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Dates: 10/01/1991 – 10/31/1991

Subfonds: Ernest Stern files

Fonds: Records of Individual Staff Members

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THE WORLD BANK

Washington, D.C.

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The World Bank

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Senior Vice President Chronological Records - Ernest Stern - October 1991

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CHRON FILE
October 1991

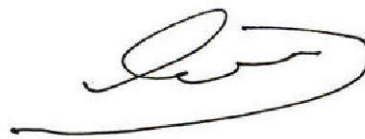
BK

10/1/91

Is para 5

readily translatable?

If not, lets drop
it.

A handwritten signature, possibly reading "Lew", is written in dark ink. It is positioned below the text "If not, lets drop it." and is underlined with a single horizontal stroke.

OFFICE MEMORANDUM

DATE: October 1, 1991

TO: Mr. Lewis T. Preston, President

THROUGH: Mr. Ernest Stern, FINSV

FROM: Basil Kavalsky, Director, FRM

EXTENSION: 80576

SUBJECT: Your Luncheon with Ministers from the G-7 Countries and Saudi Arabia,
1:00 pm, Wednesday, October 15, 1991

1. Our suggestions for topics are the following.
2. USSR and Eastern Europe. The topic most likely to be on the minds of the G-7 ministers will be the Soviet Union and Eastern Europe. You might ask how the ministers see the Bank fitting into the overall strategy.
3. Military Expenditures. The IMF Board discussed a paper on military expenditures last week and the G-5 countries, particularly the U.K., Germany, and Japan, were supportive of a stronger IMF role in assessing and advising on the macroeconomic consequences of military expenditures. The ministers may be interested in your views of the approach the Bank will take.
4. IDA Resources. You might raise the issue of the new claimants for IDA resources. Since the IDA9 replenishment agreement, nine additional countries have become or are about to become IDA recipients. The needs of these countries for IDA resources were not factored into the size of the ninth replenishment. You may want to point out that in the absence of additional resources in IDA10, it may become necessary to change IDA eligibility criteria so as to reduce the access of some of these countries to IDA.
5. Global Integration. International institutions will play a critical role in ensuring that there is an adequate institutional framework in the movement towards a more liberal world economic system. There will be a particular challenge in integrating the Middle East into a trade and financial system which is likely to have a much greater East-West dimension to it.

cc: Messrs. Wood, Bock, Shakow, Katz, Ohashi
Mmes. Artus, Yap (o/r)

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

ERNEST STERN
Senior Vice President
Finance

October 1, 1991

Mr. Stoutjesdijk

Ardy -

Re: Risk Management Procedures

Even if we accept the approach, which seems a bit indirect, the middle of paragraph 9 needs to be changed to "part of the annual review and recommendations on the adequacy of provisions and reserves". I really do not want to go back to the concept of building reserves for income protection purposes.

A handwritten signature in dark ink, appearing to read "Ernest", with a long horizontal line extending from the bottom of the signature.

L - I N - 1 N O T E

DATE: 30-Sep-1991 01:51pm

TO: See Distribution Below

FROM: Katharine Tyler, POPSD

EXT.: 30377

SUBJECT: Focus Groups

I just wanted to bring you up to date on the status of the Focus Groups. We are in the process of scheduling people over the next four or so weeks. In addition to the level 22 - 24 staff we will be including a group of level 18 - 21 and groups of senior staff and managers. The latter will be run after the Annual Meetings, to give us time to get into people's schedules. Staff have been very keen to participate and have generally responded well both in coming to the sessions and expressing their appreciation for being included.

A critical groundrule of this process is that the names of the participants will not be communicated to anyone, including the Advisory Group. Given the sensitive nature of some of the topics to be discussed, I felt that such a groundrule would encourage very frank and open discussion. In fact, in a number of cases this has reassured staff and has ensured their participation. I realise that this may be a somewhat different methodology to that normally used in the Bank. However, feedback from the first few sessions confirms my decision. Please let me have your thoughts on this.

At the end of the process, as I explained at our last meeting, I will provide an analysis of the participants by gender, organisation, and level.

I will provide an initial report back to you all mid-October and a further one prior to our meeting on November 1st.

I am working with a number of you to organise meetings with staff and managers. If I can be of any further assistance please let me know. One thing I have discovered in this process is how time consuming it can be to pull more than about 4 people together at one time!

Katie

DISTRIBUTION:

TO: Ernest Stern
TO: Bilsel Alisbah
TO: Wilfried Kaffenberger

(ERNEST STERN)
(BILSEL ALISBAH)
(WILFRIED KAFFENBERGER)

Katy
I shouldn't think para 2 is subject to discussion. There is no reason I can think of why the Advisory Group would need names. Go ahead as you are doing - even after having collected any other thoughts.
10/1/91

TO: Attila Karaosmanoglu
TO: Marianne Haug
TO: Paul Isenman
TO: FARIDA KHAMBATA
TO: Callisto Madavo
TO: Mieko Nishimizu
TO: Ann Hammond
TO: Antonio Estache
TO: Eva Meigher
CC: Desiree Ponti

(ATTILA KARAOSMANOGLU)
(MARIANNE HAUG)
(PAUL ISENMAN)
(FARIDA KHAMBATA @SSWWB)
(CALLISTO MADAVO)
(MIEKO NISHIMIZU)
(ANN HAMMOND)
(ANTONIO ESTACHE)
(EVA MEIGHER)
(DESIREE PONTI)

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C., 20433
U.S.A.

(202)-477-1234
Cable Address INTBAFRAD
Cable Address: INDEVAS

October 1, 1991

Price Waterhouse (International Firm)
1801 K Street, N. W.
Washington, D. C. 20006

Dear Sirs:

Under date of July 29, 1991, we confirmed by letter certain information and opinions expressed to you. With respect to the financial statements of the International Bank for Reconstruction and Development (IBRD) as of June 30, 1991 and for the three years then ended included in the Information Statement dated September 20, 1991, as incorporated by reference in the Prospectus dated September 20, 1991 relating to the offering of 7-1/4% U.S. Dollar Bonds of 1991, due October 1, 1996 (the "Prospectus") in the principal amount of US\$1,500,000,000, we confirm that, to the best of our knowledge and belief, the statements made in said letter are correct as of this date. As of September 24, 1991, payments due to the IBRD under loan agreements but unpaid for 30 days or more are as shown in the attached list. There have been no developments since July 29, 1991 which would materially affect the financial statements as of June 30, 1991 and for the three years then ended.

With respect to the following supplementary information included in the above-mentioned Information Statement:

1. "Selected Financial Data,"
2. "Resources of the Bank," and
3. "Operations of the Bank"

we confirm that all of such information expressed in US dollars (or percentages/average lives derived from such dollar amounts) has been obtained from the accounting records of the IBRD or has been derived from such accounting records.

Unaudited financial data furnished to you, consisting of a balance sheet as of August 31, 1991 and a statement of income for the two months then ended, were prepared on a basis consistent with that of the audited financial statements included in the Information Statement.

As of August 31, 1991, there were no increases in the medium- and long-term borrowings of the IBRD except for the issuance of medium- and long-term borrowings in the aggregate dollar equivalent amount of US\$788,866,000 for the period from July 1, 1991 to August 31, 1991 or any decreases in capital stock or capital and reserves as compared with the amounts shown on the June 30, 1991 balance sheet incorporated by reference in the Prospectus except in all instances for increases or decreases which the Prospectus discloses have occurred or may occur.

October 1, 1991

No financial statement data are available for any date subsequent to August 31, 1991; however, based on information available to us on September 24, 1991, there were no increases in the medium- and long-term borrowings of the IBRD except for the issuance of medium- and long-term borrowings in the aggregate dollar equivalent amount of US\$1,072,171,000 for the period July 1, 1991 to September 24, 1991 or any decreases in capital stock or capital and reserves as compared with the amounts shown on the June 30, 1991 balance sheet incorporated by reference in the Prospectus except in all instances for changes or decreases which the Prospectus discloses have occurred or may occur.

We know of no event, other than matters disclosed in the Prospectus, since July 29, 1991 which, although not affecting the financial statements as of June 30, 1991 and for the three years then ended, has caused or is likely to cause any material change, adverse or otherwise, in the financial position or results of operations of the IBRD.

Sincerely,



Senior Vice President, Finance

Vice President and General Counsel
(as to the last paragraph only)

Vice President and Controller

Attachment

International Bank for Reconstruction and Development

Summary of Overdue Service Payments as of 9/24/91

(in Millions of U.S. Dollars)

	Days Overdue				Total
	30-44	45-59	60-180	Over 180	
Total	59.6	17.4	94.0	1611.2	1782.2
of which					
A : Countries with Overdue Service Payments	28.2	6.4	10.7	0.0	45.3
Argentina	1.8	0.0	0.0	0.0	1.8
Costa Rica	4.2	0.0	0.0	0.0	4.2
Jamaica	15.4	0.0	0.0	0.0	15.4
Kenya	2.3	0.0	0.0	0.0	2.3
Senegal	1.2	0.0	0.0	0.0	1.2
* Zambia	3.3	6.4	10.7	0.0	20.4
: Countries in IBRD Nonaccrual Status	31.4	11.0	83.3	1611.2	1736.9
* Congo (People's Republic of)	0.0	0.0	4.6	5.7	10.3
* Guatemala	8.3	0.0	11.2	68.2	87.7
* Iraq	0.9	0.0	5.4	9.8	16.1
* Liberia	0.5	0.9	8.6	107.8	117.8
* Panama	1.3	0.1	1.0	211.7	214.1
* Peru	18.5	5.4	31.8	883.7	939.4
* Sierra Leone	0.0	0.0	0.6	7.0	7.6
* Syrian Arab Republic	1.9	4.6	20.1	317.3	343.9

* Disbursements suspended

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

ERNEST STERN
Senior Vice President
Finance

October 2, 1991

Mr. Sandstrom
Mr. Karaosmanoglu

5:00 p.m. Meeting Today

It would be useful if we could have a preliminary discussion of some process issues so we can put work in train before leaving for Bangkok. The items I would like to discuss (and, no doubt, there are others) are:

- Loan/Credit Committee
- Policy Review Committee
- Lending Allocation Review
- Budget Process
- CSP Preparation and Review



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

ERNEST STERN
Senior Vice President
Finance

October 2, 1991

Mr. Thalwitz
Mr. El-Ashry

We did not get to it this morning, but I understand we also have a problem with the cofinancing component. The criteria for these funds were agreed and it is important that the agreements be negotiated expeditiously. If this continues to languish, we may expect the direct contributors to become increasingly restless and to hold up their second year contributions.

A handwritten signature in dark ink, appearing to be 'Ernest Stern', written in a cursive style with a long horizontal stroke at the end.

cc: Mr. Kavalsky

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 2, 1991

Mr. Preston

Lew -

At the last Portfolio Review, Barber asked that we set up a group to review the proposals made for revisions in our rating system and creditworthiness criteria.

Attached is the report of the group. I concur with the proposals. If you do too, we would issue them as a guidelines for analysis this year and a basis for the 1992 Portfolio Review. Although you may wish to do a more detailed review of our system, I would suggest you do that in the context of the 1992 Portfolio Review and that you meanwhile endorse these proposals.

You should note paragraph 7. The proposal for a differentiated guideline was not agreed by Operations. It is the first time that we are trying to relate exposure guidelines to credit risk assessment. I consider it a desirable development and will, in time, strengthen the analytical attention to creditworthiness issues.



Attachment

REPORT OF WORKING GROUP ON RISK MANAGEMENT PROCEDURES

September 16, 1991

1. The 1991 Portfolio Review recommended changes in the country risk management system in place in the Bank. Among the decisions taken following the President's Council meeting of July 10, 1991 was to request the Senior Vice-President Finance to appoint a working group with representations from OPN, PRE and CPB to report to the President with recommendations by September 30, 1991. Following is the report of this working group.

2. There was unanimous agreement by the members of the group that the risk management classification system should be streamlined and that the classification system should have clearer operational implications. The group accepted the proposal made in the 1991 Portfolio Review to introduce four risk categories:

Category A - Low Risk Countries (countries currently classified as I, IIa and IIb). For this group of countries, the pace, pattern and level of Bank lending would be determined primarily by the comparative advantage of the Bank in assisting the country in meeting its development objectives in relation to the Bank's overall resource and exposure constraints.

Category B - Moderate Risk Countries (countries currently classified as IIIa and the less risky IIIb countries). For this group of countries, exposure management concerns can be effectively addressed through CSPs. Country Departments would, however, be given broad latitude to adjust lending programs to reflect changing realities in the period between CSP reviews. In line with the recommendations of the Bank Task Force on the Lending Allocation Review, lending programs which differ significantly from agreed country strategies would require special justification in the annual business plan or through an updated CSP or country strategy note.

Category C - High Risk Countries (countries currently classified as IIIc and the marginally creditworthy watchlist countries in category IIIb). For this group of countries, the security of the Bank's preferred creditor position is more seriously in question. This group of countries is likely to be or come under exceptionally severe financial pressures that could lead to protracted arrears to the Bank. This risk arises either because even with a strong policy effort, the likely level of external financial assistance available to the country may be insufficient to alleviate the country's liquidity problems, or because there are serious doubts concerning the capacity or willingness of the country to implement a sufficiently strong policy effort that could lead to medium-term financial viability and a restoration of creditworthiness. For these countries, the design of the lending program should give particular attention to explicit risk management objectives.

Category D - Uncreditworthy (countries currently classified as IIId). This group would consist of the non-accrual countries and former IBRD/IDA countries that are now IDA-only.

3. Operational Implications. The advantage of the proposed risk classification system is that it provides a simpler basis for managing country risk effectively, in terms of identifying the minimum frequency with which country lending levels should be reviewed and by whom, the relative weight which should be given to exposure management concerns in the formulation of country assistance strategy, and the lending authority delegated to regional management.

4. The Group recommends that the appropriate Managing Director should determine which countries should be classified as high risk based on the recommendation of the Vice President, Financial Policy and Risk Management and information provided by the Regional Vice Presidents. The determination of whether the Bank's preferred creditor status is seriously at risk is clearly a matter for judgment. The Group agreed that this category should be limited to the countries which on prudential grounds require the closest guidance from the Managing Directors, in terms of lending authority and where changes from the agreed strategy would require the approval of the relevant Managing Director. Also, in a departure from current practice, the annual portfolio review should make specific recommendations on the risk management procedures that would be followed in each particular high risk country. The Group agreed that the lending posture of the Bank should reflect the circumstances of the individual country and that the downgrading of a country to high risk should not automatically lead to a move to a core lending program. Most members agreed that country strategy in high risk countries should be reviewed at least every two years. This change would only affect countries with annual lending programs of less than \$500 million, since countries with lending programs above this level are reviewed at least bi-annually.

5. The Group agreed that in view of the costliness of producing CSPs, it would not be necessary for Country Departments to produce full CSPs in the smaller high risk countries every two years. Rather the Country Department's strategy would be reviewed in a relatively brief "codicil" to the CSP, which would focus on the country's creditworthiness prospects and the Country Department's specific proposals for managing country risk. These codicils should also be prepared for large borrowers which are downgraded to high risk status in off-CSP cycle years.

6. Exposure Guidelines . The group agreed that the exposure guidelines were useful risk management tools. They serve an important function in triggering management scrutiny of exposure issues in country strategy and lending allocation reviews; and in safeguarding the Bank's preferred creditor status. It was accepted that country lending strategies needed to take explicit account of the implications of the Bank lending in relation to the guidelines and that senior management approval should continue to be required for lending programs that would result in the guidelines being exceeded. With one member dissenting, the Group endorsed the proposal to raise the exposure

guideline for IBRD debt service in relation to exports to 6 percent of exports for low risk borrowers from 5.5 percent currently, and introduce a lower share of exports guideline of 5 and 4 percent of exports for moderate and high risk countries, respectively. Most members believe the proposal has the merit of introducing some selectivity into the risk management process and is in keeping with the current management practice of endorsing lending programs that exceed the guidelines for countries with superior performance and credit-worthiness. Moreover, the Board has expressed its support for differentiated guidelines linked to country considerations.

7. The representative from Operations dissented from the recommendation to widen the variability of the guideline on IBRD debt service relative to exports, arguing (i) that setting a lower bound for high risk countries was redundant and unnecessary, inasmuch as the lending programs for category C countries were routinely subjected to greater management scrutiny in any event; and (ii) that efforts to fine-tune the guidelines in this fashion lend them a deceptive aura of precision not supported by our ability to predict debt-servicing problems. In his view, it would be preferable to return to the uniform guideline that previously had been applied. Another member felt that there would be a practical problem if the Bank were to establish differentiated guidelines for different risk categories since this could lead to countries breaching the guidelines as a result of downgrading. It might be impossible to bring countries below the guidelines for that risk group for several years, since a downgrading from category A to category B or from category B to category C would imply that countries might need to increase exports by as much as 20 and 25 percent, respectively, to remain within the lower guidelines. However, in the view of Finance, it was entirely appropriate for a downgrading to lead to a presumptively tighter exposure guideline. It was clearly understood that the guideline was meant to serve as a trigger for management scrutiny rather than as a formal exposure limit. The other members of the Group concurred with this view.

8. The Concentration Guideline. When the present portfolio guideline was last reviewed, the 10% threshold was considered appropriate for two reasons. From an equity standpoint, it appeared reasonable and from a financial standpoint, the 10% threshold was a strong prudential limit in relation to the Bank's prospective net income. In practice, the guideline has not been particularly successful in promoting portfolio diversification, the top two borrowers account for 22 percent, and the top five borrowers 45 percent, of the portfolio. More importantly, as the Bank balance sheet has evolved the protection offered by the 10 percent guideline has changed. Loan income from a country at the 10 percent exposure guideline has increased substantially in relation to the Bank's net income over the years, from 30 percent in FY85 to 65 percent in FY91. In response to this changing pattern of risk, the 1991 Portfolio Review suggested moving away from the portfolio share guideline to an alternative directly based on the Bank's risk-bearing capacity. It was felt that such a change would be particularly helpful in focusing Senior Management attention on the specific income risks that the Bank was facing in lending to large borrowers.

9. In view of these concerns, the Group considered a number of proposals made by Finance to modify the present concentration guideline from the current situation, where loans and guarantees outstanding to a single borrower should not normally exceed 10 percent of the total portfolio, to a guideline that would relate exposure more directly to the income risk that the Bank faces when large borrowers go into non-accrual. After careful consideration, the Group endorsed a two-pronged approach to exposure risk management. It is believed better to retain the current concentration limit, since it felt that the portfolio limit was both well established and well suited to ensure a broad geographic distribution of Bank lending. At the same time, the margin of Bank net worth over the exposure to the largest borrower can be made a more explicit part of the annual review and recommendations on the adequacy of provisions and reserves. Depending upon the assessed probability of non-accruals and the probabilities of other risks, the target margin can be raised or lowered. If, for whatever reason, the target margin cannot be achieved, the trade-off is to reduce the loan portfolio exposure limit to the largest borrower or to countenance a weakening of the Bank's financial protection standards. The Group believes that this important tradeoff can and should be explicitly addressed in determining the level of Bank lending to the Bank's five largest borrowers.

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

ERNEST STERN
Senior Vice President
Finance

October 2, 1991

Mr. Sheng

It is disconcerting to learn that the promise to have someone represent the Bank was treated so cavalierly. You, or Mr. Scott, had a copy of my letter to Mr. Lautenberg, a senior official in the Swiss Ministry of Foreign Affairs. That should have been sufficient to alert you that the Bank had a serious obligation. Not only did you fail to tell my office that Mr. Scott could not keep his commitment, but you decided, without consultation, that it would suffice to ask the Paris office to send "someone". If I had wanted to ask the Paris office to cover the meeting, I would not have needed to ask your good offices to convey that message.

To make matters worse, I understand that in the event no one from the Paris office attended, either.

