects for the rural poor; the fourth project in the series (Basic Education IV - FY97) will fund girls' and minorities' education. Other on-going and planned operations will upgrade education inputs, decentralize financing and administration of the higher education system, and tailor the education system to the changing labor market. A proposed higher education project (FY99 - mainly for universities in poor, inland provinces) will develop curricula and a much-needed student loan scheme.

Box 4: Developing New Approaches to Poverty Reduction in China

- China's success in lifting 170 million out of the poverty trap between 1978 - 1985 was achieved largely through broad participation in rapid rural economic growth. In an effort to consolidate initiatives undertaken by some 27 separate ministries and agencies with their own poor area projects, the Government established in 1986 a Leading Group to expedite economic development in poor areas.

- The Bank Group's poverty report (China: Strategies for Reducing Poverty in the 1990s), which was released at the "International Conference on Poverty Issues in China" (held in Beijing in October 1992), proposed new approaches for poverty reduction. Although the "8-7 Poverty Reduction Program" initiated in 1993 is very much China's own, the Bank Group's input is evident in the design of parts of the program and its areas of focus. The special approach includes investments to: augment upland agricultural productivity, rural enterprise development, labor mobility, basic rural infrastructure (including roads, drinking water, small scale irrigation, etc.), access to basic education and health services, off-farm employment, and poverty monitoring and project implementation. The main objective was to propose some possible new models for China.

- The report's recommendations are being implemented through Bank-assisted projects located in some of the remote, upland areas highlighted in the report. The Southwest Poverty Reduction Project (FY95) was developed to reduce absolute poverty in the worst affected upland areas in three resource-poor provinces (Guangxi, Guizhou, and Yunnan) in southwestern China. In keeping with the agreement at the Beijing Conference, the project was developed with strong community participation during preparation and implementation. The proposed Qinba Mountains Poverty Reduction Project (FY97) extends the approach into three additional provinces in China's near northwest (Ningxia, Shaanxi, and Sichuan). It will promote "market friendly" increases in rural labor mobility from the poor areas to better-off rural and urban areas, upgrade China's ability to track the level of poverty at the national and local levels, and provide low income women with access to working capital (microfinance) and a secure place to deposit their savings.

20. Health. The Bank's lending and nonlending services for **health sector** have assisted the government in improving the quality of public and basic health services, especially in maternal and child health (MCH) programs and in the control of infectious and endemic diseases, such as tuberculosis and schistosomiasis. Recently, we have helped to establish programs in newer areas, including the prevention and control of chronic diseases and HIV/AIDS. The Basic Health Services Project (FY98), will integrate improved planning and management, service quality, as well as measures to enhance access in poor counties. Noncommunicable and chronic diseases are an increasing burden in China, and we plan to develop further IBRD/IDA *blend* and IBRD projects with interested provinces and municipalities. Reforming the health finance system is a top priority, and recent sector work is addressing health-care cost, coverage, and management.

Agriculture and the Rural Economy

21. The Bank Group's assistance strategy is to accelerate commercialization of the agriculture sector; assist local governments to develop new income-generation programs (including TVEs) in lagging provinces; develop new approaches to food security; promote better utilization of marginal agricultural land through sustainable techniques; incorporate major water schemes into future projects, that include institutional reform and user participation as integral components; and encourage investment by the non-state sector in agribusiness and agroprocessing.

22. The Bank plans to lend for an average of two operations each year (FY97-99) in the sector. To the extent that resources permit, work will commence on three or four additional projects to ensure a dependable pipeline. They would address large-scale water shortages in the north; inadequate entrepreneurial development

and public investment in the rural interior provinces; lack of logistical and integrated marketing systems for agricultural commodities required to link to urban and overseas markets; reforestation of denuded uplands; and inadequate feed processing capacity and technology for higher-valued animal products. In complementary interventions, **IFC** will assist agribusiness, including TVEs, by increasing access to domestic and overseas finance, upgrading technology, and enhancing management. The IFC will encourage local and foreign private investment to meet domestic demand, as well as export opportunities, with special focus on poor provinces.

Environmental Protection

23. Environmental Protection. We will assist China to strengthen institutions and tools for improved environmental management, and to finance related investments that will produce improvements quickly. Although environmental pressures from rapid industrial growth, urbanization, and agriculture have intensified, work at the policy and institutional level has begun to bear fruit. A linchpin in this work has been the Environment TA project (FY93), which helps the National Environment Protection Agency (NEPA) to develop and implement national environmental policy. This is complemented by economic and sector work on industrial pollution control and energy and water resource pricing.

24. The major issues on the Chinese environmental agenda and our work program are: to provide safe drinking water; to manage hazardous and toxic wastes; to reduce waste output by increasing industrial efficiency in energy use; to protect marginal agricultural lands by promoting sustainable practices; to introduce coastal zone management techniques; and to preserve forest reserves and biodiversity. A study (FY97) on the dynamics of economic growth and environment, will highlight issues for China's sustainable development in the twenty-first century. In addition, we will study environmental management of river basins to improve the quality of water for the entire basin (FY98). Other reports will include Municipal Finance (FY98), Industrial Pollution Control (FY98), and an update of the Environmental Strategy (FY99). Our GEF and Montreal Protocol projects will take an increasingly sectoral approach.

Tom C. Tsui, Principal Country Officer, China HQ Country Unit

CHINA: FY97-2000 LENDING PROGRAM

CNLEND97_00
Aug-05-97

FY97

Div.	Project	BANK ($ MILLION)	IDA ($ MILLION)
EASED	SECOND VOC. EDUC. REFORM	10.0	20.0
EASED	BASIC EDUCATION IV		85.0
	SUBTOTAL (EASED) 2	*10.0*	*105.0*
			4%
EASEG	SHANGHAI WAIG. THERMAL	400.0	
EASEG	TUOKETUO POWER	400.0	
	SUBTOTAL (EASEG) 2	*800.0*	*0.0*
			28%
EASRD	WANJIAZHAI WATER TRANS.	400.0	
EASRD	HEILONGJIANG ADP	120.0	
EASRD	QINBA MOUNTAINS POVERTY	30.0	150.0
EASRD	XIAOLANGDI II	430.0	
	SUBTOTAL (EASRD) 4	*980.0*	*150.0*
			40%
EASTR	HUNAN/GUANG. HWY (NH2)	400.0	
EASTR	XINJIANG HIGHWAY II	300.0	
	SUBTOTAL (EASTR) 2	*700.0*	*0.0*
			25%
EASUR	NAT'L RURAL WATER III		70.0
	SUBTOTAL (EASUR) 1	*0.0*	*70.0*
			2%
	TOTAL	*2,490.0*	*325.0*
	(# OF OPERATIONS: 11)	*SDRs*	*235.2*
			2,815.0

FY98

Div.	Project	BANK ($ MILLION)	IDA ($ MILLION)
	SUBTOTAL (EASED)		
EACCQ	TCC IV	15.0	20.0
			1%
EASEG	ENERGY CONSERVATION	65.0	
EASEG	EAST CHINA/JIANGSU PWR TR.	250.0	
EASEG	HUNAN POWER DEVELOPMENT	300.0	
	SUBTOTAL (EASEG) 3	*615.0*	*0.0*
			25%
EASFP	CONSTR. BANK TRANS (FSD)	230.0	
EASFP	WUHAN/HUANGSHIN ENT. REFO	100.0	
	SUBTOTAL (EASFP) 2	*330.0*	*0.0*
			13%
EASHN	BASIC HEALTH SERV. (H VIII)		85.0
	SUBTOTAL (EASHN) 1		*85.0*
			3%
EASRD	STATE FARM COMMERCIAL.	200.0	
EASRD	FORESTRY POVERTY RED. II	100.0	100.0
EASRD	SUSTAINABLE COASTAL DEV.	100.0	
	SUBTOTAL (EASRD) 3	*400.0*	*100.0*
			20%
EASTR	NATIONAL HWY III (HUBEI)	250.0	
EASTR	TRI-PROVINCIAL HWY.	230.0	
	SUBTOTAL (EASTR) 2	*480.0*	*0.0*
			19%
EASUR	SHANDONG ENVIRONMENT	95.0	
EASUR	GUANGZHOU CITY CTR TRP	200.0	
EASUR	GUANGXI URB. DEV. & ENV.	75.0	25.0
EASUR	HUAI RIV.BASIN POLL. CONTR. I	50.0	
	SUBTOTAL (EASUR) 4	*420.0*	*25.0*
			18%
	TOTAL	*2,260.0*	*230.0*
	(# OF OPERATIONS: 16)	*SDRs*	*170.5*
			2,490.0