I shall now have to apologize to Mr. Lautenberg on behalf of the Bank. Next time, I trust that we will handle such matters better.

cc: Mr. Wood o/r
Mr. Linn

A handwritten signature in dark ink, appearing to be "E. Stern", with a long horizontal line extending to the right.

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

ERNEST STERN
Senior Vice President
Finance

FAXED earlier today

October 2, 1991

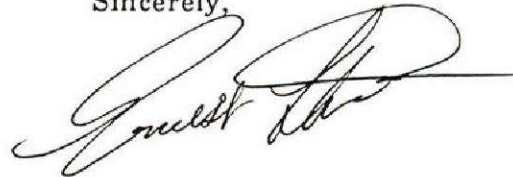
Mr. Alexis P. Lautenberg
Chairman
Federal Department of Foreign Affairs
CH-3003 Berne
SWITZERLAND

Dear Mr. Lautenberg:

I am writing to you because I just learned to my embarrassment that our representative did not appear at the meeting on September 24-25. Unfortunately, a communication breakdown occurred when Mr. Scott's planned trip, of which attendance at the Paris meeting was a part, was canceled. The staff involved failed to understand the importance of the subject, our interest in cooperating, and the kind of technical knowledge you wanted us to contribute. I can only apologize for the lapse on our part and assure you that we wish to cooperate with your committee.

To ensure better cooperation in the future, I have asked Mr. Amedee Prouvost, our finance liaison officer in Paris to be in touch with you. He can provide information on our Eastern European financial sector operations which may be relevant, and also make sure of our participation should there be another occasion.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a long horizontal flourish extending to the right.

bcc: Mr. Prouvost
Mr. Lafourcade

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

FAXED earlier today

October 2, 1991

Mr. Mario Draghi
Director-General of the Treasury
Ministry of the Treasury
Via XX Settembre 97
I-00187 Rome
ITALY

Dear Mario,

I have checked Mr. Preston's calendar which, as you might expect, is very tight. But in doing so, I also found out that a meeting with Mr. Carli and the Italian delegation has been requested and is being scheduled. At the moment, it looks like Sunday afternoon, but that has not settled finally. If you want a short private meeting in addition, I am sure we can work out something in Bangkok.

Best regards.

Sincerely,

A handwritten signature in dark ink, appearing to be 'Ernest', with a long, sweeping horizontal line underneath it.

L - I N - 1 N O T E

DATE: 01-Oct-1991 07:58pm

TO: Attila Karaosmanoglu
TO: Ernest Stern

(ATTILA KARAOSMANOGLU)
(ERNEST STERN)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Publications

I think Alex has some good points. What did we decide on PUB --
did we put it under Larry or not? If we did, maybe we should
reconsider now that EXT goes to Bilsel.

Sven

*I thought
we had finally
agreed (or slipped
inadvertently into)
that we transfer
EXT intact. I'd
let it go for now.*

*(E)
10/2*

The World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 1, 1991 07:13pm EST

TO: Sven Sandstrom (SVEN SANDSTROM)

FROM: Alexander Shakow, EXTDR (ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: PUB and EXT

I have heard stories that suggest that some question has arisen as to whether PUB should continue to be part of EXT. I had not understood that this was an issue and so had not made my views clear on this topic when I made my case on EXT as a whole. I hope the stories are incorrect, but if a change is now being considered I should like the following points to be made part of the review:

1. PUB is being integrated into the External Affairs Department in as many ways as possible as we believe PUB is central to an effective dissemination and external affairs strategy. The synergies between the various steps in the publishing process, especially the marketing and sales aspects, can benefit greatly from closer ties to the public affairs work and our contacts with NGOs, the UN and others we deal with in international economic relations.
2. PUB has long been a part of the external relations complex of the Bank, and the reasons for it have been considered at each review of Bank structure. When Munir Benjenk was the Vice President, PUB was combined with the functions of Public Affairs and International Relations - the same collection of functions as now are part of EXT except they are divisions, not departments (despite PUB's retention of separate acronyms!). The bringing together of the various functions again under EXT in PRE (after the demise of the Strategic Planning Department) was a significant effort to bring PUB into the mainstream of the Bank's work, and I would like to continue to try to accomplish this.
3. There is an important boundary to be retained between the publishers and the authors. It should be clear that the main source of writers of Bank books should not also be the main control point over the publishing decisions. PUB, with the help of Bank-wide committees, plays a key editorial and go-no go role in deciding to publish Bank products. Having both functions under the same vice-presidency is not a good idea, either in fact or in the perception observers may have of potential conflict-of-interest. This is not to say that there is not a lot that needs to be done to continue to strengthen the PUB systems and its efficiency, but this can best be done in collaboration with DEC or PRS rather than as part of either.

4. If, as I gather, the result of your deliberations is that EXT is to report administratively to PAA rather than directly to the President, then any concern that the President should not have to deal with PUB issues directly is no longer an issue.

I am sure that there are other points I should note, but in haste I wanted to flag my concerns before any decisions are made (if they are contemplated!). If this is at issue I would appreciate the chance to review the topic again with you and others involved.

Thanks very much. Alex

CC: Bilsel Alisbah
CC: Ian Scott
CC: Wilfried Thalwitz

(BILSEL ALISBAH)
(IAN SCOTT)
(WILFRIED P. THALWITZ)

clerk only

L L - I N - 1 N O T E

DATE: 03-Oct-1991 04:07pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Harold C. Steyer, Jr., FINSV

(CLEM STEYER)

EXT.: 82813

SUBJECT: The PW internal controls draft report

Ernie,

I just came into possession of a copy of the PW report draft. It seems to me that concerning their recommendation #1 about systems development methodology that they got ahold of some bad information and don't quite understand the situation.

With your permission, I would like to contact the PW Audit Partner for the Bank, who I have known for a number of years, and have an informal discussion regarding this recommendation. I may be able to straighten up their understanding before this is sent to us in final.

Please advise,
Clem

Clem -

*Please touch base
with Mike or Steve,
since initial discussions
have already been
held*

*Ei
10/7/91*

The World Bank

ERNEST STERN
Senior Vice President
Finance

10/4

Lew -

Worth having a look at
for a quick view of
our time-profile on
loans.

A handwritten signature, likely of Ernest Stern, written in dark ink. The signature is stylized and appears to be a cursive representation of the name.

OFFICE MEMORANDUM

7-038
-4-91
DATE: October 1, 1991

TO: Mr. Ernest Stern

FROM: V.S. Raghavan (LOADR) 

EXTENSION: 84116

SUBJECT: Age of Undisbursed Balances

1. Attached is an updated version of the tables that were produced at your request in March 1991 in connection with a request from the Joint Audit Committee to provide data on the age distribution of undisbursed balances.

2. There has been no significant change in the pattern of data since March. Only two operations declared effective in FY79 and FY80 still have undisbursed balances; both are in Pakistan, closing dates have been extended to mid-1992, and the borrower has been informed that no further extensions will be approved. Undisbursed balances on operations declared effective in FY81 are quite small. India continues to account for a high percentage of the undisbursed balances for FY82.

3. Brief notations on the individual operations declared effective in FY82 or earlier are attached.

File: Disbursements - General

cc: Mr. Eccles (CTRVP)
Mr. Wyss (CODDR)
Mr. Martinez (AFRVP)
Mr. Sud (ASIVP)
Mr. Blanchi (EMNVP)
Mr. Aiyer (LACVP)
LOA Division Chiefs

DReinke:dr

IBRD - Undisbursed Balances of Loans Made Effective FY1980-87, as of August 31, 1991
(expressed in EOM US\$ millions)

Region	Country	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	Total FY 80-87	% Region Total	Total Since FY87
AFRICA	CAMEROON	0.0	0.0	0.0	0.0	2.1	0.0	46.9	21.9	70.9	12.84%	284.1
	COTE D'IVOIRE	0.0	0.0	0.0	3.2	1.7	0.0	5.8	12.7	23.4	4.24%	199.9
	NIGERIA	0.0	0.0	0.0	0.0	22.7	8.4	162.2	171.6	364.9	66.09%	1,388.6
	ZAIRE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	31.2	31.2	5.65%	0.0
	ZIMBABWE	0.0	0.0	0.0	0.0	3.4	23.7	0.0	5.1	32.2	5.83%	204.6
	OTHER	0.0	0.0	0.0	0.0	0.6	13.8	9.2	5.9	29.5	5.34%	103.1

sum		0.0	0.0	0.0	3.2	30.5	45.9	224.1	248.4	552.1		2,180.3
ASIA	CHINA	0.0	0.0	0.0	0.0	10.6	12.6	133.4	381.2	537.8	19.16%	1,602.2
	INDIA	0.0	0.0	9.6	0.0	302.4	117.4	837.0	169.6	1,436.0	51.15%	6,174.4
	INDONESIA	0.0	0.0	0.0	0.5	54.5	40.8	169.6	148.0	413.4	14.73%	3,633.7
	MALAYSIA	0.0	0.0	0.0	0.0	19.7	0.0	49.9	112.8	182.4	6.50%	254.3
	PHILIPPINES	0.0	0.0	0.0	0.5	17.8	76.0	0.0	70.5	164.8	5.87%	1,586.7
	THAILAND	0.0	3.2	0.0	0.0	0.0	3.6	45.6	0.0	52.4	1.87%	178.2
	OTHER	0.0	0.0	0.0	0.0	3.9	0.0	14.1	2.5	20.5	0.73%	494.0

sum		0.0	3.2	9.6	1.0	408.9	250.4	1,249.6	884.6	2,807.3		13,923.5
EMENA	ALGERIA	0.0	0.0	0.0	0.0	0.0	33.1	0.0	47.5	80.6	5.75%	1,364.2
	EGYPT, ARAB REPUBLIC OF	0.0	0.0	0.0	6.9	12.4	5.0	0.0	50.4	74.7	5.33%	536.8
	HUNGARY	0.0	0.0	0.0	0.0	0.0	2.5	0.0	51.0	53.5	3.81%	1,178.2
	JORDAN	0.0	0.0	0.0	0.0	5.5	12.8	17.5	16.7	52.5	3.74%	212.8
	MOROCCO	0.0	0.0	0.0	0.0	15.5	0.0	18.6	35.9	71.0	5.06%	859.8
	PAKISTAN	0.0	0.0	0.0	0.0	0.4	0.0	33.7	32.1	66.2	4.72%	1,479.6
	TUNISIA	0.0	0.0	0.0	1.4	5.7	41.6	14.1	19.7	82.5	5.88%	293.6
	TURKEY	0.0	0.0	0.0	0.0	0.0	55.1	395.3	328.9	779.3	55.56%	1,265.3
	YUGOSLAVIA	0.0	0.0	0.0	0.0	0.8	87.4	14.7	5.0	107.9	7.69%	368.8
	OTHER	0.0	0.0	0.0	0.0	0.0	7.4	0.0	27.1	34.5	2.46%	1,819.6

sum		0.0	0.0	0.0	8.3	40.3	244.9	493.9	615.3	1,402.7		9,378.7
LATIN AMERICA (LAC)	ARGENTINA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	114.7	114.7	4.36%	1,076.0
	BRAZIL	0.0	0.0	0.0	1.9	31.3	10.9	509.6	250.5	804.2	30.55%	2,925.8
	CHILE	0.0	0.0	0.0	0.0	0.0	0.0	160.7	47.3	208.0	7.90%	321.8
	COLOMBIA	0.0	0.0	2.1	0.0	3.4	71.1	70.0	67.5	214.1	8.13%	810.1
	MEXICO	0.0	0.0	0.0	0.0	0.0	17.1	87.0	907.0	1,011.1	38.42%	2,140.1
	PANAMA	0.0	0.0	0.0	0.0	0.0	0.0	49.7	0.0	49.7	1.89%	0.0
	PERU	0.0	0.0	0.0	50.4	0.0	32.8	0.0	0.0	83.2	3.16%	0.0
	URUGUAY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	64.4	64.4	2.45%	285.2
	OTHER	0.0	0.0	3.3	26.1	0.0	15.5	11.4	26.3	82.6	3.14%	1,415.7

sum		0.0	0.0	5.4	78.4	34.7	147.4	888.4	1,477.7	2,632.0		8,974.7
OTHER	OTHER	0.0	0.0	0.0	0.0	0.0	1.2	0.8	21.8	23.8	100.00%	423.8

sum		0.0	0.0	0.0	0.0	0.0	1.2	0.8	21.8	23.8		423.8

		0.0	3.2	15.0	90.9	514.4	589.8	2,856.8	3,247.8	7,417.9		34,881.0

Data for FY80 May Include Loans Effective Prior to FY80
Source: Accounting - Financial Information Center
(Report: UNDISB1)

IDA - Undisbursed Balances of Credits Made Effective FY 1980 - 87, as of August 31, 1991
(expressed in EOM US\$ millions)

Region	Country	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	Total FY 80-87	% Region Total	Total Since FY87
AFRICA	BURKINA FASO	0.0	0.0	0.0	0.0	0.0	3.2	35.1	0.0	38.3	3.71%	71.0
	ETHIOPIA	0.0	0.0	0.0	2.9	14.8	79.0	0.0	78.7	175.4	16.97%	321.0
	KENYA	0.0	0.0	4.5	1.3	13.5	19.6	0.1	37.4	76.4	7.39%	324.7
	MADAGASCAR	0.0	0.0	0.0	0.0	2.0	4.3	7.0	16.8	30.1	2.91%	300.1
	MALAWI	0.0	0.0	0.0	0.0	1.5	0.0	28.4	17.9	47.8	4.63%	235.6
	MALI	0.0	0.0	0.0	0.0	2.5	0.0	38.4	8.6	49.5	4.79%	190.4
	NIGER	0.0	0.0	0.0	0.0	0.0	0.0	1.8	28.2	30.0	2.90%	61.1
	RWANDA	0.0	0.0	0.0	0.4	0.0	0.0	6.8	29.9	37.1	3.59%	144.4
	SIERRA LEONE	0.0	0.0	0.0	1.3	18.8	18.5	0.0	5.0	43.6	4.22%	0.0
	SUDAN	0.0	0.0	11.0	0.0	0.0	45.4	36.9	16.3	109.6	10.51%	173.5
	TANZANIA	0.0	1.0	9.4	3.4	0.2	0.8	5.9	25.0	45.7	4.42%	502.0
	UGANDA	0.0	0.0	0.0	2.1	7.7	11.4	24.9	0.0	46.1	4.46%	289.4
	ZAIRE	0.0	0.0	0.0	0.0	0.0	1.1	74.5	25.6	101.2	9.79%	169.4
	ZAMBIA	0.0	0.0	0.0	0.0	2.5	9.3	30.7	7.8	50.3	4.87%	93.6
	OTHER	0.0	0.0	0.0	4.4	11.3	30.0	45.2	61.4	152.3	14.74%	2,653.6

sum		0.0	1.0	24.9	15.8	74.8	222.6	335.7	358.6	1,033.4		5,529.8
ASIA	BANGLADESH	0.0	0.0	0.0	33.7	28.1	41.6	162.5	54.5	320.4	14.15%	885.0
	CHINA	0.0	0.0	0.0	0.0	16.8	19.4	7.5	67.7	111.4	4.92%	1,799.9
	INDIA	0.0	0.0	66.8	52.0	149.9	362.3	734.4	110.3	1,475.7	65.16%	2,936.6
	MYANMAR	0.0	2.5	0.0	1.0	9.4	8.1	16.7	33.0	70.7	3.12%	49.4
	NEPAL	0.0	0.0	0.0	4.3	5.4	15.2	90.7	37.9	153.5	6.78%	273.9
	SRI LANKA	0.0	0.0	25.9	0.0	5.1	0.0	11.5	79.6	122.1	5.39%	367.9
	OTHER	0.0	0.0	0.0	0.0	0.1	2.3	7.3	1.4	11.1	0.49%	112.3

sum		0.0	2.5	92.7	91.0	214.8	448.9	1,030.6	384.4	2,264.9		6,425.0
EMENA	PAKISTAN	26.0	0.0	0.0	5.4	32.4	30.3	253.6	41.2	388.9	83.89%	657.1
	YEMEN, REPUBLIC OF	0.0	0.0	2.9	0.0	4.9	14.4	15.7	24.7	62.6	13.50%	218.3
	OTHER	0.0	0.0	12.1	0.0	0.0	0.0	0.0	0.0	12.1	2.61%	0.0

sum		26.0	0.0	15.0	5.4	37.3	44.7	269.3	65.9	463.6		875.4
LATIN AMERICA (LAC)	OTHER	0.0	0.0	0.0	6.2	0.0	0.7	3.3	3.3	13.5	100.00%	334.0

sum		0.0	0.0	0.0	6.2	0.0	0.7	3.3	3.3	13.5		334.0

		26.0	3.5	132.6	118.4	326.9	716.9	1,638.9	812.2	3,775.4		13,164.2

Data for FY80 May Include Loans Effective Prior to FY80
Source: Accounting - Financial Information Center
(Report: UNDISB1)

IBRD

1922-TH (National Agricultural Research) - Undisbursed \$3.2 million
Effective in FY81

The closing date has been extended to June 30, 1992, primarily because of procurement delays.

2076-IN (Second Ramagundam Thermal Power) - Undisbursed \$9.6 million
Effective in FY82

The closing date has been extended to March 31, 1992, primarily because of procurement delays. No further extension is anticipated.

1953-CO (Playas Hydro Power) - Undisbursed \$2.1 million
Effective in FY82

The closing date has lapsed, and the Region has been asked to notify the borrower of cancellation of the undisbursed balance.

1760-5-DO (Sugar Rehabilitation) - Undisbursed \$2.4 million
Effective in FY82

The closing date lapsed on June 30, and the final date for receipt of applications covering expenditures incurred before closing is October 31, 1991. Any undisbursed balance remaining at that time will be cancelled.

IDA

754-PAK (Salinity Control and Reclamation) - Undisbursed \$17.9 million
Effective in FY79

877-PAK (Salinity Control and Reclamation) - Undisbursed \$6.6 million
Effective in FY80

Severe implementation and procurement problems have delayed disbursement. Closing dates have been extended to July 30, 1992 and June 30, 1992 respectively, and the borrower has been told that no further extensions will be approved.

1031-BA (Myanmar)(Kinda Dam) - Undisbursed \$2.5 million
Effective in FY81)

The undisbursed balance will be cancelled after the unutilized Special Account balance has been refunded.

1056-TA (Seventh Education) - Undisbursed \$1.0 million
Effective in FY81

We have asked the borrower to refund an unutilized Special Account balance of \$315,709.60, after which the Credit balance will be cancelled.

1156-EGT (Water Supply) - Undisbursed \$10.8 million
Effective in FY82

1162-EGT (Technical Assistance) - Undisbursed \$1.5 million
Effective in FY82

Procurement delays, lack of counterpart funds and poor management continuity contributed to delayed disbursement. Both credits have current closing date of December 31, 1991.

1160-CE (Sri Lanka)(Village Irrigation Rehab.) - Undisbursed \$1.2 million
Effective in FY82
1166-CE (Sri Lanka)(Third Mahaweli Ganga Dev.) - Undisbursed \$24.9 million
Effective in FY82

The balance of Credit 1160-CE has been cancelled. An October 1991 mission will assess Credit 1166-CE, to determine whether the closing date should be extended for the fifth time to December 31, 1992.

1172-IN (Second Korba Thermal Power) - Undisbursed \$20.2 million
Effective in FY82
1177-IN (Madhya Pradesh Major Irrig.) - Undisbursed \$47.9 million
Effective in FY82
1178-IN (West Bengal Social Forestry) - Undisbursed \$0.2 million
Effective in FY82

Procurement delays affected disbursements on Credit 1172-IN, which has a closing date of December 31, 1991. No further extensions are anticipated. Cancellation of the balance of Credit 1177-IN is likely after October 31, 1991. Cancellation of the balance of Credit 1178-IN has been postponed pending a Board decision on recommitment of IDA savings on credits to India.

1118-SU (Blue Nile Pump Schemes Rehab.) - Undisbursed \$11.2 million
Effective in FY82

This balance is now being cancelled. Follow up with continue with Government to ensure that we receive acceptable documentation for the undocumented Special Account balance of \$215,940.

1202-YEM (Sana'a Urban Development) - Undisbursed \$3.0 million
Effective in FY82

A sixth closing date extension to June 30, 1992 has been granted in light of the recent unification of the two Yemens, and the recent Gulf crisis.

9/30/91

R.ddy

, L - I N - 1 N O T E

DATE: 04-Oct-1991 09:52am

TO: Ernest Stern

(ERNEST STERN)

FROM: Armeane Choksi, LA1DR

(ARMEANE CHOKSI)

EXT.: 31811

SUBJECT: Budget Process

Ernie,

I understand that you are going to be in charge of cleaning up the budget mess.

As you know, the budget process has been a major source of frustration to many and the current system is not a useful managerial tool. Many of us have set up our own departmental dollar-based task budgeting system for managing and allocating our resources to divisions and specific tasks. If you are setting up a group to work with you on this matter, I would like to volunteer to assist you.

Congratulations on your new appointment as Managing Director.

Armeane

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 4, 1991

Mr. Santiago

The attached has been sent to all "affected" staff, but I intercepted your copies since it all sounds much more alarming than it is. I assume you will inform your staff (or already have) that effective December 1, PENAD will become the Pension Department and be located in TRE. There is nothing else to it and this will not, I am sure, be of special concern to staff. Hence, I suggest you do not share the attached widely.

While the change in nomenclature makes you a Director, I have not been able to deliver on the other half of your request. Early indications are that the Grading Unit may not be receptive. We shall see, but perhaps Don can take it up later.

A handwritten signature in black ink, appearing to be 'J. Stern', is located in the lower right quadrant of the page.

Attachment

OFFICE MEMORANDUM

DATE: October 4, 1991

TO: All Staff in FINSV, PENAD, OPNSV, EAS, COD, PRESV, PRD

FROM: Bilseel Alisbah, PAAVP

EXTENSION: 80161

SUBJECT: Staff Reassignments

1. In my letter of September 20, 1991 I said that I expected decisions to be taken before the Annual Meetings on the reallocation of functions resulting from the President's decision to streamline the Bank's management structure. Those decisions have now been taken, and I am attaching a listing setting out the organizational changes which affect you directly. As you will see, some functions are to move intact, others are being merged into one or more departments, and the positions in the immediate offices of the Senior Vice Presidents are to be abolished. These changes will take effect December 1, 1991.

2. In units to be merged, the new location is known, but the exact number of positions that will be needed to handle the responsibilities which are being transferred has not yet been determined. I expect these decisions to be taken by the end of October. Until this is settled there is inevitably still some uncertainty as to who is going to move where, but I want to repeat the assurance that I gave you in my September 20 letter that we will be doing all that we can to honor your preferences in this process. I also want to assure you that no staff separations are envisaged.

3. As mentioned in my letter of September 20, 1991, the basic approach to staff redeployment will involve a selection by incoming managers based on skill requirements and preferences expressed by staff. If you are now in a unit that will be merged or abolished, you will have an opportunity to express your preferences for reassignment and we will be working with you to find a suitable alternative assignment. You will have until October 30 to express your preference. Actual reassignments will occur between November 15 and November 30. The safeguards mentioned in my earlier letter obviously still apply.

4. I have been encouraged by the constructive way in which all of you have responded. The Bank's ability to adjust its organization to meet changing needs depends on the extent to which staff feel such changes are justified and on how the personnel management implications are handled. In this instance, I expect the elimination of certain functions and the merging of others to release about 60 Higher Level positions for deployment to the Bank's core operational functions. I am confident we can work together to ensure that this realignment is to the good of the institution, staff and our member countries.

FUNCTIONS TO BE RELOCATED

From Senior Vice Presidency, Finance

- **Tokyo Office**

The Tokyo Office will report to the Vice President and Treasurer (TREV).

- **Pension Plan Administration Functions**

The Office of the Pension Plan Administrator will be retitled Pension Administration Department (PAD). It will be transferred as a unit to the Vice President and Treasurer. The Department will continue to service the Pension Benefit Committee and the Pension Finance Committee. Mr. Alisbah will continue to serve as Chairman of the former committee and Mr. Stern of the latter.

- **Personnel Functions**

The Finance Personnel Team (FINPE) will report directly to the Vice President, Personnel & Administration (PAAVP). It will continue to provide personnel services to the Controllers, Financial Policy & Risk Management and Treasurer's Vice Presidencies and to MIGA. These arrangements are subject to modification in light of the outcome of the review of personnel management in the Bank that is now under way.

- **Information Technology Functions**

The Systems Administrator in the Office of the Senior Vice President, Finance, will be transferred to the Controller's (CTRVP) where he will continue to serve the needs of the Controllers, Financial Policy & Risk Management and Treasurer's.

From Senior Vice Presidency, Operations

- **Operations Policy and Review Functions**

The Office of the Vice President, Sector Policy and Research (PRSV) will be renamed the Office of the Vice President, Sector and Operations Policy (SOPVP). The Central Operations Department (COD) will transfer to this Vice Presidency.

From Senior Vice Presidency, Policy, Research & External Affairs

- **Personnel Functions**

The Policy, Research & External Affairs Personnel Team (PREPE) will report directly to the Vice President, Personnel & Administration (PAAVP). It will service the Vice Presidencies for Development Economics (DECVP) and Sector and Operations Policy (SOPVP). These arrangements, like those for the Finance Personnel Team, are subject to modification.

- **External Affairs Functions**

The External Affairs Department (EXT), will report to the Vice President, Personnel and Administration (PAAVP). It will continue to work closely with the Office of the President.

- **Consultative Group for International Agricultural Research**

The Secretariat of the Consultative Group for International Agricultural Research (CGIAR) will report to the Vice President, Sector and Operations Policy (SOPVP).

- **Geneva Office**

The Geneva Office will report to the Vice President, Development Economics (DECVP).

- **Budget and Information Management Functions in PRD**

The functions of the Program Management Unit in the Program Review Department (PRDPM) will be transferred to the Office of the Vice President, Sector and Operations Policy (SOPVP) where it will also service the Vice President, Development Economics (DECVP).

FUNCTIONS TO BE MERGED

The following functions are being reassigned to other units which generally will not involve the transfer of all staff in the present unit.

- **Functions of Economic Advisory Staff**

Functions performed by EAS are transferred to DECVP. A position of Director, Development Policy, is established to oversee DECVP's review of adjustment programs and country assistance strategies and the dissemination of information to economists.

- **Functions of Review and Analysis Division of Policy Review Department (PRDRA)**

Some of the functions of this division will be assigned to the Central Operations Department (COD) in the Vice Presidency for Sector and Operations Policy (SOPVP) and to the Office of the Vice President, Development Economics (DECVP).

- **Budget Functions of Management and Systems Unit in OPNSV**

The budget functions of the Management and Systems Unit in the Office of the Senior Vice President, Operations (OPNMS) will be transferred to the Planning and Budgeting Department (PBD).

- **Personnel Team in OPNSV**

The Personnel Team in the Office of the SVP Operations will be assigned to the Vice Presidency for Personnel and Administration (PAAVP). Until further notice, this team will continue to provide personnel services to CFSVP.

- **Information Services Division (OPNIS)**

The functions of the Information Services Division in the Operations Staff (OPNIS) are being reviewed and decisions on future arrangements will be taken by the end of October.

OTHER OFFICES

Staff in the immediate offices of the Senior Vice Presidents will be reassigned in accordance with announced policies and procedures.

Disposition of A. Listed Functions

Present Units and Functions	Treasurer's	Controller's	Vice Pres Sector & Oper Policy	Vice Pres Development Economics	Vice Pres Personnel & Administn	Abolished
Office of SVP, Finance						☒
FINSV - IT Coordination		☐				
Finance Personnel Team					☐	
Tokyo Office	☐					
Pension Plan Administration	☐					
Office of SVP, Operations						☒
OPN Personnel Team					☒	
OPN Management Systems & Budget		☒ 1/				
Information Services Division		to be determined				
Central Operations Department			☐			
Economic Advisory Staff				☒		
Office of SVP, Policy, Research & External Affairs						☒
PRE Personnel Team					☐	
Geneva Office				☐		
Policy & Review, Office of Director						☒
Review & Analysis Div - Reviews of CSP, PFP Adjustment Lending				☒		
Review & Analysis Div - Development Effectiveness; Poverty Work Coordination			☒			
Policy Development Unit, PRD						☒
Program Management, PRD			☐			
External Affairs Department					☐	
Cons Group on Intl Agriculture Research			☐			

Key:

☐ Relocated

☒ Function merged
with existing
unit

☒ Abolished

1/ CPB through June 30, 1992.

ORG: 10-2-91

10-044
10-4-91

ROUTING SLIP		Date Oct. 4, 1991
NAME Messrs. Stern and Sandstrom		ROOM NO.
URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	Information/Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial
RE: Field Offices in Bulgaria and Romania		
REMARKS		
I presume you have approved this and that we should give priority to the assessment of the budget implications and position needs in the light of the streamlining. I never heard of it; not my loop yet. Had I heard of it I certainly would not have approved Romania.		
From R. Picciotto	Room No. F13-035	Ext. 84569

P-1862



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - October 1991		Barcode No. 30265366		
Document Date 09/20/1991	Document Type Letter			
Correspondents / Participants From: W.A. Wapenhans, EMNVP To: Mrs. Eveline Herfkens, Executive Director				
Subject / Title World Bank Field Offices in Bulgaria and Romania				
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. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

The World Bank

ERNEST STERN
Senior Vice President
Finance

10/4

Pat -

Many thanks for the
nomination for the EPA
award. It is very thoughtful
of you and much
appreciated.

A handwritten signature in cursive script, appearing to read "Ernest", followed by a long horizontal flourish line.

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

ERNEST STERN
Senior Vice President
Finance

October 4, 1991

Mr. Roth

Re: FODGI's Draft Board Paper on Swaps from the Guilder Book into DM and CHF

I am in favor of a brief memo, but at five double-spaced pages (albeit unnumbered), I think the draft note meets that criterion. What is less clear is the message in the cover note. What is our internal savings target? I think you and Ken need to settle this before we start to look for transactions. With an allowance for credit risks, etc. I doubt that anything less than 20 b.p. is well justified. I also missed any comments on the NLG/CHF objectives. At a current 175 b.p. savings, what does the break even look like? The paper also refers to the lending rate impact. Which lending rate? Both? If not, what is the differential impact? Finally, while I assume the Legal problems are explicable and real, I do not follow the FRS concern. Have the accounting and systems aspects been reviewed?



cc: Mr. Lay

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

ERNEST STERN
Senior Vice President
Finance

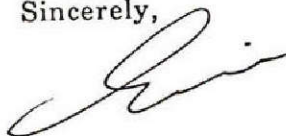
October 4, 1991

Mr. William J. McDonough
One First National Plaza
Room 2530
Chicago, Illinois 60603

Dear Bill,

Thank you for your note of September 26. I have passed
Mr. McGhee's CV on to our personnel team and asked them to get
in touch with him.

Sincerely,

A handwritten signature in dark ink, appearing to be "Ernest", written in a cursive style.

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

ERNEST STERN
Senior Vice President
Finance

October 4, 1991

Mr. Mossop

Jack -

Please see what may be available and give Mr. McGhee a call. Let us not look only at FINCOM prospects -- he would seem to have the kind of skills needed for our financial sector work in Eastern Europe (and elsewhere).

A handwritten signature in cursive script, appearing to be 'hi' or a similar name, written in dark ink.

Attachment



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - October 1991		Barcode No. 30265366		
Document Date 09/26/1991	Document Type Letter			
Correspondents / Participants From: William McDonough To: Mr. Ernest Stern, Senior VP Finance				
Subject / Title [Personal Recommendation]				
Exception(s) Personal Information				
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. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

→ STSLN

Ernie,

We have received the attached response to your letter of August 28, 1991 to Mr. Masao Fujioka, President of the Japan Credit Rating Agency, Inc (JCRA). As you can see, he has proposed that JCRA would be willing to rate the Bank for free, except for the payment of miscellaneous travel expenses of JPY 980,000 associated with the costs of transporting two analysts to Washington from Tokyo.

As I believe that a rating by the JCRA will be of marginal (if any) benefit to the Bank, I am opposed in principal to paying any of the travel expenses of their personnel, especially in that it might set an unacceptable precedent for dealing with the proposals of other international second-tier ratings agencies. Accordingly, I would suggest the following response, to be channelled through the Tokyo office in accordance with the most recent correspondence from Mr. Fujioka.



Don
Agreed. I've
suggested some
textual changes in
the margin


10/3

October 3, 1991

Mr. Kemmochi, please convey the following to Mr. Masao Fujioka:

Thank you for your offer, received through Mr. Kemmochi of our Tokyo office, to have the Japan Credit Rating Agency, Inc. rate the World Bank on a gratis basis except for the payment of miscellaneous travel expenses of JPY 980,000 associated with the costs of transporting two analysts between Tokyo and Washington.

We appreciate the generosity of your offer. ^{While the incidental expenses are modest} Unfortunately, we must view these ^{other} costs not only in terms of the direct benefits which your rating might provide the Bank, but also in terms of the way in which we deal with ratings requests from various fledgling credit agencies worldwide. As we have ~~previously noted~~, we are already well covered by Moody's and Standard and Poors, and in addition the Bank has long-standing direct financial relationships with all major members of the Japanese investment community. Thus we ~~cannot~~ accept your offer if it means that we will incur any additional expense for this service. ^{are not in a position to}

As one alternative, I would encourage you to consider using ~~exclusively~~ the resources of our Tokyo office for your ratings process. This would eliminate your travel expenses and ~~would also be consistent with one of the primary purposes of the Tokyo office, which is to~~ ^{would be able to provide all pertinent data.} ~~liaise between the Bank's headquarters in Washington and members of the Japanese financial community.~~

our liaison with

With best regards,

Ernest Stern

and I am confident that our

received in the past or which we be in the future.

→ HORVATH

pls call me.

2/11

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: October 2, 1991 05:57am

TO: Peter Horvath

(PETER HORVATH)

FROM: Nobuaki Kemmochi, TOK

(NOBUAKI KEMMOCHI)

EXT.:

SUBJECT: Japan Credit Rating Agency, Ltd.

As to the discussion with you on the above subject at our visit in London, I would like you to confirm the result on the issue of the Japan Credit Rating Agency, Ltd. as soon as possible.

Regards
Nobuaki Kemmochi

CC: Donald C. Roth

(DONALD ROTH)

URGENT

International Bank for
Reconstruction and
Development

TOKYO OFFICE

International
Development
Association

RAPIDFAX

DECLASSIFIED

Transmittal Form

AUG 04 2025

WBG ARCHIVES

Date: September 11, 1991

Facsimile Number: 938

Number of Pages: 3

To: Mr. Donald Roth, TREVP

CONFIDENTIAL

From: Nobuaki Kemmochi, TOKDR

Subject: Japan Credit Rating Agency, Inc. (JCR)

Mr. Roth,

- I. Please find attached a copy of a letter by Mr. Stern to Mr. Fujioka (President of JCR and Former President of Asian Development Bank).
- II. In reply to the letter JCR is preparing a following proposal for charges to be incurred for JCR's services and ask my comment on it.

"JCR's normal rating fee is set at a maximum of Yen5 million, consisting of a fixed Basic Rating Fee of Yen3 million and expenses up to Yen2 million.

However, for rating such an esteemed and renowned Bank as the World Bank, JCR would like to proposed the following for the initial year. (For the second year and thereafter, JCR would be pleased to set the fee upon negotiation with you.);

1. JCR will rate the World Bank on a gratis basis. However, in view of the distant location of your Bank from Japan, JCR would request that your Bank will bear transportation costs only, among all other travel expenses, which we estimate will be approximately Yen980,000 for our two analysts.

As to JCR
09/11/91
Page 02

The details of the costs will be as follows:

Transportation costs for one analyst:

Airfare (Washington/Tokyo)	Yen420,000
Other transportation costs including fares to and from Narita airport, <u>taxi fares in Washington, etc.</u>	Yen 70,000
Total:	Yen490,000

X two Analysts Yen980,000

2. In conjunction with assigning a rating, JCR usually compiles and issues a detailed rating report in both Japanese and English. The cost for this is normally incorporated in JCR's fixed Basis Rating Fee of Yen3 million. If the World Bank requires this report, JCR will request that your Bank will pay the actual printing and compilation costs, which will be approximately Yen700,000 for 500 reports both in Japanese and English."

III. Since I myself am not familiar with the matter, I am quite happy if I could have your suggestion as to the appropriate arrangements of charges for the initial year and thereafter.

Best regards
Nobuaki Kemmochi

914 9/11/91 20.00 WORLD BANK TOKYO OFFICE 1. 0

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

ERNEST STERN
Senior Vice President
Finance

August 28, 1991

Mr. Masao Fujioka
President
Japan Credit Rating Agency, Inc.
14 F1 Shuwa Shiba-Park Bldg., B Wing
2-4-1, Shiba-Koen, Minato-Ku
Tokyo 105
JAPAN

Dear Mr. Fujioka:

Thank you for your recent letters to Mr. Conable and myself, bringing us up-to-date on your activities and offering the good services of Japan Credit Rating Agency, Inc. (JCR) to further disseminate information on the World Bank's superior credit standing to the Japanese investment community. We welcome any and all efforts to publicize the Bank's premiere borrowing status and prudent financial policies.

I note that, in the information which you provided to us, there is no mention of any fee to be paid by the Bank in the event of a formal rating process by JCR. As you note in your letter, we are already well-covered by Moody's and Standard and Poors, and, in addition, the Bank has long-standing direct financial relationships with all major members of the Japanese investment community. Before we reach a final decision whether to go ahead with a formal rating process with JCR, it would be helpful if you could clarify whether JCR would propose to rate the Bank on a gratis basis (as has been done in the past by other fledgling agencies) or, if not, what charges might be incurred for JCR's services.

Sincerely,



October 2, 1991

Mr. Ernest Stern

Ernie:

SFM Minutes of 9/26/91

For your clearance, please.

Please note especially the sections noted in yellow pen. Joe was not here to clear his paragraph. Is the Asia Region being split into South and East or West and East? I've heard both....

Cindy
Cynthia M. Scherr

Attachment

Cindy
Loos Ave.
East/West/South - Don't
know. Makes no great
difference - but there is
a note out on it by
now. (4)
10/4/91

DATE: October 1, 1991

TO: Files

FROM: Office of the Senior Vice President, Finance

SUBJECT: Summary of Discussions at the Senior Finance
Managers' Meeting of September 26, 1991

Present: Messrs./Mesdames Stern (Chairman), Eccles, Wood, Kavalsky, Raghavan, Rischard, Ruddy, Santiago, Stoutjesdijk, Lay, Subramanian, Steyer, Rappaport, Mandel, Scherr

New Appointments

Mr. Stern announced that Mr. Preston had advised the Board of the following Vice President appointments: Mr. J. Wood for South Asia, Mr. G. Kaji for East Asia, Mr. C. Koch-Weser for Europe, Middle East and North Africa, and Mr. J. Linn for Financial Policy and Risk Management. Mr. Stern also noted that he and Messrs. Eccles and Picciotto had been asked to oversee an effort to rationalize and shorten the Bank's planning and budgeting processes and to integrate the several current information and budgeting systems (BAS, OPNMIS, IMIS, CADB).

Operations Committee

Mr. Wood reported that the Committee had reviewed the Bank's lending strategies for Mexico and Brazil. Mexico's economy is quite strong with increasing exports and reserves and *return of* ~~decreasing~~ flight capital. The Bank's strategy would focus on providing an infrastructure base, which could not be provided by the private sector, and on environmental concerns. The Brazil program would focus on sector-based lending.