FY99

D.	Project	BANK ($ MILLION)	IDA ($ MILLION)
EASED	HIGHER EDUC. REFORM	50.0	50.0
	SUBTOTAL (EASED) 1	*50.0*	*50.0*
			3%
EASEG	THERMAL (Jinmen, Houzhou or Fuguo)	300.0	
	SUBTOTAL (EASEG) 1	*300.0*	*0.0*
			8%
EASFP S	ABC COMMERCIALIZATION	300.0	
EASFP S	ACCOUNTING REFORM & DEV.	50.0	
EASFP	FIN'L SECTOR TA II	10.0	10.0
	SUBTOTAL (EASFP) 3	*360.0*	*10.0*
			10%
EASHN	HEALTH IX		50.0
	SUBTOTAL (EASHN) 1	*0.0*	*50.0*
			1%
EASR S	SMALLHOLDER CATTLE DEV	100.0	
EASRD	IAIL II	300.0	
EASRD	TARIM BASIN II (XINJIANG POV)	60.0	90.0
EASRD	ANNING VALLEY RURAL DEV.	105.0	25.0
EASRD	POVERTY REDUC. IN WEST REG.	50.0	100.0
	SUBTOTAL (EASRD) 5	*615.0*	*215.0*
			22%
EASTR S	INLAND WATERWAYS II	200.0	
EASTR	NATIONAL HWY IV	300.0	
EASTR	CONTAINER TRSPT PROJECT	100.0	
EASTR	RAILWAYS VIII	300.0	
	SUBTOTAL (EASTR) 4	*900.0*	*0.0*
			24%
EASUR	SICHUAN URBAN ENVIRON. I	200.0	
EASUR	LIAONING URBAN TRANSP.	200.0	
EASUR	HUAI RIVER BASIN POLL. II	200.0	
EASUR	HEBEI WATER SUP & ENV.	150.0	
EASUR	BEIJING ENVIRONMENT II	150.0	
EASUR	CHONGQING URBAN DEV.	250.0	
	SUBTOTAL (EASUR) 6	*1,150.0*	*0.0*
			31%
	TOTAL	*3,375.0*	*325.0*
	(# OF OPERATIONS: 21)		*240.9*
			3,700.0

TOTAL (FY97-99)

Group	BANK	IDA
EASED	60.0	155.0
		2%
EASEG	1,715.0	0.0
		19%
EASFP	690.0	10.0
		8%
EASHN	0.0	135.0
		1%
EASRD	1,995.0	465.0
		27%
EASTR	2,080.0	0.0
		23%
EASUR	1,570.0	95.0
		18%
TOTAL	*8,110.0*	*860.0*
		637.5
		9,005.0

FY2000

Div.	Project	BANK --$M--
EASED	BASIC EDUC. V	100.0
	SUBTOTAL (EASED) 1	100.0
		3%
EASE S	RENEWABLE PROJECT	65.0
EASEG	BEIJING POWER SUPPLY	200.0
EASEG	THERMO 2000	300.0
	SUBTOTAL (EASEG) 3	*565.0*
		15%
EASFP S	FIN'L INSTIT TA (PAY SYSTEM	50.0
EASFP	FISCAL TA II (TAX ADMIN)	150.0
EASFP	CONSTR. BANK TRANS II	200.0
EASFP	TECHNOLOGY DEV. II	200.0
	SUBTOTAL (EASFP) 4	*600.0*
		16%
EASHN	HEALTH X	100.0
	SUBTOTAL (EASHN) 1	*100.0*
		3%
EASRD	SHAANXI IRRIGATION	100.0
EASRD	GUANGXI BAISE *	300.0
EASRD	LARGE IRRIG. SCHEME REHA	400.0
EASRD	DALIUSHU DAM	300.0
	SUBTOTAL (EASRD) 4	*1,100.0*
		29%
EASTR S	ANHUI PROV. HWY	200.0
EASTR	GUANGXI PROV. HWY	200.0
EASTR	FUJIAN PROV. HWY II	200.0
	SUBTOTAL (EASTR) 3	*600.0*
		16%
EASUR	URBAN DEVELOPMENT I	150.0
EASUR	URBAN TRPT (URUMQI)	150.0
EASUR	NAT'L RURAL WATER II	100.0
EASUR	HEILONGJIANG URBAN ENV.	150.0
EASUR	LIAO RIVER I	200.0
	SUBTOTAL (EASUR) 5	*750.0*
		20%
	TOTAL	*3,815.0*
	(# OF OPERATIONS: 21)	
		3,815.0

ADAPTABLE LENDING

BEIJING URBAN TRANSPORT	8.0
CHONGQING LAND/GIS	8.0

LENDING ALLOCATION REVIEW (LAR)	
IBRD FY97-99	$7,060
IDA FY97-99 (SDRs)	600
IDA $ (@ current x-rate)	$809
TOTAL $ FY97-99	*$7,869*

CURRENT PLANS	
IBRD FY97-99	$8,125
IDA FY97-99 (SDRs)	647
IDA $	$880
TOTAL $ FY97-99	*$9,005*

(SDR RATE AS OF 8/4/97)
1.34897

** - CANDIDATE FOR COFINANCING*

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector

- [x] Part I
- [x] Part II
- [ ] Other

E. COMMENTS:

File Location	Cleared By	Date:
[x] EXC [ ] IISC [x] Archives	Caroline Anstey	10/07/97

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