Other Matters

Mr. Kavalsky noted that the First Annual Review of IDA9 had been discussed at the Board. The Bank had implemented most of the new policies and procedures included in the IDA9 agreement. The Board asked that the next year's Report provide additional analysis on the benefits that had accrued to the IDA recipients.

Mr. Lay noted that the recent global bond issue was trading flat with Fannie Mae and that the Bank had carried out several new borrowings: a USD 564 million equivalent euroyen issue, a USD 104 million equivalent Portuguese escudo issue.

Mr. Stoutjesdijk reported on the work of the Creditworthiness Working Group. He said that the Group had proposed reducing the number of risk categories from 7 to 4, and adding new exposure guidelines. The Group was divided on whether to recommend abandoning the 10 percent concentration level.

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 1, 1991 03:11pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Jeffrey Katz, FRM

(JEFFREY KATZ)

EXT.: 80534

SUBJECT: Proposed FY93-95 IDA Allocations

Basil has asked me to respond directly to you on the proposed IDA allocations.

The proposals seem to us to be broadly appropriate for planning purposes. The new claimants have been accommodated by "taxing" the three regional groupings in proportion to their IDA share. The resulting allocation would still leave Africa above 45% for the IDA9 period as well as for FY93-95. The performance based norms have been followed in most cases, though additional allocations have been made to several countries in Asia and LAC that are reasonably good performers or in the early stages of major reforms (e.g. Laos, Nepal, Sri Lanka, Honduras), and some reductions have been made in light of absorptive capacity and availability of resources from other donors (e.g. Bangladesh, Burundi). There remain soft spots in the plans -- Vietnam and Ethiopia (SDR 900 million between them) are large ones-- and some SDR 250 million has been left unallocated, so there could be considerable room for re-allocation.

Two areas are questionable:

--The Zambia allocation of SDR 290 million is very large even assuming the adjustment program is re-established following the elections next month. The proposal is 50% above last year's allocation, twice the "norm" based on performance, and on a per capita basis twice the average for Africa. It could only be defensible in the context of clearly improved performance (There is an error on the lending plan Table 1; the rating for Zambia is 2.7, not 3.3)

--There remains no clear rationale for the level of IDA allocations for blend countries. While we have no particular difficulty with the allocations proposed-- blend countries of comparable size are receiving comparable allocations (Nigeria and Pakistan, Egypt and the Philippines) -- the "norm" system is providing no useful guidance in this area.

CC: Basil Kavalsky
CC: D. Joseph Wood
CC: Everardus Stoutjesdijk
CC: Lorene Yap

(BASIL KAVALSKY)
(JOE WOOD)
(EVERARDUS STOUTJESDIJK)
(LORENE YAP)

Sven
No problem on the
IDA side, except
that Zambia is
undefensible. OPS
needs to advised
to bring this down
substantially.
eg
10/4/91

CC: FRM Hotline

(CCFRM)

10-024
10-2-91

cc: CS ✓

October 2, 1991 1:46pm

Mr. Stern

Ernie:

The attached draft of the Technical Note on the Real Value of IDA9 is for your review. Based on our calculations the nominal value of IDA10 ranges between SDR 13.1 billion to SDR 12.9 billion.

We also did a similar analysis during the IDA9 negotiations and a Technical Note was issued to the Board and the Deputies following the first meeting of the Deputies in Berlin.

If you approve, we will issue this Technical Note to the Board and the IDA10 Deputies shortly after the Bangkok Annual Meetings.



Basil

Basil

Looks Fine, 1) Can we add the sentence to para 6.
2) Is the last sentence of para 1 useful or likely to raise doubts 3) Can we say last sentence of para 2. It seems to prejudge the referendum issue.

cc: Messrs. Wood (o/r), Ohashi, Sengupta


10/4/91

TECHNICAL NOTE

MAINTAINING THE REAL VALUE OF IDA9 FOR THE IDA10 REPLENISHMENT

Section I. Introduction

1. This note estimates the real value of IDA9, as a basis for the IDA10 replenishment negotiations. The real value of IDA9 has been calculated using the same two methodologies which were used in determining the real value of IDA8 for the IDA9 replenishment negotiations (Technical Note "Methodology for Projecting the Real Value of IDA8", IDA/SecM88-385, dated December 23, 1988). Subsequently, similar approaches were taken by the African Development Fund and Asian Development Fund in their most recent replenishment negotiations.
2. In December 1989, the IDA9 negotiations were concluded with a total size of the replenishment at SDR 11,679 million, with actual pledges totalling SDR 11,601 million and an unallocated balance of about SDR 78 million (Report "IDA9 Implementation Arrangements", IDA/SecM91-154, dated April 30, 1991). The negotiated size of the IDA9 replenishment represented an amount, in SDR terms, which the donors considered was adequate to support IDA's lending program for the period FY91-93. Since the conclusion of the IDA9 negotiations, Kuwait pledged an additional SDR 20 million and the Czech and Slovak Republic became a member of IDA with a contribution of SDR 10 million towards IDA9, thereby reducing the initial unallocated amount. Total pledged IDA9 donor funds, including the additions from Kuwait and Czech and Slovak Republic, amount to SDR 11,632 million and the unallocated balance now amounts to about SDR 48 million. Switzerland's contributions by way of cofinancing are included in the total donor funds. Switzerland was not a member of the Association during IDA9 but is expected to become a donor-member during IDA10.
3. **Section II** presents the Equivalent Purchasing Power (EPP) of disbursements of IDA9 donor resources over the disbursement period of the credits, denominated in SDR. By expressing the real value of IDA9 in terms of SDR, the effect of exchange rate movements of individual national currencies vis-a-vis the SDR is eliminated. The EPP aims to preserve the borrowers' ability to purchase the same volume of goods and services from the resources through successive replenishments based on assumptions relating to future inflation.
4. **Section III** estimates the real value of IDA9 by maintaining the value of each national currency contribution to IDA9 during IDA10. The value of individual donor national currencies may change by different degrees by the time IDA10 contributions are pledged due to changes in exchange rates.
5. The above two methods of projecting the real value of a replenishment were used during the negotiations of the Sixth replenishment of the African Development Fund (AfDF VI) and for the Fifth replenishment of the Asian Development Fund (AsDF VI). These methods are

now widely recognized as appropriate in calculating the real value of replenishments. During AsDF VI negotiations, some donors expressed concern about the application of the EPP methodology in the Dollar/SDR framework that characterizes the Asian Development Fund wherein the resources are valued in Dollars while the commitments are valued in SDRs. Due to the fact that the IDA replenishments are denominated in the same currency as its commitments, i.e., the SDR, the issues raised in the AsDF VI context do not apply to IDA.

6. The calculated real value of IDA9 ranges between SDR 13,100 million (on the basis of EPP) and SDR 12,900 million (on the basis of donors' national currency contributions). Both analyses are based on actual IDA9 donor pledges of SDR 11,632 million. *For discussion purposes we therefore plan to use SDR 13 billion as the real equivalent value of IDA-9.*

Section II. Equivalent Purchasing Power

7. IDA10 commitments will be made in FY94-96 and disbursed over FY94-2005. The underlying premise of the EPP methodology is that borrowers should be able to purchase the same volume of goods and services with IDA10 resources as with IDA9 resources. The purchasing power of IDA10 commitments must, therefore, reflect price increases over an approximately ten-year period during which the funds are used to purchase goods and services. The real value of IDA10 can be projected by determining the EPP of IDA9 donor funding during the disbursement period (FY94-2005) of donor funds from IDA10 commitments. The IDA10 replenishment level needed to finance a real volume of goods and services at least as large as that of IDA9 (i.e., at least equal to SDR 11,632 million) would depend on: (a) the expected pattern of disbursement of the funds and (b) expected future price changes of goods and services to be purchased by the borrowers.

8. The steps involved in the EPP calculations are explained in **Annex 1**. The aggregate disbursement profile used in the EPP calculations reflects IDA's recent experience with the evolving pattern of commitments and disbursements by sector by country. Fast disbursing loans are assumed to represent 25 percent of annual commitments during the FY94-96 period. The future price changes of goods and services are captured by using an SDR based disbursement deflator series. The disbursement deflators used by the Bank for planning assumptions are based on the Manufacturing Unit Value Index which measures the changes in the c.i.f. import prices of manufactured goods from five major industrial economies -- France, Germany, Japan, United Kingdom and United States. The Index covers total manufactures, e.g., chemical goods, investment goods and other manufactures (SITC sections 5 to 8 as defined by the UN commodity classification for international trade). The export unit value indices for manufactures in each of the five economies are converted to SDR by deflating the series by national exchange rate indices. For the projections, the historical index has been extrapolated with weights consisting of most recent three-year average of manufactured goods exports from each of the five major industrial economies to all developing countries.

9. The projected real value of IDA9 (nominal value of IDA10) during FY94-96 thus calculated is about SDR 13,100 million. **Annex 2** details the calculations. The disbursement deflators used in the calculation have an implied average annual inflation rate of about 4 percent during the period FY91-2005. The sensitivity this estimate has been tested with two alternative

assumptions of inflation rates. With every 1 percentage point annual increase in the inflation rate, the nominal value of IDA10 would increase by about SDR 400 million. Thus, the nominal value of IDA10 would increase to about SDR 13,500 million if the underlying average inflation rate was to be 5 percent per year; and to about SDR 13,900 million if the average inflation rate was to be 6 percent per year.

Section III. National Currency Contributions in Real Terms

10. This analysis translates IDA9 donor pledges in national currencies from 1989 prices (the agreement date of IDA9) into amounts in 1992 prices (the expected agreement date of IDA10) by using GDP deflators for individual donors. The IDA9 national currency contributions, in 1992 prices, are then converted into SDR at September 30, 1991 exchange rates.

11. To project the real value of IDA9 forward, national currency contributions to IDA9 from eighteen donor countries (United States, Japan, Germany, France, United Kingdom, Italy, Canada, the Netherlands, Saudi Arabia, Sweden, Australia, Belgium, Norway, Denmark, Finland, Austria, Spain and Switzerland) are used. These represent about 98 percent of total donor contributions, both basic and supplementary, to IDA9; the remaining contributions are aggregated proportionately. The G-7 countries (United States, Japan, Germany, France, United Kingdom, Italy and Canada) represent about 78 percent of total donor contributions, both basic and supplementary, to IDA9.

12. Both the Organization for Economic Cooperation and Development (OECD) and the World Economic Outlook (WEO) estimates of GDP deflators for 1991, 1992 and 1993 have been used. Country specific GDP deflator estimates from the OECD are available for sixteen of the eighteen countries (except Spain and Saudi Arabia). For Spain, the average GDP deflators for all OECD countries have been used. For Saudi Arabia, since its contributions are in U.S. dollars, OECD estimates of U.S. GDP deflators have been used. Country specific estimates of GDP deflators from the WEO are available only for the G-7 countries and these have been used; the remaining countries have been aggregated proportionately. These two sets of calculations using the two different estimates of GDP deflators yield comparable results.

13. The amount at September 30, 1991 exchange rates to maintain the real value of national currency contributions to IDA9 is about SDR 12,900 million. **Annex 3** provides details of the calculation.

Equivalent Purchasing Power Methodology

The EPP methodology consists of:

- (a) Estimating commitments from IDA9 donors in SDRs for FY91, FY92 and FY93 in nominal terms.
- (b) Projecting annual disbursements during FY94 through FY2005 from these commitments using the IDA specific disbursement profile.
- (c) Translating these annual disbursements from nominal terms into FY91 prices by using the disbursement deflators.
- (d) Shifting this stream of disbursements in FY91 prices forward by three years to FY94-2005 (the IDA10 disbursement period) and simultaneously inflating it with the disbursement deflators to determine the equivalent disbursement stream in FY91 prices.
- (e) Translating the disbursement stream in FY91 prices into nominal prices with the disbursement deflators.
- (f) Aggregating these nominal disbursements to determine the real value of IDA9 for the IDA10 commitment period.

Average disbursement profile of the replenishment has been assumed as follows:

<u>Annual Disbursement Percentages</u>													
<u>Years</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
Annual Percentages:													
First Tranche (1/3)	7	13	15	16	14	10	8	7	6	4	-	-	100.0
Second Tranche (1/3)	-	7	13	15	16	14	10	8	7	6	4	-	100.0
Third Tranche (1/3)	-	-	7	13	15	16	14	10	8	7	6	4	100.0
Total Replenishment (Full)	2.3	6.7	11.7	14.7	15.0	13.3	10.7	8.3	7.0	5.7	3.3	1.3	100.0

Disbursement deflators (SDR based) used are as follows:

<u>Disbursement Deflators (SDR based)</u>														
<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
100.0	102.5	106.6	111.3	115.8	120.3	125.4	130.4	135.5	141.1	146.7	152.6	158.7	165.0	171.6

EQUIVALENT PURCHASING POWER OF IDA9 DISBURSEMENTS
(BASED ON DONORS CONTRIBUTIONS)
SDR MILLIONS

FISCAL YEARS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTALS
IDA9 COMMITMENTS	3877	3877	3877													11632 1/
IDA9 DISBURSEMENT (NOMINAL)	271	775	1357	1706	1745	1551	1280	969	814	620	388	155	0	0	0	11632
.....																
WORLD BANK PLANNING ASSUMPTIONS (WBPA)																
DISBURSEMENT DEFLATOR	100	103	107	111	116	120	125	130	136	141	147	153	159	165	172	
IDA9 DISBURSEMENT (91 PRICE)	271	757	1273	1533	1507	1289	1021	743	601	440	264	102	0	0	0	9801
IDA10 DISBURSEMENTS IN EPP																
DISBURSEMENT (91 PRICE)				302	842	1416	1706	1677	1434	1136	827	668	489	294	113	10904
DISBURSEMENT (NOMINAL) /2				302	876	1531	1922	1965	1747	1440	1091	917	698	436	174	13099
																=====
																Rounded 13,100

1/ Represents actual donor pledges received, including Swiss cofinancing, additional contributions by Kuwait and contribution from the Czech and Slovak Republic. Excludes Unallocated amount.

2/ The sum represents the projected real value of IDA9 during FY94-96.

IDA9 NATIONAL CURRENCY CONTRIBU IN REAL TERMS
BASIC AND SUPPLEMENTARY CONTRIBUTION FROM DONORS
(BASED ON GDP DEFLATORS)

Annex 3

	IDA 9 Pledge as agreed in 1989			OECD Analysis			WEO Analysis		
	Value of IDA9 Pledge in 1992 prices and Exchange rates as of 09/30/91 (In Millions)			Value of IDA9 Pledge in 1992 prices and Exchange rates as of 09/30/91 (In Millions)			Value of IDA9 Pledge in 1992 prices and Exchange rates as of 09/30/91 (In Millions)		
	Loc. CU (millions)	SDR (millions)	Average Share	Local Cu	SDR	Average Share	Local Cu	SDR	Average Share
United States	3180	2524	21.6%	3567	2622	20.3%	3574	2627	20.4%
Japan	433128	2424	20.8%	459185	2532	19.6%	464606	2562	19.8%
Germany 1/	3261	1342	11.5%	3654	1598	12.3%	3503	1532	11.9%
France	7305	888	7.6%	7959	1020	7.9%	7982	1023	7.9%
United Kingdom	619	782	6.7%	733	935	7.2%	733	935	7.2%
Italy 3/	1130763	642	5.5%	1377399	805	6.2%	1364502	797	6.2%
Canada	829	555	4.7%	920	595	4.6%	916	593	4.6%
Netherlands	1056	385	3.3%	1149	446	3.4%			
Sweden 3/	2773	336	2.9%	3407	409	3.2%			
Australia	383	232	2.0%	426	249	1.9%			
Saudi Arabia 2/	290	230	2.0%	325	239	1.8%			
Belgium 3/	9694	190	1.6%	10758	228	1.8%			
Switzerland	380	184	1.6%	442	222	1.7%			
Norway	1473	166	1.4%	1630	182	1.4%			
Denmark	1435	152	1.3%	1552	176	1.4%			
Finland	768	140	1.2%	892	159	1.2%			
Austria	1598	93	0.8%	1778	110	0.9%			
Spain	13015	85	0.7%	15794	110	0.8%			
Subtotal		11351			12636			10068	
As a % of total pledged to date		98%			98%			78%	
Total pledged		11632	4/		12947			12908	
					==			==	
Total Replenishment including unallocated		11679		Rounded:	12900			12900	

	U.S	Japan	Germany	France	U.K	Italy	Canada	Finland	Sweden	Australia	Denmark	Austria	Belgium	Nether.	Norway	Switz.	Spain
1990																	
OECD	4.1	1.8	3.4	2.7	6.1	7.5	3.1	6.0	9.2	3.9	2.7	3.4	3.6	3.1	4.0	6.5	7.5
WEO	4.2	1.9	3.4	3.0	6.1	7.6	3.1										
1991																	
OECD	4.0	2.3	4.0	2.9	6.7	7.0	4.5	5.3	8.4	3.3	2.2	3.7	3.3	2.6	2.1	5.0	6.7
WEO	3.7	2.6	3.9	3.3	6.6	6.1	4.3										
1992																	
OECD	3.6	1.8	4.2	3.1	4.6	5.9	3.0	4.1	3.8	3.7	3.0	3.8	3.7	2.9	4.2	4.0	5.8
WEO	4.0	2.6	3.5	2.7	4.7	5.7	2.8										

1/ Germany's contribution for IDA9 was in SDRs. It has been converted to equivalent DMs for this analysis.

2/ Contribution from Saudi Arabia is made in US\$'s. Therefore, its local currency contribution is stated in US\$'s.

3/ The SDR Contribution amounts for Belgium, Italy and Sweden include accelerated encashments.

4/ Represents total donor pledges received to date.

5/ From the World Economic Outlook May 1991. Only G7 countries for which country specific GDP deflators are available from the WEO have been included.

02-Oct-91

02:05 PM

Filename: GDPPC.xls

1 L - I N - 1 N O T E

DATE: 04-Oct-1991 09:03am

TO: Mark Bowyer

(MARK BOWYER)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: Staff Reassignments (SVP front offices etc)

Mark,

We still have comments on the version you gave me last night so please do not send it out.

Sven

CC: Ernest Stern

(ERNEST STERN)

Sven
Agree. See last p.
would that do? (S)

OFFICE MEMORANDUM

DATE: October 3, 1991

DRAFT

10/03/91

TO: All Staff in FINSV, PENAD, OPNSV, EAS, COD, PRESV, PRD

FROM: Bilsel Alisbah, PAAVP

EXTENSION: 80161

SUBJECT: Staff Reassignments

1. In my letter of September 20, 1991 I said that I expected decisions to be taken before the Annual Meetings on the reallocation of functions resulting from the President's decision to streamline the Bank's management structure. Those decisions have now been taken, and I am attaching a listing setting out the organizational changes which affect you directly. As you will see, some functions are to move intact, others are being merged into one or more departments, and ~~some functions are to be abolished~~ ^{in the immediate offices of the SVPs are being}. These changes will take effect December 1, 1991.

2. In units to be merged, the new location is known, but the exact number of positions that will be needed to handle the responsibilities which are being transferred has not yet been determined. I expect these decisions to be taken by the end of October. Until this is settled there is inevitably still some uncertainty as to who is going to move where, but I want to repeat the assurance that I gave you in my September 20 letter that we will be doing all that we can to honor your preferences in this process. I also want to assure you that no staff separations are envisaged.

3. As mentioned in my letter of September 20, 1991, the basic approach to staff redeployment will involve a selection by incoming managers based on ~~the preferences expressed by staff~~. If you are now in a unit that will be merged or abolished, you will have an opportunity to express your preferences for reassignment and we will be working with you to find ~~suitable alternative assignments in the new structure~~. You will have until October 30 to express your preference. Actual reassignments will occur between November 15 and November 30. The safeguards mentioned in my earlier letter obviously still apply.

Skill
requirements
and

4. I have been encouraged by the constructive way in which all of you have responded. The Bank's ability to adjust its organization to meet changing needs depends on the extent to which staff feel such changes are justified and on how the personnel management implications are handled. In this instance, the elimination of certain functions and the merging of others will release between 50 and 60 positions for deployment to the Bank's core business functions. I am confident we can collaborate to ensure that this realignment is to the good of both the institution and its staff.

Attachment

HIL ✓

FUNCTIONS TO BE RELOCATED

From Senior Vice Presidency, Finance

- **Tokyo Office**

The Tokyo Office will report to the Vice President and Treasurer (TREVVP).

- **Pension Plan Administration Functions**

The Office of the Pension Plan Administrator will be retitled Pension Administration Department (PAD). It will be transferred as a unit to the Vice President and Treasurer. The Department will continue to service the Pension Benefit Committee and the Pension Finance Committee. Mr. Alisbah will continue to serve as Chairman of the former committee and Mr. Stern of the latter.

- **Personnel Functions**

The Finance Personnel Team (FINPE) will report directly to the Vice President, Personnel & Administration (PAAVP). It will continue to provide personnel services to the Controllers, Financial Policy & Risk Management and Treasurer's Vice Presidencies and to MIGA. These arrangements are subject to modification in light of the outcome of the review of personnel management in the Bank that is now under way.

- **Information Technology Functions**

The Systems Administrator in the Office of the Senior Vice President, Finance, will be transferred to the Controller's (CTRVP) where he will continue to serve the needs of the Controllers, Financial Policy & Risk Management and Treasurer's.

From Senior Vice Presidency, Operations

- **Operations Policy and Review Functions**

The Office of the Vice President, Sector Policy and Research (PRSVPP) will be renamed the Office of the Vice President, Sector and Operations Policy (SOPVP). The Central Operations Department (COD) will transfer to this Vice Presidency.

From Senior Vice Presidency, Policy, Research & External Affairs

- **Personnel Functions**

The Policy, Research & External Affairs Personnel Team (PREPE) will report directly to the Vice President, Personnel & Administration (PAAVP). It will service the Vice Presidencies for Development Economics (DECVP) and Sector and Operations Policy (SOPVP). These arrangements, like those for the Finance Personnel Team, are subject to modification.

- **External Affairs Functions**

The External Affairs Department (EXT), will report to the Vice President, Personnel and Administration (PAAVP). It will continue to work closely with the Office of the President.

- **Consultative Group for International Agricultural Research**

The Secretariat of the Consultative Group for International Agricultural Research (CGIAR) will report to the Vice President, Sector and Operations Policy (SOPVP).

- **Geneva Office**

The Geneva Office will report to the Vice President, Development Economics (DECVP).

- **Budget and Information Management Functions in PRD**

The functions of the Program Management Unit in the Program Review Department (PRDPM) will be transferred to the Office of the Vice President, Sector and Operations Policy (SOPVP) where it will also service the Vice President, Development Economics (DECVP).

Re-write

- 3 -

FUNCTIONS TO BE MERGED

The following functions are ^{being reassigned} merged, as indicated, ^{to} with those of other units, ^{which generally will not involve the transfer of all staff in the present unit.}

- **Functions of Economic Advisory Staff**

Functions performed by EAS are transferred to DECVP. A position of Director, Development Policy, is established to oversee DECVP's review of adjustment programs and country assistance strategies and the dissemination of information to economists.

- **Functions of Review and Analysis Division of Policy Review Department (PRDRA)**

Some of the functions of this division will be assigned to the Central Operations Department (COD) in the Vice Presidency for Sector and Operations Policy (SOPVP) and to the Office of the Vice President, Development Economics (DECVP).

- **Budget Functions of Management and Systems Unit in OPNSV**

The budget functions of the Management and Systems Unit in the Office of the Senior Vice President, Operations (OPNMS) will be transferred to the Planning and Budgeting Department (PBD).

- **Personnel Team in OPNSV**

The Personnel Team in the Office of the SVP Operations will be assigned to the Vice Presidency for Personnel and Administration (PAAVP). Personnel services for CFSVP will be provided by a Personnel Team.

- **Information Services Division (OPNIS)**

The functions of the Information Services Division in the Operations Staff (OPNIS) are being reviewed and decisions on future arrangements will be taken by the end of October.

- **Other Offices**

Functions to be Abolished

Staff in the immediate offices of the Senior Vice Presidents will be reassigned in accordance with announced policies and procedures.

Disposition of A llocated Functions

Present Units and Functions	Treasurer's	Controller's	Vice Pres Sector & Oper Policy	Vice Pres Development Economics	Vice Pres Personnel & Administn	Abolished
Office of SVP, Finance						☒
FINSV - IT Coordination		☐				
Finance Personnel Team					☐	
Tokyo Office	☐					
Pension Plan Administration	☐					
Office of SVP, Operations						☒
OPN Personnel Team					☒	
OPN Management Systems & Budget		☒ 1/				
Information Services Division		to be determined				
Central Operations Department			☐			
Economic Advisory Staff				☒		
Office of SVP, Policy, Research & External Affairs						☒
PRE Personnel Team					☐	
Geneva Office				☐		
Policy & Review, Office of Director						☒
Review & Analysis Div - Reviews of CSP, PFP Adjustment Lending				☒		
Review & Analysis Div - Development Effectiveness; Poverty Work Coordination			☒			
Policy Development Unit, PRD						☒
Program Management, PRD			☐			
External Affairs Department					☐	
Cons Group on Intl Agriculture Research			☐			

Key:

☐ Relocated

☒ Function merged
with existing
unit

☒ Abolished

1/ PBD through June 30, 1992.

ORG: 10-2-91

The World Bank

ERNEST STERN
Senior Vice President
Finance

10/6

Lew -

I took a look at the Polish Financial Institutions loan. It did not strike me quite as disastrous as Pierre makes out. The only major question is whether we should have sat tight till they privatized all the banks. I have no judgement as to whether that was feasible or even reasonable at the time. Other than that the loan does a wide variety of very basic and useful things (from training, to twinning, to installation of electronic systems), and it is premature to say "it failed". Obviously we need to continue to push on privatization.

9-119
9-16-91

The World Bank

OFFICE OF THE PRESIDENT

Mr. Ernst Stern

AM
What is the way
to the future?
10/1/91

9 Avenue Percier
Paris 75008
France

Telephone: 4225-3440
Fax Number: 4289-1620
September 13, 1991

Mr. Lewis T. Preston
President
World Bank
Washington, D.C.

Dear Lew,

Having not made a previous appointment, it was my fault that we did not meet while I was visiting with the Bank.

The reason I was anxious to see you is that in the last six years, in my work, on and off, as a consultant to the Private Sector Financial Operations Group, I gained some insight on the constraints which inhibit the Bank's performance in private sector development work and most specifically, in the efforts to be deployed to help create market economies in the recent democratized eastern countries.

A good example of the weight of these constraints is given by the Financial Institutions Development Loan granted in June to Poland and which could not and did not meet its objectives. At the time, I tried to impress on the Region that the implementation of a performing commercial banking system being an essential tool for a market economy to function, special conditions should be attached to the disbursement of this facility.

The legal, regulatory and institutional framework which would enable the budding Polish commercial banking system to grant credits solely on the basis of economic considerations, to collect deposits and foster savings formation and to run a countrywide efficient and safe payment system were detailed in a memo.

While recognizing the validity of my recommendations, the Region, which does not have any officer with a direct experience of commercial or investment banking, did not feel that to attach conditions with the Loan was warranted nor acceptable to the Poles who, obviously with money being fungible, were anxiously waiting for disbursements.

Miss O'Hara

Please send copies to
Messrs Sandstrom, Stern, and
Kraasman. We will
discuss when things slow
down.

LTP

My objection, that lending without adequate rules and the right structures in place would lead to waste, was later on supported by Mr. Bielecki, the Polish Prime Minister, who while in Washington said "that he had paid insufficient attention to the weaknesses of Poland's banking system. . . .".

How useful would it had been to Poland had the Bank been able to draw the Polish government's attention on the remedies to these weaknesses.

You will find attached with this letter a cut from a short memorandum I had prepared for your attention and drawing some lessons from the Polish loan failure.

Yours sincerely,

Pierre Haas

Pierre

Pierre Haas

The Bank legal department should be put to still greater use with the cooperation of foreign and local lawyers to accelerate the implementation of a framework of new laws, rights and obligations, and to help train judges and law enforcement officers.

c) Generally accepted accounting standards have to be put in place. It calls for the training of accountants who will have the dual mission of starting the new businesses with proper set of accounts and of auditing the still operating State Enterprises to determine their degree of solvency or insolvency. While the Bank may not have accountants to spare, it may put in place, with the big accounting firms, already working on the spot, programs especially geared to analyzing and auditing the main industrial sectors through the sampling method (as it is impossible to audit simultaneously thousand of firms). This work should have the highest priority, since the accountants' conclusions will decisively affect the health of the banking system whose main assets are claims on potentially insolvent businesses.

d) This leads us to the last key factor. No market economy can function without **credits** for its enterprises, for its consumers, for the local and regional authorities and for the State.

To put in place a performing **commercial banking** system is a high priority and this must be done in a carefully phased manner.

In command economies, banks, as the Western world knows them, did not exist, with the possible exception of Hungary.

Budgetary allocations substituted for credits, thus rendering the creation, ex nihilo, of commercial banks quite a difficult and complex exercise.

Poland provides a good example. 9 regional banks were hived off the central bank, i.e. the National Bank of Poland, with an undefined legal status (they are now joint-stock banks owned by the Treasury).

Employees, at all level, are coming from the Central Bank which still approves every single credit and, in the absence of a financial market, ensures their funding.

Assets are mostly claims of doubtful value on State Enterprises. The audits prepared by foreign accounting firms on the banks are practically worthless as their brief excluded a study of the credit worthiness of the main bank clients.

This cahotic, scandal prone set up (the top officers of the National Bank have just resigned under pressure) was recently the beneficiary of a Financial Institution's Development Loan from the Bank.

One can only regret that the granting of this Loan was not preceded by the drafting of a blueprint setting conditions to be met before what would have been phased disbursements: covering the legal status of the banks, the enacting of rules insuring their independence from the National Bank, the Ministry of Finance, and other governmental entities, and the segregating of their shares, from the start, in a Fund with an independent Board of Directors.

A memorandum by the author of this report advocated such a gradual approach.

The desire to answer the Polish authorities' anxiety for some quick relief led the Bank to go ahead with an unconditional facility, repeating the pattern of ill-fated loans to now bankrupt African Development Banks.

This is much to be regretted for two reasons:

- premature lending for mainly political considerations, without adequate structures in place to valorise the investment leads unavoidably to waste;
- financial help is only part of the answer of creating free markets on the ruins of collapsed socialist systems.

The solution lies rather in putting together an integrated package mixing expertise, technical assistance programs, and money carefully directed.

Such an approach calls for radical changes in the Bank development policies which are not going to be easy to define and enforce for a variety of reasons:

the quantitative approach to the Bank's productivity: the volume of loans granted and disbursed is, for shareholders and beneficiaries alike, the only yardstick.

Private enterprise is central to the growth of market economies. With the notable exception of IFC, the Bank ignores private corporations as recipient of its aid. The statutory requirement that its loans must benefit from a government guaranty explains this state of affairs.

The result is that deeply embedded in the Bank cultural make-up exist a strong tropism in favour of working almost exclusively with state agencies.

This is why Regions are staffed with officers competent for work related to economies where the State plays a dominant role. Industrial managers are trained to look at industries on a sectorial basis and economists have a strictly macroeconomic background.

Privatization, the only field where the Bank's contribution is in line, with the new economic orientation, is handled by a team not attached to the Regions and in any case, does not encompass all the factors necessary to trigger economic growth. (In fact, privatizations can only be significantly implemented in market economics).

Faced with a context whose requirements are foreign to their training, the risk is great that Bank officers will turn to the enormous infrastructure needs of eastern countries to justify, once more the kind of State sponsored lending with which they are familiar.

It is true that for a market to be efficient, power must be generated, railroads and trucks must be able to insure the distribution of goods, telephones must work and water must run.

There exist no valid reasons, not to allow the private sector to finance toll-roads, pipelines (and why not specialized railroads lines), or telephones, as well as water distribution.

It follows that the principle must be clearly established that private interests are qualified to play a decisive role in the reconstruction effort of infrastructures, in close cooperation with the Bank whose financial support they need.

To implement this basic rule and to work for and with the private sector, the Bank must adapt its operational structure and change its methods.

Regions enjoy practically a monopoly of the relations with the countries in their geographical area. They are the focal points for loans and the supplier of staff for their preparation and execution. Regions are also a source of advice and technical assistance.

When the State and its agencies are the main beneficiaries of the Bank's credits, such a monopoly gives coherence and continuity to this bilateral relationship.

However, the reorientation of the Bank support to enterprises and privately financed projects will create in each country a mosaic of potential borrowers whose main preoccupations are going to be financial engineering and profitability, the political factor becoming marginal. It will then not be practical for the Region to remain the sole or even the main interlocutor.

Furthermore, the complexities connected with the creation of decentralized free economies are in favour of a functional rather than a geographical approach.

Ad hoc task forces, comprising investment bankers (to be recruited by the Bank), IFC representatives, legal advisers, industrial analysts, accountants, and consultants, formed to address specific problems should become the main vehicle of the Bank's interventions. With the necessary adaptation to local situations, these task forces' skills could be used anywhere.

Recruitment of officers competent, notably in the field of corporate finance, and organisational changes of magnitude, when decided can only be implemented gradually.

Meanwhile it should be possible to assemble, fairly quickly, one or two task forces which will address the most pressing problems and serve as pilot operations to verify the validity of the concept.

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.



With the compliments of
Ernest Stern
Senior Vice President
Finance

10/6

Mr. Karaosmanoglu

Atilla -

Something to become familiar
with as background material
about how this world thinks.

Er

STANDARD & POOR'S

CREDITREVIEW

THE AUTHORITY ON CREDIT QUALITY

SEPTEMBER 23, 1991

Supranationals



EUROFIMA



NIB

**Commentary
Criteria
Analyses**



The World Bank

ERNEST STERN
Senior Vice President
Finance

10/6

Sven

I don't know what your
follow-up process is but
I have checked 3 times.
On 9/17 PRE was said to
be working on it; on 10/1
they had just received
UNDP comments. This is
an August letter.

The delay is embarrassing.
Don't we need to do
something before
Bangkok?

(E)

8-161
8-27-91

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

Mr. Thalwitz (D-1202)

DATE:

8/26/91

SUBJECT:

Document From: Lynda Chalker

To: bbc

Dated: 8/14/91

Reference No.: EXC910826010

Topic: Overseas Development Admin. - re the Global Environment Facility
and UK's involvement in its funding, etc.

ACTION INSTRUCTIONS:

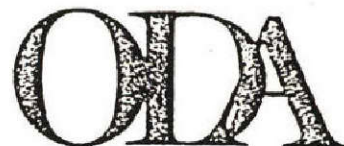
| DUE DATE: |

9/06/91

☒ HANDLE
☐ REVIEW AND RECOMMEND
☐ FOR YOUR INFORMATION
☐ DISCUSS WITH _____
☐ AS WE DISCUSSED
☐ PREPARE RESPONSE FOR _____ SIGNATURE
☐ FOR YOUR FILES
☐ RETURN TO _____
☐ OTHER: _____

Remarks: Please provide copy of response to EXC.

cc: Messrs. Stern, Qureshi, Shakow



Overseas Development
Administration

94 Victoria Street, London SW1E 5JL

Telephone 071-917 0134

From The Minister

14 August 1991

Barber Conable Esq
President
The World Bank
Washington

GLOBAL ENVIRONMENT FACILITY

As you may know, the Heads of Government of the seven major industrial democracies referred to the Global Environment Facility in the Communique issuing from the Summit they held in London in July.

The Heads said that they would seek to promote, in the context of UNCED, "mobilisation of financial resources to help developing countries tackle environmental problems. We support the use of existing mechanisms for this purpose, in particular the Global Environment Facility (GEF). The GEF could become the comprehensive funding mechanism to help developing countries meet their obligations under the new environmental conventions".

The UK has in recent months been among the strongest supporters of the GEF which we believe should become the funding mechanism for the Conventions on biological diversity and climate change. The GEF is a new experiment, and it will need to evolve to adapt to the challenges of acting as the funding mechanism for new legislation of this sort. I believe that it would be extremely fruitful for the three agencies managing the GEF to begin to consider now how it should evolve to meet these new challenges. I expect that at the next GEF Participants meeting in Geneva in November there will be discussions on how the GEF should evolve. I trust that the three agencies will work even more closely together to make the GEF and its evolution successful. I think it would be helpful if the implementing agencies could specifically address the following issues:

- a) How links could be established between the GEF and the Parties to the Conventions on climate change and biological diversity - including the machinery that these Parties may establish. I do not believe that it is necessary or valuable to consider the creation of a further decision



making layer like the Montreal Protocol funding mechanism; but it does seem to us in the UK that links of some kind will need to be established;

- b) How developing countries are to be informed of the assistance they can obtain through the GEF. It is not evident that developing country participants are sufficiently well aware of the opportunities that the GEF presents to them to enable them to get the best from this major new initiative. We look to the three implementing agencies to show the lead here;
- c) How the GEF will relate to the non Participants, including the NGO community. It is important that the GEF should both draw on NGO expertise and be open and accountable.

Our goal in addressing the evolution of the GEF should be to ensure that we are creating a mechanism that can provide effective high quality assistance to developing countries. We all need to be accountable to the wider community and to listen carefully to the concerns of developing countries. We also need to ensure that we are creating a system which delivers results which generate a significant benefit for the global environment with the minimum of bureaucracy.

I am writing in similar terms to William Draper and Mostapha Tolba.

Yours ever

Lynda

LYNDA CHALKER

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.



With the compliments of
Ernest Stern
Senior Vice President
Finance

10/6

Wilfried -

This fellow did a very
credible job on the EBRD report.
I don't know whether you would
wish to hire him (although track
is worth considering) but he
certainly is capable of doing a
fine job as a consultant straight away.

: World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: September 30, 1991 10:03am

TO: Wilfried Thalwitz

(WILFRIED P. THALWITZ)

FROM: Kenan Bulutoglu, CECPE

(KENAN BULUTOGLU)

EXT.: 37683

SUBJECT: Assignment to new position

Dear Mr Thalwitz,

Mr Ernest Stern knows me since 1961 and Attila Karaosmanoglu is a friend of mine since the fifties. I would like to join the region of Eastern Europe and Central Asia. Mr Stern sent me to the first mission of the EBRD to Czechoslovakia last year; I wrote macro-economics part of the report. I think, at this historical juncture, I can contribute greatly to the Bank's achievement in countries in transition which are now under your responsibility.

I have academic experience; I taught and did research in several universities. I have bureaucratic experience; I was a member of the team that founded SPO with Attila and Oktay back in the early sixties. I have political and statemanship experience; I was a member of the Turkish Parliament and minister twice in Ecevit governments in the period of 1977-79. I have business experience; I founded one of the first Turkish audit firms which is still active in Turkey. I worked as a consultant for the World Bank, IMF, UN, OECD and several private firms. Since 1989, I am a long term consultant with the Bank at CECPE.

I initiated and supervised, as shown on my CV, several countries' tax reform, budget reform and public enterprise reform. I think I can be more useful to the Bank in the countries that are now under your responsibility. Since Turkish language is widely spoken in several republics of the former Soviet Union, I have the advantage of communication. I am also fluent in French. I can travel without problem most of the year as witnesses my record of missions on my CV. I can consider becoming a resrep in one of these countries.

Sincerely yours,

Kenan Bulutoglu

CC: Attila Karaosmanoglu

(ATTILA KARAOSMANOGLU)

CC: Ernest Stern

(ERNEST STERN)

CC: OKTAY YENAL

(OKTAY YENAL @A1@DELHI)

CC: Institutional ISC Files

(INSTITUTIONAL ISC FILES)



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - October 1991		Barcode No. 30265366		
Document Date 10/03/1991	Document Type Memorandum			
Correspondents / Participants From: Philippe de Fontaine Vive To: Mr. Timothy Thahane				
Subject / Title IDA's Policies, Operations, and Finance in the First Year of the Ninth Replenishment (FY91)				
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. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 7, 1991 12:07pm

TO: V.S. Raghavan (V.S. RAGHAVAN)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Disbursements - Yugoslavia

Could you let me know whether there have been disbursements to or disbursement applications from Yugoslavia in the last couple of months other than for training, guaranteed LCs, etc. How much, if anything is now pending? Are there any instructions regarding non-disbursements of claims other than those usually excluded from suspension of disbursement?

The World Bank

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Kavalsky

Basil -

We spoke the other day about the need for a more careful review of material coming from your department. Now comes the attached. Mr. de Fontaine Vive is right and the problem was simply (43.9 instead of 43.4) a typo, since the total did not add to 100%. The profound embarrassment is clear and action to tighten up proofreading and number checks is urgent.

A handwritten signature in cursive script, likely belonging to Ernest Stern, is located at the bottom right of the page.

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 7, 1991 06:47pm

TO: V.S. Raghavan

(V.S. RAGHAVAN)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Re: Disbursements - Yugoslavia

Regarding paragraph 3 -- Should any emerge, please give me a call before processing.

L - I N - 1 N O T E

DATE: 07-Oct-1991 03:14pm

TO: Ernest Stern

(ERNEST STERN)

FROM: V.S. Raghavan, LOADR

(V.S. RAGHAVAN)

EXT.: 84116

SUBJECT: Disbursements - Yugoslavia

With reference to your EM of today:

1. Yes we have had disbursements in the last couple of months to Yugoslavia for items other than training, guaranteed LCs, etc. Our staff are working on the actual figures and I will communicate them shortly (the only way we can arrive at this figure is to look at disbursements under each loan).

2. We do not have any disbursement applications pending at the moment.

3. We do not have any instructions regarding non-disbursements of claims.

CC: Senga Sengamalay

EM

(SENGAMALAY)

Ragha -

Re para 3 - Should any
emerge please give
me a call before
processing

E

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Davies
Mr. Peyerl

I learned the other day that of a recent case where access to financial data was sought by SEC and approved by CSH. We are all agreed that we wish to provide all relevant data requested by Executive Directors provided it should not be protected because it is confidential to a borrower, supplier, etc. But this cannot be decided in individual units who have only a partial view of what is already available or what other issues might be involved.

I have, therefore, designated Mr. Eccles as the officer in charge of reviewing requests for Executive Director direct access to financial data on any of our electronic systems. If necessary, he will consult with me. I would appreciate it if you would advise your staff accordingly.



cc: Mr. Eccles
Mr. Thahane
Mr. Roth

DATE: 29-Sep-1991 07:12pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Stephen Eccles, CTRVP

(STEPHEN ECCLES)

T.: 81674

SUBJECT: Couple of Up-dates

1. We are looking into the "security" of All-in-One and I'll let you know, on my return, what we have found one. But one thing I've discovered already: EDs already have access to arrears less than 30 days through All-in-One! We have two reports - a general one, broadly available, gives data for overdues of 30 days or more; and a more detailed one that gives full detail, down to a single day, access to which is restricted. EDs have had access to the first report for some time, no problem. Unfortunately, in March 1991, Hal King (SEC) sought access for EDs to the second report, and this was granted by CSH without our knowledge. It will be fairly easy to restrict access for each ED only to be able to access data for his/her own countries. Discussions about this are now ongoing between us and ITF. (A log of who has used this access in recent months includes Mark Cox and David Peretz, and they have no business doing so!)

2. The Australian assessment team has sought information on "net transfers" for the Bank as a whole, and a long list of individual borrowers. More importantly, it has asked Operations for projections of what it would take to get the Bank into a positive net transfer position in the coming years! David Bock is handling this, in case you want to get involved. I have given him my advice, along with a copy of my EM to Avivah on why net transfers are meaningless.

done ny

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 7, 1991 12:29pm

TO: Vinod Thomas (VINOD THOMAS)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Article - Economic Reform and External Assistance

A perfectly fine treatment for so brief a piece. I have only two points:

- (1) At line 8, page 2; we really ought to get away from calling all external capital flows "foreign assistance". It turns the U.S. into the largest aid recipient of them all. If it is not concessional, it is not "assistance"; no matter how helpful it may be.
- (2) The middle paragraph of page 2 is not quite right. The reason there are questions, certainly include the past practice where the bulk of private financing was sovereign risk lending -- general import financing by another name. One concern, surely, is whether this type of financing can be provided in a disciplined way. (Of course, some people find more solace in a physical concreteness, but even they might be persuaded if the real benefits can be defined, monitored and achieved).

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

10-045
-4-91

ROUTING SLIP		DATE: October 2 ⁴ , 1991	
NAME		ROOM NO.	
Mr. Ernest Stern		E1227	
	U R G E N T		PER YOUR REQUEST
X	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	PER APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN
RE: WDR 91			
REMARKS: Attached please see a proposed article written as part of the dissemination of WDR 91 and the recent book, Restructuring Economies in Distress. I would very much appreciate any reaction from you. Many thanks again for your comments on WDR 91 which proved valuable. <i>Vinod Thomas</i>			
FROM: Vinod Thomas		ROOM NO.: E10-059	EXTENSION: 81415

Economic Reform and External Assistance

Never in recent history have economic reforms been as widespread as today. They are sweeping Eastern Europe and making inroads in the Soviet Union and a wide spectrum of developing countries -- from Pakistan to Vietnam, and from Peru to Morocco. This wave is increasing the demand for industrial countries to finance the reform programs. The rewards of such financing are considerable. So are the risks. The crucial question is whether reforms and foreign financing are complementary partners, strengthening each other, or whether they are substitutes for one another, with assistance displacing reform?

Economic reform promises more rapid and more sustained economic growth. Those who have carried out far reaching reforms, like Chile, Mexico, Greece, and Spain, have all ultimately benefited from the policy improvements. But often at the outset, the break from previously distorted policies is associated with more unemployment and higher prices. Foreign assistance reduces these initial costs, in addition to contributing to long-term gains. But when poorly designed or misused, it allows postponement of difficult, but necessary, policy changes.

The term reform has come to mean a country's adjustment to external events such as the sharp increase in oil prices in 1973 or 1979. There really are two aspects of such adjustment. The first is a well-designed reduction in a country's spending to

bring it in line with its income. This action improves the chances that the foreign assistance will not simply be used to meet excessive government spending. The recent agreement of donor countries to provide substantial financing to India, for example, comes with the understanding that the country's fiscal deficit would be significantly reduced. The second is market-oriented structural change -- like reducing import protection or eliminating export restrictions -- to make the economy more efficient, more flexible, and better able to use domestic and external resources. The recent flow of foreign assistance to Mexico, for instance, is the result of the country's increasingly open and competitive policies.

There also are two types of external capital flows, whether from official donors or from commercial sources. One is the financing of investment projects -- say, for roads, schools, and power plants. The bulk of lending from official donors has been of this variety. The other type is the general financing of imports (rather than any individual investment). Because such assistance cannot be readily identified with a road or a bridge, its real benefits are frequently questioned. But it presents the possibility of supporting economywide reforms -- something project loans have difficulty achieving. And its quick-disbursing nature is attractive: as more countries faced balance of payments crises in the 1980s, such assistance became increasingly important.

What in practice has been the link among reforms, external financing and outcomes? Just-released studies from the World Bank provide three lessons. First,

external assistance -- whether for specific projects or for overall balance of payments -
- is far more effective where reform is under way than where it is not. True, good project design and implementation made a difference. But in addition, such projects (roads, irrigation, and factories) systematically made a much greater contribution in countries that improved economic policies, according to the evidence in World Development Report 1991. Turning to balance of payments support, its benefits are harder to measure, because they accrue to the entire economy and because many other factors affect them. But here too the evidence from Chile, Cote d'Ivoire, Ghana, Indonesia, Korea, Mexico, Pakistan, Turkey and Zambia suggests that good policies mattered greatly. More generally, among 80 countries, the ones that reformed improved performance compared to those that did not.

Second, the successful implementation of reform depends on a country's ownership of the reform program, which in turn requires some consensus on the need for change. It is true that even half-hearted reforms, when they produce quick results, might be sustained and deepened. But quick results seldom occur since the economy takes time to respond to policy changes -- as evidenced in Chile, Czechoslovakia, New Zealand or Poland. Foreign assistance, by itself, does not ensure reform implementation. Ironically, in fact, it was the lack of financing, as in the 1980s, that sometimes forced tough decisions to reform. And at times, increased assistance diluted the political will, or the need, to stay the course. Consequently, the domestic sentiment in favor of reforms was crucial in the successful cases.

Third, the effectiveness of reform depends on how investments and institutions respond. Market reforms are necessary, but not enough on their own. Bolivia, Ghana, and others found that the development of the investment in infrastructure and financial markets institutions -- both needed for output to respond -- were far from automatic. Eastern European reformers are finding how important and difficult it is to develop market institutions so that price reforms bear fruit. All this calls for scaling down expectations of what can be achieved with market reforms alone. It also draws attention to the need for complementary actions by governments and by the private sector to promote investments and institution-building.

When development finance supports policy reforms that are built on solid domestic foundations, the results are favorable. They are rarely so otherwise. Today's wave of reform comes against the backdrop of an emerging consensus in favor of a market-oriented approach in which the state supports rather than supplants markets. With this broader agreement on the desirable policies for development, the prospects for the effective use of external assistance are better than ever before.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Joseph E. Connor
President
International Chamber of Commerce
38 Cours Albert 1^{er}
75008 Paris
FRANCE

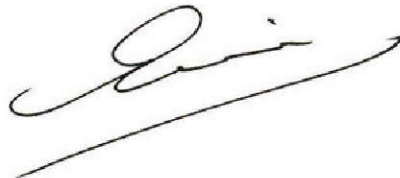
Dear Joe,

It was very good to hear from you and I thank you for your good wishes.

It would be a great pleasure to be able to visit one of my favorite cities again. While tempting it would, however, be unrealistic for me to accept your kind invitation. It is not only that I doubt that I am equipped to do the technology topic justice, but more importantly, I am to start the negotiations on IDA-10 this month. This will involve a lot of travel and negotiating sessions, including one already scheduled for next May. I regret, therefore, that I will not be able to join you in Marrakesh.

With best regards.

Sincerely,

A handwritten signature in dark ink, appearing to be 'Ernest', with a long, sweeping horizontal line extending to the right.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Luis Escobar
Casilla 53636 C.C.
Santiago 1
CHILE

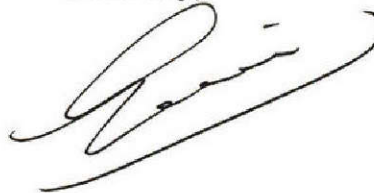
Dear Luis,

Your letter arrived just as I am about to leave for the Annual Meetings in Bangkok.

Since you already seem to be hooked up with the Latin America region, I assume you are interested in diversifying. As I will not be dealing with Operations directly in my new capacity, I am sharing your CV with some of my regional colleagues. I have asked them to get in touch with you directly.

With best regards.

Sincerely,

A handwritten signature in black ink, appearing to be "Ernest Stern", written in a cursive style with a long horizontal stroke at the end.

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 7, 1991 06:47pm

TO: V.S. Raghavan

(V.S. RAGHAVAN)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Re: Disbursements - Yugoslavia

Regarding paragraph 3 -- Should any emerge, please give me a call before processing.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

FAXED earlier today

October 7, 1991

Mr. Cheetham

Per our conversation, and your draft, I would suggest you proceed along the lines sketched out below. Mr. Picciotto has been advised.

Baltics

- (1) Fund out of administrative budget. PBD will allocate positions and funds.
- (2) A dedicated Operations Division within the Department is fine. However, it should not be titled formally 'Baltic Operations Division' until the Baltics are members.
- (3) We will allocate seven positions now; which include the two positions and people to staff the field office in January.
- (4) The remaining positions are the permanent HL HQ core, including one 26 level slot. In addition, PBD will provide three consultant staff years.
- (5) We will review progress in March, or earlier if conditions require, to determine if any additional positions are to be allocated this fiscal year.

USSR et al

- (1) USSR activity will be fully funded from the Trust Fund.
- (2) The core group approach makes sense, including the upgraded assignment of staff.
- (3) We will allocate a further 21 positions, which includes the positions needed to establish the Moscow office.
- (4) All the positions will be "special positions".
- (5) An effort should be made to recruit a substantial portion of the staff requirements externally -- among those who are familiar with the Soviet Union and/or commercial operations and banking. "Special positions" can be used for current staff, consultants or fixed-term hire. Please consult with PERS and PBD as you proceed.
- (6) We will review requirements in March, or earlier if needed.

- (7) The staff allocation is to support policy advise at the center; policy advise, economic and sector work in the Russian Republic and in Kazakhstan. Should the latter not work out, let us discuss an alternative. But we want to establish a working example, and gain experience, before we consider expanding our geographic coverage. Please also consider carefully whether it is desirable to establish a permanent office outside Moscow at this stage or whether a Kazakhstan operation could be managed without opening a full-fledged office there.



Ernest Stern

cc: Mr. Thalwitz

L L - I N - 1 N O T E

DATE: 07-Oct-1991 01:12pm

TO: Ernest Stern

(ERNEST STERN)

FROM: ~~Ronald C. Duncan~~, IECIT

(RONALD C. DUNCAN)

EXT.: 33845

SUBJECT: Changing the Common Fund to an Insurance Fund for Commodities

In response to your letter to the Minister, the Ministry of Foreign Affairs, The Netherlands, has asked me to visit them to discuss my idea before they decide whether to table it at UNCTAD VIII. Should I go? Ron

CC: D. C. Rao

(D. C. RAO)

*Yes, of course, if you are
still on the same strategy
Ernie*

The World Bank

ERNEST STERN
Senior Vice President
Finance

10/7
Mr. Stoutjesdijk %R

Please implement
before you vanish
permanently.

Ernie

The World Bank

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.



10-054
10-7-91

With the compliments of
Lewis T. Preston
President

TO - ERNIE STERN

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

ERNEST STERN
Senior Vice President
Finance

cc: SS
Ernie - fine with me

October 2, 1991

leew

Mr. Preston *WP*

Lew -

At the last Portfolio Review, Barber asked that we set up a group to review the proposals made for revisions in our rating system and creditworthiness criteria.

Attached is the report of the group. I concur with the proposals. If you do too, we would issue them as a guidelines for analysis this year and a basis for the 1992 Portfolio Review. Although you may wish to do a more detailed review of our system, I would suggest you do that in the context of the 1992 Portfolio Review and that you meanwhile endorse these proposals.

You should note paragraph 7. The proposal for a differentiated guideline was not agreed by Operations. It is the first time that we are trying to relate exposure guidelines to credit risk assessment. I consider it a desirable development and will, in time, strengthen the analytical attention to creditworthiness issues.



Attachment

REPORT OF WORKING GROUP ON RISK MANAGEMENT PROCEDURES

September 16, 1991

1. The 1991 Portfolio Review recommended changes in the country risk management system in place in the Bank. Among the decisions taken following the President's Council meeting of July 10, 1991 was to request the Senior Vice-President Finance to appoint a working group with representations from OPN, PRE and CPB to report to the President with recommendations by September 30, 1991. Following is the report of this working group.

2. There was unanimous agreement by the members of the group that the risk management classification system should be streamlined and that the classification system should have clearer operational implications. The group accepted the proposal made in the 1991 Portfolio Review to introduce four risk categories:

Category A - Low Risk Countries (countries currently classified as I, IIa and IIb). For this group of countries, the pace, pattern and level of Bank lending would be determined primarily by the comparative advantage of the Bank in assisting the country in meeting its development objectives in relation to the Bank's overall resource and exposure constraints.

Category B - Moderate Risk Countries (countries currently classified as IIIa and the less risky IIIb countries). For this group of countries, exposure management concerns can be effectively addressed through CSPs. Country Departments would, however, be given broad latitude to adjust lending programs to reflect changing realities in the period between CSP reviews. In line with the recommendations of the Bank Task Force on the Lending Allocation Review, lending programs which differ significantly from agreed country strategies would require special justification in the annual business plan or through an updated CSP or country strategy note.

Category C - High Risk Countries (countries currently classified as IIIC and the marginally creditworthy watchlist countries in category IIIb). For this group of countries, the security of the Bank's preferred creditor position is more seriously in question. This group of countries is likely to be or come under exceptionally severe financial pressures that could lead to protracted arrears to the Bank. This risk arises either because even with a strong policy effort, the likely level of external financial assistance available to the country may be insufficient to alleviate the country's liquidity problems, or because there are serious doubts concerning the capacity or willingness of the country to implement a sufficiently strong policy effort that could lead to medium-term financial viability and a restoration of creditworthiness. For these countries, the design of the lending program should give particular attention to explicit risk management objectives.

Category D - Uncreditworthy (countries currently classified as IIId). This group would consist of the non-accrual countries and former IBRD/IDA countries that are now IDA-only.

3. Operational Implications. The advantage of the proposed risk classification system is that it provides a simpler basis for managing country risk effectively, in terms of identifying the minimum frequency with which country lending levels should be reviewed and by whom, the relative weight which should be given to exposure management concerns in the formulation of country assistance strategy, and the lending authority delegated to regional management.

4. The Group recommends that the appropriate Managing Director should determine which countries should be classified as high risk based on the recommendation of the Vice President, Financial Policy and Risk Management and information provided by the Regional Vice Presidents. The determination of whether the Bank's preferred creditor status is seriously at risk is clearly a matter for judgment. The Group agreed that this category should be limited to the countries which on prudential grounds require the closest guidance from the Managing Directors, in terms of lending authority and where changes from the agreed strategy would require the approval of the relevant Managing Director. Also, in a departure from current practice, the annual portfolio review should make specific recommendations on the risk management procedures that would be followed in each particular high risk country. The Group agreed that the lending posture of the Bank should reflect the circumstances of the individual country and that the downgrading of a country to high risk should not automatically lead to a move to a core lending program. Most members agreed that country strategy in high risk countries should be reviewed at least every two years. This change would only affect countries with annual lending programs of less than \$500 million, since countries with lending programs above this level are reviewed at least bi-annually.

5. The Group agreed that in view of the costliness of producing CSPs, it would not be necessary for Country Departments to produce full CSPs in the smaller high risk countries every two years. Rather the Country Department's strategy would be reviewed in a relatively brief "codicil" to the CSP, which would focus on the country's creditworthiness prospects and the Country Department's specific proposals for managing country risk. These codicils should also be prepared for large borrowers which are downgraded to high risk status in off-CSP cycle years.

6. Exposure Guidelines . The group agreed that the exposure guidelines were useful risk management tools. They serve an important function in triggering management scrutiny of exposure issues in country strategy and lending allocation reviews, and in safeguarding the Bank's preferred creditor status. It was accepted that country lending strategies needed to take explicit account of the implications of the Bank lending in relation to the guidelines and that senior management approval should continue to be required for lending programs that would result in the guidelines being exceeded. With one member dissenting, the Group endorsed the proposal to raise the exposure

guideline for IBRD debt service in relation to exports to 6 percent of exports for low risk borrowers from 5.5 percent currently, and introduce a lower share of exports guideline of 5 and 4 percent of exports for moderate and high risk countries, respectively. Most members believe the proposal has the merit of introducing some selectivity into the risk management process and is in keeping with the current management practice of endorsing lending programs that exceed the guidelines for countries with superior performance and credit-worthiness. Moreover, the Board has expressed its support for differentiated guidelines linked to country considerations.

7. The representative from Operations dissented from the recommendation to widen the variability of the guideline on IBRD debt service relative to exports, arguing (i) that setting a lower bound for high risk countries was redundant and unnecessary, inasmuch as the lending programs for category C countries were routinely subjected to greater management scrutiny in any event; and (ii) that efforts to fine-tune the guidelines in this fashion lend them a deceptive aura of precision not supported by our ability to predict debt-servicing problems. In his view, it would be preferable to return to the uniform guideline that previously had been applied. Another member felt that there would be a practical problem if the Bank were to establish differentiated guidelines for different risk categories since this could lead to countries breaching the guidelines as a result of downgrading. It might be impossible to bring countries below the guidelines for that risk group for several years, since a downgrading from category A to category B or from category B to category C would imply that countries might need to increase exports by as much as 20 and 25 percent, respectively, to remain within the lower guidelines. However, in the view of Finance, it was entirely appropriate for a downgrading to lead to a presumptively tighter exposure guideline. It was clearly understood that the guideline was meant to serve as a trigger for management scrutiny rather than as a formal exposure limit. The other members of the Group concurred with this view.

8. The Concentration Guideline. When the present portfolio guideline was last reviewed, the 10% threshold was considered appropriate for two reasons. From an equity standpoint, it appeared reasonable and from a financial standpoint, the 10% threshold was a strong prudential limit in relation to the Bank's prospective net income. In practice, the guideline has not been particularly successful in promoting portfolio diversification, the top two borrowers account for 22 percent, and the top five borrowers 45 percent, of the portfolio. More importantly, as the Bank balance sheet has evolved the protection offered by the 10 percent guideline has changed. Loan income from a country at the 10 percent exposure guideline has increased substantially in relation to the Bank's net income over the years, from 30 percent in FY85 to 65 percent in FY91. In response to this changing pattern of risk, the 1991 Portfolio Review suggested moving away from the portfolio share guideline to an alternative directly based on the Bank's risk-bearing capacity. It was felt that such a change would be particularly helpful in focusing Senior Management attention on the specific income risks that the Bank was facing in lending to large borrowers.

9. In view of these concerns, the Group considered a number of proposals made by Finance to modify the present concentration guideline from the current situation, where loans and guarantees outstanding to a single borrower should not normally exceed 10 percent of the total portfolio, to a guideline that would relate exposure more directly to the income risk that the Bank faces when large borrowers go into non-accrual. After careful consideration, the Group endorsed a two-pronged approach to exposure risk management. It is believed better to retain the current concentration limit, since it felt that the portfolio limit was both well established and well suited to ensure a broad geographic distribution of Bank lending. At the same time, the margin of Bank net worth over the exposure to the largest borrower can be made a more explicit part of the annual review and recommendations on the adequacy of provisions and reserves. Depending upon the assessed probability of non-accruals and the probabilities of other risks, the target margin can be raised or lowered. If, for whatever reason, the target margin cannot be achieved, the trade-off is to reduce the loan portfolio exposure limit to the largest borrower or to countenance a weakening of the Bank's financial protection standards. The Group believes that this important tradeoff can and should be explicitly addressed in determining the level of Bank lending to the Bank's five largest borrowers.

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

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Sherman G. Boone
3110 Homewood Parkway
Kensington, MD 20895

Dear Mr. Boone:

I am about to leave for Bangkok and will not be here when you call. In any event, I am not the person to talk to about Eastern Europe and the Soviet Union. I have passed your CV on to Mr. Wilfried Thalwitz who will be our Vice President in charge of that Region effective December. You may wish to give him a call, although he, too, will be out of town for the next few weeks. Alternatively, you might talk with Mr. Philippe Nouvel (473-2550) or Mr. Michael Gould (473-2464), both of whom are fully familiar with our financial sector work in Eastern Europe.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern", followed by a horizontal line.

bcc: (w/Attachment) Mr. Thalwitz
Mr. Nouvel
Mr. Gould



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - October 1991		Barcode No. 30265366		
Document Date 09/24/1991	Document Type Letter			
Correspondents / Participants From: Sherman G. Boone To: Dr. Ernest Stern, Managing Director				
Subject / Title [Personal Recommendation]				
Exception(s) Personal Information				
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. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

World Bank/IFC/MIGA

OFFICE MEMORANDUM

DATE: October 7, 1991 12:18pm

TO: Wilfried Thalwitz

(WILFRIED P. THALWITZ)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Pour Memoire

Pour Memoire:

People well worth considering to join the Soviet Union group on a temporary or permanent basis:

Anthony Toft (CFS)

John Niehuss (CFS)

Available for consultant assignments:

Enrique Lerda

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

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Davies
Mr. Peyerl

I learned the other day that of a recent case where access to financial data was sought by SEC and approved by CSH. We are all agreed that we wish to provide all relevant data requested by Executive Directors provided it should not be protected because it is confidential to a borrower, supplier, etc. But this cannot be decided in individual units who have only a partial view of what is already available or what other issues might be involved.

I have, therefore, designated Mr. Eccles as the officer in charge of reviewing requests for Executive Director direct access to financial data on any of our electronic systems. If necessary, he will consult with me. I would appreciate it if you would advise your staff accordingly.



cc: Mr. Eccles
Mr. Thahane
Mr. Roth

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

FAXED earlier today

October 7, 1991

The Board of
20 Sutton Place South
New York, New York 10022

Dear Sirs:

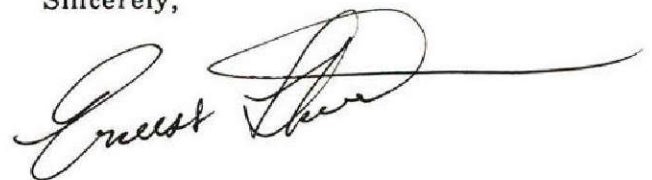
Ms. Althea Duersten, whom you are considering as a tenant for one of your apartments, has been a colleague and friend for over a decade.

Ms. Duersten is an outstanding professional in finance and she held various positions of increasing responsibility in the World Bank. Before leaving us to go to New York, she was responsible for managing our U.S. dollar portfolio -- a fund of over \$10 billion. She was an exceptionally talented financial manager; a superb manager of staff; and liked by a wide circle of colleagues. Her new job in New York carries even broader responsibilities and commensurate compensation. She is fully capable of managing and meeting her financial obligations.

As her friend, I can vouchsafe that she is a mature and considerate person, quiet and friendly. She is even more careful with the possessions of others than with her own. She would be a very responsible tenant and a congenial neighbor.

If I can be of further assistance, please feel free to call me (202) 458-2004.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern", with a long horizontal flourish extending to the right.

L L - I N - 1 N O T E

DATE: 03-Oct-1991 04:07pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Harold C. Steyer, Jr., FINSV

(CLEM STEYER)

EXT.: 82813

SUBJECT: The PW internal controls draft report

Ernie,

I just came into possession of a copy of the PW report draft. It seems to me that concerning their recommendation #1 about systems development methodology that they got ahold of some bad information and don't quite understand the situation.

With your permission, I would like to contact the PW Audit Partner for the Bank, who I have known for a number of years, and have an informal discussion regarding this recommendation. I may be able to straighten up their understanding before this is sent to us in final.

Please advise,
Clem

Clem -

Please touch base
with Mike or Steve,
since initial discussions
have already been
held

[Signature]
10/7/91

The World Bank

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Karaosmanoglu
Mr. Koch-Weser

After Bangkok, we might have a word about this.

The meeting in Turkey has been postponed. Professor Starr called on me last week. She has some reasonable ideas how one might proceed at the practical level. If we could be of help without getting stuck in the politics, it may be worth doing.



JOYCE R. STARR, Ph.D.
CHAIRMAN

THE GLOBAL WATER SUMMIT INITIATIVE
THE GLOBAL POLICY GROUP
1555 CONN. AVE., N.W., SUITE 300
WASHINGTON, D.C. 20036

TEL:(202) 483-2717

FAX:(202) 332-5392

GLOBAL WATER SUMMIT INITIATIVESM

THE MIDDLE EAST WATER SUMMIT

Istanbul, Turkey

Monday, 4 November 1991 through Friday, 8 November 1991

HOSTED BY H.E. TURGUT OZAL, PRESIDENT OF THE REPUBLIC OF TURKEY

CONVENED BY THE GLOBAL WATER SUMMIT INITIATIVE

AGENDA

(as of 15 September 1991)

1555 Connecticut Avenue, NW, Suite 300, Washington, DC 20036
Telephone (202) 483 2717 Telefax (202) 332 5392

A Non-Profit, Policy Research & Educational Group.

Sunday, 3 November 1991

4:00 - 9:00 Registration

PREPARATORY DELIBERATIONS

Monday, 4 November 1991

7:00 - 9:00 Registration

9:00 - 9:30 **OPENING CEREMONY**

- **Dr. Joyce R. Starr**, Chairman, Global Water Summit Initiative
- Welcome by **The Government of The Republic of Turkey**

9:30 - 11:00 **KEYNOTE ADDRESSES**

- **His Excellency Dr. Boutros Ghali**, Deputy Prime Minister for Foreign Affairs, Arab Republic of Egypt: "River Basin Cooperation"
- **The Honorable Abdullah Yacoub Bishara**, Secretary General, Gulf Co-operation Council for the Arab States: Topic To Be Announced
- **Mr. Bader M. Al-Humaidhi**, Director-General, Kuwait Fund for Arab Economic Development: Topic To Be Announced

11:00 - 11:15 Coffee Break

11:15 - 12:30 **OPENING PRESENTATIONS**

International Legal Considerations for Transboundary Projects Undertaken by the World Bank and Other Institutions; Mr. David M. Goldberg, Assistant General Counsel, the World Bank

Women and Children, Water and Sanitation; UNICEF

The Future of Desalination Research and Development; Mr. Leon Awerbuch, President, International Desalination Association

12:30 - 2:30 **SUMMIT LUNCHEON**

Hosted by the Global Water Summit Initiative
Remarks by **Dr. Farouk El Baz**, Director, Remote Sensing Center, Boston University

2:30 - 5:00

COUNTRY PAPER PRESENTATIONS

Middle East Region

Chairman: **Mr. Thierry Baudon**, Director, Public Infrastructure, Energy, and the Environment, European Bank for Reconstruction and Development; and **Mr. Timothy Rothermel**, Director, Division for Global and Interregional Programmes, United Nations Development Programme

6:30 - 8:00

RECEPTION

Hosted by leading members of the Turkish Business Community and the Swissotel

Tuesday, 5 November 1991

9:00 - 10:45

SIMULTANEOUS COUNTRY PAPER PRESENTATIONS

Gulf Region

Chairman: **Dr. Asit Biswas**, President, International Water Resources Association

AND

North African Region

Chairman: **Mr. Alexander H. Rotival**, Chairman of the Collaborative Council of External Donors, UNDP

10:45 - 11:00

Coffee Break

11:00 - 12:30

PRESENTATIONS: "ALTERNATIVE SOURCES FOR WATER AVAILABILITY"

Chairman: **Dr. Farouk El-Baz**

- C.Itoh
- Golder Associates
- Ormat
- James Montgomery
- Bechtel

12:30 - 2:00

SUMMIT LUNCHEON

ISSUE FORUMS

2:00 - 3:45

Forum I: Water Supply Alternatives for Arid Lands

Chairman: **Dr. T.A. Dabbagh**, Engineering Advisor, The Kuwait Fund for Arab Economic Development

4:00 - 6:00

Forum II: Integrated Planning, Pricing, and Policy Mechanisms

Chairman: **To Be Announced**

8:00 - 10:00

CULTURAL EVENT

Hosted by the Government of The Republic of Turkey

Wednesday, 6 November 1991

ISSUE FORUMS CONTINUED

- 9:00 - 10:45 **Forum III: Environmental and Health Issues**
Chairman: World Health Organization, UNICEF, World Meteorological Organization
- 10:45 - 11:00 Coffee Break
- 11:00 - 1:00 **Forum IV: Donor Nations and Development Funds: Funding Strategies and Investment**
Chairman: To Be Announced
- 1:00 - 2:30 **OPEN LUNCH**
- 2:30 - 5:00 **Forum V: Institutional Planning**
Chairman: Mr. J.P. Pronk, Minister of Development Cooperation, Netherlands

MINISTERIAL DELIBERATIONS

Thursday, 7 November 1991

- 9:00 - 11:15 **KEYNOTE ADDRESSES**
- His Excellency President Turgut Ozal, Republic of Turkey: Welcoming Remarks
 - The Honorable James A. Baker III, Secretary of State, The United States of America: Topic To be Announced (Invited)
 - The Honorable Carlo Ripa di Meana, Minister of Environment, Commission of the European Communities: "Partnerships for Investment in the Water Resource Sector: Trade and Aid" (Invited)
 - Mr. J.P. Pronk, Minister of Development and Cooperation, Netherlands
 - His Royal Highness Crown Prince Al-Hassan bin Talal, Hashemite Kingdom of Jordan: "Harnessing Technology in an Arid Environment"
- 11:30 - 12:30 **REVIEW OF FORUM DELIBERATIONS**
- 12:30 - 2:00 **LUNCHEON Hosted by Interbank**
- Luncheon Address: The Honorable Mostafa Tolba, Under-Secretary General, United Nations; Executive Director, United Nations Environmental Programme: "Management of International Rivers: Opportunities and Constraints"
- 2:00 - 5:00 **TOUR DE TABLE: MINISTERIAL REMARKS AND DELIBERATIONS (Closed Session)**

7:00 - 11:00

RECEPTION AND DINNER

Hosted by His Excellency, President Turgut Ozal, Republic of Turkey

Friday, 8 November 1991

9:30 - 12:30

MINISTERIAL DELIBERATIONS CONTINUED (Closed Session)

12:30 - 2:00

OPEN LUNCH

2:00 - 4:30

CLOSING CEREMONY

Chairman: **His Excellency, President Turgut Ozal**, The Republic of Turkey

- **The Honorable Willi A. Wapenhans**, Vice President, The World Bank:
"Policy Harmonization, Portfolio Development and Financing"

- **The Honorable Dr. Maurice Strong**, Secretary General, United Nations Conference on the Environment and Development: "Middle East Water Resources: Model for the Future"

- **Dr. Joyce R. Starr**, Chairman, Global Water Summit Initiative:
Summit Conclusions and Recommendations

GLOBAL WATER SUMMIT INITIATIVE

MIDDLE EAST WATER SUMMIT ANNOTATED AGENDA

The Middle East Water Summit will be held in Istanbul, Turkey. The Summit is structured to facilitate interactive dialogue among the participants. The agenda is divided into three days of Preparatory Forums attended primarily by senior hydrological experts from the region, and two days of Ministerial Deliberations attended by ministerial level delegations. The Forums will address:

- * Integrated Planning, Pricing, and Policy Mechanisms. Discussions will address the need for integrated planning for water resources, water pricing, water allocation, and the policy mechanisms and institutional arrangements required for implementation.
- * Alternative Sources of Water. Discussions will address existing and emerging technologies for water treatment and reuse, R&D costs and lead times associated with improving the economics of desalination, and the integration of desalination and water reuse technologies into national and regional water resource development strategies.
- * Key Factors Addressed in Country Papers on National Water Resources. Papers prepared with the support and guidance of the World Bank, will provide insight for discussions focused on national and regional water balances, and the capacity of national and regional institutions to cope with constraints and opportunities.
- * Interbasin and Regional Planning. Discussions will focus on the types of data that are required, the national and international institutional arrangements that would be required, an evaluation of existing institutions, and an estimation of the constraints that must be overcome.
- * Donor Nations and Development Funds, Funding Strategies and Investment. Discussions will focus on existing national and regional priorities and programs, an evaluation of these

programs in terms of capacity building, integrated water resource management and development, and an exploration of collaborative structures which might emerge from the Summit process to address these needs.

- * Environmental and Health Issues. Discussions will focus on the cost of increasing urbanization and industrialization, an evaluation of existing water quality standards, and an exploration of their application to recycling municipal and industrial waste water for agricultural use.

The Forums will be conducted over a three day period. Each evening, the proceedings from the day's discussions will be compiled and organized into reports that will be distributed to the participants. Representatives from each delegation will review the accuracy of the reports prior to distribution. These documents will represent the expert consensus on the principal institutional, technical, and financial constraints to the sustainable development and use of the region's water resources.

Executive summaries will be produced for distribution to the Regional Ministers at the start of Summit Deliberations on Day Four. The Regional Ministers will participate in closed, facilitated sessions to develop a consensus document and Plan of Action addressing the region's critical water problems.

GLOBAL WATER SUMMIT INITIATIVE

PROPOSED POST-SUMMIT INSTITUTIONAL FRAMEWORK FOR MIDDLE EAST WATER SECURITY

The following is concept paper for the proposed creation of a Post-Summit institutional framework for Middle East Water Security. The framework does not entail the creation of a new institution, but will be a catalytic force for capacity building and the forging of stronger linkages between existing regional institutions. In the event, the principal elements of an institutional response to the emerging Middle East Water crisis would include: water resources assessment, policy coordination, project identification, capacity building, project funding, and the coordination of research and development on desalination, and water treatment technologies appropriate to arid zones. This approach is premised on the understanding that a broad mix of approaches will be required, and that no single technology, project or approach to water resource management holds the key to resolving the critical water problems of the Middle East.

In a similar vein, we recognize that no single multilateral or bilateral donor group has either the resources or the mandate to go it alone in the Middle East. Feasibility studies conducted by various donor groups often fail to adequately highlight the financial feasibility of a given project. Projects, are often conceived on the basis of broad national economic objectives without giving sufficient attention to national debt service requirements, country exposure, or return on investment sufficient to attract private capital for project funding. Other donor groups are confronted with the difficult choice between the allocation of funds for a specific project, and adequate follow up to insure implementation of the development objective.

Proposed Post Summit Institutional Framework:

o. As presently conceived, the institutional framework would include a Middle East Water Policy Secretariat (MEWPS), a Consultative Group for Middle East Water Resources (CG), a Regional Group of Councillors (RGC), and a Technical Assessment Group (TAG).

o. Membership in the Consultative Group would include regional, bilateral, and multilateral donors that would pool resources into a Trust Fund to provide funding either for a group of projects, or, on a project by project basis, for pre-feasibility and feasibility studies for projects in support of the sustainable development of Middle East water resources.

1555 Connecticut Avenue, NW, Suite 300, Washington, DC 20036
Telephone (202) 483 2717 Telefax (202) 332 5392

o. A Technical Assessment Group (TAG), drawing on the intellectual resources of existing regional and multilateral organizations, would be formed to assist Consultative Group in conducting a rapid analysis of the most pressing water resource constraints - infrastructure, environmental, capacity building, financial -- in the region. This preliminary diagnostic phase would result in the identification of projects that would produce

meaningful, near term improvements in national water supply, and utilization; and would comprise the adopted Work Plan for the Consultative Group.

o. Regional Group of Councillors - the RGC would be made up of senior level representatives from the principal governmental institutions from the region, with the responsibility for the coordination of water sector projects. These designated coordinating institutions or National Focal Points (NFP), would be the principal national coordinating mechanism for proposed projects adopted into the Work Plan.

o. The MEWPS, would spearhead the coordination of donor groups to fund feasibility studies and targeted projects, and galvanize private sector involvement. The MEWPS would convene the bi-annual meetings of the Consultative Group to review progress on the adopted Work Plan. The MEWPS would also promote, among participating donor and industry groups, the funding and coordination of research and development on water supply and treatment technologies that could result in the more efficient use of scarce water resources.

o. Note: once the projects in the Work Plan have been implemented, they will be subject to periodic evaluation by the MEWPS and the Technical Assistance Group, in cooperation with the National Focal Points, to determine donor satisfaction and local capability to maintain institutional (i.e. corporate or parastatal) performance at a sustainable level. This follow up activity is critical to the success of the overall Initiative. Project implementation, while a critical benchmark, must result in measurable improvement in water waste, pollution, supply, and efficiency of utilization for a period of at least 5 years before it could be accurately deemed successful.

It might be possible to see, twenty years from now, Middle Eastern countries with more diversified economies, a coordinated approach to the management of shared water resources, and rising prosperity. Rural populations would have become increasingly stabilized and affluent, producing and processing crops with high market value with water priced at a level reflecting its

scarcity. Similarly, municipal areas would be equipped with the most modern water saving and recycling technology.

In such an environment, investment would target and reward industries that continuously refined production processes that used less water. Skilled and semi-skilled workers would be able to find stable and rewarding employment through expanded opportunities in desalination, water recycling, pollution control, arid agriculture, and in the production of electronic control and environmental monitoring systems required for enhanced utilization efficiencies.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Preston

Lew -

Just to let you know that I agree with Ibrahim's memo on military expenditures, particularly paragraph 4. As we discussed the other day, this language implies explicit conditionality and would be taken as such by staff.

I do not know what, if anything, we plan to do further with the report. But, even if it is not distributed more widely, it would still be useful to have a fully agreed report. I would suggest, therefore, that we accept Ibrahim's offer to modify the language together with Mr. Kohli.

A handwritten signature in dark ink, appearing to be 'Lew', with a long horizontal line extending to the right.

bcc: Mr. Shihata

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 7, 1991 12:07pm

TO: V.S. Raghavan (V.S. RAGHAVAN)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Disbursements - Yugoslavia

Could you let me know whether there have been disbursements to or disbursement applications from Yugoslavia in the last couple of months other than for training, guaranteed LCs, etc. How much, if anything is now pending? Are there any instructions regarding non-disbursements of claims other than those usually excluded from suspension of disbursement?

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: October 7, 1991 12:29pm

TO: Vinod Thomas (VINOD THOMAS)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Article - Economic Reform and External Assistance

A perfectly fine treatment for so brief a piece. I have only two points:

- (1) At line 8, page 2; we really ought to get away from calling all external capital flows "foreign assistance". It turns the U.S. into the largest aid recipient of them all. If it is not concessional, it is not "assistance"; no matter how helpful it may be.
- (2) The middle paragraph of page 2 is not quite right. The reason there are questions, certainly include the past practice where the bulk of private financing was sovereign risk lending -- general import financing by another name. One concern, surely, is whether this type of financing can be provided in a disciplined way. (Of course, some people find more solace in a physical concreteness, but even they might be persuaded if the real benefits can be defined, monitored and achieved).

The World Bank

ERNEST STERN
Senior Vice President
Finance

10/7

Frank -

I spoke with Iseman the next day. The language used in his note was, as I told you, as inappropriate to me as it was to you. I would not leave such a matter unattended.

If you wish I can ask Iseman to call on you but perhaps we should talk about it. The point has been made - clearly - that such perceptions of the ED's and such language use are not acceptable. I don't know what other objectives can be achieved - but let's consider it in

The World Bank

ERNEST STERN
Senior Vice President
Finance

October 7, 1991

Mr. Kavalsky

Basil -

We spoke the other day about the need for a more careful review of material coming from your department. Now comes the attached. Mr. de Fontaine Vive is right and the problem was simply (43.9 instead of 43.4) a typo, since the total did not add to 100%. The profound embarrassment is clear and action to tighten up proofreading and number checks is urgent.

A handwritten signature in dark ink, appearing to be "Ernest Stern", written in a cursive style.

OFFICE MEMORANDUM

046
-91
DATE
TO
FROM
EXTENSION
SUBJECT
PFV/ct
91-574

October 3, 1991

Mr. Timothy Thahane, (D-11-067)

Philippe de Fontaine Vive

623-6502

IDA's Policies, Operations and Finance in the First Year of the Ninth Replenishment (FY91)

cc: JW ✓

At the Board meeting which considered the above-mentioned paper, I requested that Table 6.3 on regional distribution of IDA commitments be rectified.

As a consequence, a new table was circulated on September 30th, 1991. This table shows that Africa received 43.9% of IDA credits in FY-91. I have to repeat what I had stated in the Board, that is to say that Sub-saharan Africa received only 43.4% of IDA credits (1978 divided by 4554 equals 43.4%).

So, I request again that an accurate table be circulated to Executive Directors and IDA-Deputies.

cc: Mr. Stern ✓
Mr. Jaycox
All Executive Directors

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

ERNEST STERN
Senior Vice President
Finance

October 8, 1991

Mr. Mossop

Jack -

How about this for a new paragraph 2.

His excellence in dealing with people; his grasp of the financial markets and the underlying analytics; his broad interests in world affairs and development and his creative intellect, are great strengths and the basis for recommending him for a more senior position after another assignment. There also are some areas which deserve attention. Mr. Rischard would benefit from being a little less excitable and putting developments in context; and a little less tenacious in pursuing subjects which have run their course. While he takes responsibility for his Department's performance, and has established a much improved benchmark system, his willingness to take action independently is somewhat sporadic. He regularly consults on Departmental matters, but has a tendency to look for confirmation of his proposals rather than an exploration of issues. These weaknesses do not detract from an overall performance which has been outstanding or from his capacity to take on broader responsibilities in the future.

Ernest Stern *ES*

w/ref.

Mr. Rischard's PPR

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

ERNEST STERN
Senior Vice President
Finance

October 11, 1991

Mr. Wapenhans

Willi-

The Loan Accounting Department tells me that we are continuing to disburse to Yugoslavia beyond guaranteed LCs, training and other exempt categories. About \$8 million seems to have been disbursed thusfar in the quarter and a further \$7 million of applications is said to be in the pipeline. Since we cannot be supervising activities under current conditions should we not suspend disbursements? Would you let me know what we plan to do.

A handwritten signature in dark ink, appearing to be 'J. Qureshi', with a long horizontal line extending from the end of the signature.

cc: Mr. Qureshi

A L L - I N - 1 N O T E

DATE: 11-Oct-1991 10:38pm EST

TO: V.S. Raghavan

(V.S. RAGHAVAN@A1@VAX12)

FROM: Ernest Stern, FINSV

(ERNEST STERN AT A1 AT WBAM)

EXT.:

SUBJECT: RE: Disbursements to Yugoslavia

I have asked the Region here to check with the Yugoslavs what accounts for the 40 day overdue status of their points since they assured Preston yesterday of a) ample reserves and b) priority for IFI repayments out of those reserves. While there is no legal link between payments at this stage and request for reimbursement, neither do I believe that we are prevented from asking about the status of actual payment instructions before we have completed processing disbursement request.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 11, 1991

Mr. Masao Fujioka
President
Japan Credit Rating Agency, Inc.
14 Fl Shuwa Shiba-Park Bldg., B Wing
2-4-1, Shiba-Koen, Minato-Ku
Tokyo 105
JAPAN

Dear Mr. Fujioka:

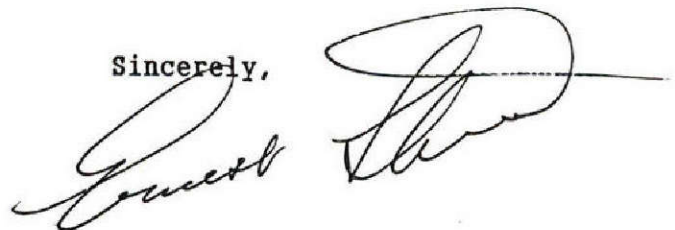
Thank you for your offer, received through Mr. Kemmochi of our Tokyo office, to have the Japan Credit Rating Agency, Inc. rate the World Bank on a gratis basis except for the payment of miscellaneous travel expenses of JPY 980,000 associated with the costs of transporting two analysts between Tokyo and Washington.

We appreciate the generosity of your offer. While the incidental expenses are modest, we must view them not only in terms of the direct benefits which your rating might provide the Bank, but also in terms of ratings requests from other credit agencies worldwide received in the past or which may be received in the future. As we have noted previously, we are already well covered by Moody's and Standard and Poors, and in addition the Bank has long-standing direct financial relationships with all major members of the Japanese investment community. Thus we are not in a position to accept your offer if it means that we will incur any additional expense for this service.

As one alternative, I would encourage you to consider using the resources of our Tokyo office for your ratings process. This would eliminate travel expenses and I am confident that our Tokyo office, which is our liaison with the Japanese financial community, would be able to provide all pertinent data.

Best regards.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", is written over the word "Sincerely,". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

A L L - I N - 1 N O T E

DATE: 12-Oct-1991 04:37am EST

TO: V.S. Raghavan

(V.S. RAGHAVAN@A1@VAX12)

FROM: Ernest Stern, FINSV

(ERNEST STERN AT A1 AT WBAM)

EXT.:

SUBJECT: RE: Disbursements to Yugoslavia

Delegation here was (a) astonished that payments were overdue, and (b) promised to contact Belgrade today to reaffirm instruction to make payments. Region will monitor. In light of unequivocal assurance to Preston yesterday and to staff today, I suggest that you now proceed with processing disbursement requests routinely.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 12, 1991

Mr. Preston -

Lew -

The advance information on Mr. Beregovoy's meeting indicates a strong degree of unhappiness with the Bank. Precisely how this will be expressed I do not know, but the principal underlying issues are:

- (a) The Bank's negative net transfers are unconscionable. Our arguments about mature portfolios, graduating countries, export growth rates, etc. are sophistry. We are so solid now financially that we could be privatized---which shows we are not doing our job. I suggested that the more constructive approach would be to focus on whether lending to performing countries can rise in the future.
- (b) Our behavior on the CFA franc issue is thoroughly offensive. If Zaire falls apart, we will understand better the positive achievements and merits of the CFA franc zone. We are dogmatic and unwilling to consider changing circumstances.
- (c) Our "clear" financial policies have diverted net income from IDA. Translated, this means they still object to our reserve and provisioning policies. I explained that at \$350 million, the FY91 transfer was the largest ever, but that does not satisfy. They are looking for \$1 billion a year.



World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: 12-Oct-1991 03:37pm

TO: V.S. Raghavan

(V.S. RAGHAVAN@A1@VAX12)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.:

SUBJECT: RE: Disbursements to Yugoslavia

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he World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: 12-Oct-1991 09:38am

TO: V.S. Raghavan

(V.S. RAGHAVAN@A1@VAX12)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.:

SUBJECT: RE: Disbursements to Yugoslavia

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October 13, 1991

NOTE FOR MR. STERN

Re : Bank Lending Facility

In our work on the JPY global investors and dealers have emphasized repeatedly that difficulty in borrowing JGBs and other JPY products is a major constraint on dealers' ability to make tight 2-way markets. The roots of the problem are two fold: The main investor base in JPY is much less involved in bond lending generally and Japanese securities firms have been unwilling to short paper interdealer.

Faced with similar but less extreme conditions in ECU, the UK Treasury in its recent jumbo issued ECU 2.5 billion but directed Bank of England to retain ECU 250 million as a pool of bonds to lend as necessary into the street. The prospectus for the issue covered the full ECU 2.5 billion, but expressly disclosed the lending facility and stated that the bonds would not be sold. According to Ian Plenderleith at the Bank of England, the facility is working well, which is to say it's not being used extensively; the "backstop" character has given dealers confidence and generally loosened up trading. Bank of England has never had more than ECU 100 million out on loan at once.

In our case, dealers have told us that a bond-lending facility of this kind in JPY would be one of the top 2 or 3 innovations we could introduce in terms of its contribution to reduced dealing costs. While there are a number of accounting, legal and FRS issues to resolve, our preliminary read is that they're manageable. Our thought is that we would design the facility in FOD but have INV run it out of their repo operation. We are thinking of applying the profits (and there would be some, even in a "lender of last resort" situation) to reduce the cost of the bond issue to which the facility applies.

Incidentally, the applicability of this approach is not limited to JPY or ECU; there are a number of interesting ideas that emerge if one begins to think more broadly about the possibilities.

When we get further along in our research work we'll put forward a paper outlining the concept in detail.

Ken
well, maybe. Fill me in back in Washington. I would have thought that since we lend at cost + 25bp. we need to do well on any position we hold back to improve that return. If we have a quite set of issues.
Kenneth Lay
10/17

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

ERNEST STERN
Senior Vice President
Finance

October 14, 1991

Mr. Sandstrom

Sven-

Attached is a list of topics I believe we need to go over with Lew when we are all back in Washington. You and Atilla may have others to add. Could you consolidate and then set up a reasonable block of time with Lew.

A handwritten signature in dark ink, appearing to be 'Ernest', with a long horizontal flourish extending to the right.

Operations of the Office of the President

A. Administrative

1. Staffing (Secretarial/Assistants)
2. Space organization
3. Clearance of Board paper-link to Secretariat
4. Document distribution in office
5. Travel coordination
6. Attendance at Board Meetings
7. Communications with units/staff

B. Internal Coordination

1. Regular meeting: Frequency, timing, agenda contact
2. Limits of decision authority
3. How do we handle budget issues
 - a) During budget formulation process
 - b) In course of year
(unit --- MD --- PBD or unit --- MD --- MD --- PBD)
4. How do we handle other cross unit issues
5. Contacts with EDs: Topical; general
6. Coordination of guidance on loan issues/debt/cofinancing

C. Topics Unassigned

1. Part I Country contacts: general; resource mobilization; topical
2. IMF (Non-Regional/Admin)
3. External agencies; international conferences; contacts with financial community.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 14, 1991

Mr. Sandstrom

Sven-

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A handwritten signature in dark ink, appearing to be "Ernest Stern", written in a cursive style with a long horizontal stroke at the bottom.

Operations of the Office of the President

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C. Topics Unassigned

1. Part I Country contacts: general; resource mobilization; topical
2. IMF (Non-Regional/Admin)
3. External agencies; international conferences; contacts with financial community.

A L L - I N - 1 N O T E

DATE: 14-Oct-1991 09:42pm EST

TO: Jean-Francois Rischard

(JEAN-FRANCOIS RISCHARD AT A1 AT WBAM)

FROM: Ernest Stern, FINSV

(ERNEST STERN AT A1 AT WBAM)

EXT.:

SUBJECT: Salomon Brothers

In your judgment, has our suspension of trading with Salomon made any measurable difference to your operations or bottom line?

TRANSMISSION CONFIRMATION REPORT No.=000005

DATE/TIME	OCT 14, 1991 4:01PM
DURATION	56s
TRANSMITTER (FROM)	MR. STERN 66 2 2293291
RECEIVER (TO)	WB FINSU 202 477 6658 9P00112024776658
PAGES XMITTED	02
PAGES ERRORED	
RESULT	OK
COMM. MODE	G3
RESOLUTION	NORMAL

7038012042

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

ERNEST STERN
Senior Vice President
Finance

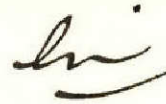
October 14, 1991

Mr. Bergsten

Fred-

A quick note from Bangkok - not on the issue of the day (Yavlinsky Inc) but on my favorite topic. I thought you'd like to know that we have yet to meet a Bank Governor from Europe who does not raise the issue of migration as the most important issue of this decade.

Regards.



The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: 15-Oct-1991 08:42am

: Jean-Francois Rischard

(JEAN-FRANCOIS RISCHARD)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.:

SUBJECT: Salomon Brothers

In your judgment, has our suspension of trading with Salomon made any measurable difference to your operations or bottom line?

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 16, 1991

Mr. Jurgensen

Philippe -

The amount of IDA lending to Ghana averaged SDR 178 million in FY88-90. On a per capita basis, Ghana received an average of SDR 12.7 per year compared to Senegal at 12.2. In FY91, IDA lending in Ghana was SDR 230 million. There was no Bank lending.

A handwritten signature in dark ink, appearing to be "Jurgensen", written in a cursive style.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 16, 1991

Mr. Linn

Johannes-

In reading the draft JAC report, I was reminded that we have promised a briefing to the Board in February on the IBRD portfolio and creditworthiness issues, as part of our FY92 provisioning proposals. With all that's going on, I would not want this to slip through the cracks.

Perhaps, we can begin to give some thought to the design of the presentation, including the visual aids. Fred Kilby's presentation to the JAC is a good basis.

cc: J. Wood
A. Stoutjesdijk

A handwritten signature in black ink, appearing to be "Ernest", with a long horizontal line extending from the bottom of the signature.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 16, 1991

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10/17
915

ERNEST STERN
Senior Vice President
Finance

October 16, 1991

Mr. El-Ashry

Mohamed-

GEF - Institutional Objectives

The note of October 8 provides a good basis for further discussion. Since I will not be back before the October 25 meeting of the heads of agencies, I wanted to set down some general reactions as we continue our thinking on the issue.

Foremost, the draft note still seems unclear about the purpose of the exercise. It should be to outline a governance system for any post -- UNCED funds. We would use the agreed approach for discussion at the December meeting and, subsequently, with OECD and other governments. The text, for instance, in paragraphs 3, 4 and 6, still seems to refer to changes to the GET. We ought to put that out of our minds for the moment and focus on what system we wish to propose for the future.

In formulating proposals, some of the fundamental factors we need to consider are:

- whose money is it
- the purposes for which funds are to be used
- the responsibilities the Bank might be asked to undertake
- the role we would like to play, and
- the likely impact of any governance structure on the Bank's own operation.

To start with the last point, we need to keep in mind that the share weighted decision making structure of the Bank is not everyone's favorite. The links between the structure and the Bank's professional capacity, its efficiency, and management authority often are not fully appreciated. Any structure that we would be comfortable with must assure independent management authority for implementation and an efficient policy decision making system. There also should be a connection between the provision of funds and influence over their use - however, informally that gets exercised in practice. If large amounts of money are to be administered by us in a mechanism which does not contain these elements, I would be concerned about its long-term impact on the Bank's own structure.

Second, it is important to start with a view as to what type of money is likely to be available and for what purpose. Funds derived from a global tax on hydrocarbons would be consistent with one set of governing principles; funds derived from a series of separate conventions (negotiated sequentially) would probably require different arrangements. As a working hypothesis, we ought to use the latter; but in any event, we ought to be explicit about our expectation.

Third, the source of funds also is relevant to the internal approval process for projects. While you are reporting unhappiness about the GET arrangements, which leave approval to the management, the genesis of that lies in the objection of developing countries to approval by a Board which had weighted voting and was, in their view, too conditionality-prone, and to objections by donors who did not want major shareholders, but minor GET contributors, to be able to use their position in the Bank to influence GET decisions. This background may now be forgotten but the conflict will resurface once discussions on the financial mechanisms for UNCED start. Moreover, from our side, we need to consider the implications of our Board approving the use of non-Bank/IDA funds. That has not been past practice -- even for large trust funds.

Fourth, if the source of funds is by individual convention, we should avoid a general Governing Council. Contributions are unlikely to be equal across conventions and the functional allocation of funds is likely to be contentious. I find it difficult to accept the proposition that a Governing Council would minimize inter-agency competition for funds. Experience suggests the contrary. Moreover, a politically-based allocation process is not something we should become involved in; it can only undermine our credibility in the long-term.

Fifth, the reasons why the funds made available under the Montreal Protocol are so pitifully small are (a) poor professional preparation on what is needed to be financed, (b) dissatisfaction with the decision-making forum by those in governments who control funds. Presumably, objectives will be defined more clearly by UNCED.

Sixth, the role of the Bank can vary depending on the structure contributors set up. From our viewpoint, however, we do not want to limit ourselves merely to being a manager of funds or to implementing investment projects. Our objective ought to be to establish a mechanism orchestrated by the Bank which provides financing for global environmental activities; in support of specific conventions or generally. It may not be possible to achieve that, but we ought to try. Thus, we ought not to assume at the outset that funds cannot be used by the Bank for technical assistance; or by UNDP to set up national monitoring programs. The use of funds should be driven by country programs and implementation channels selected on the basis of efficiency. I understand the political difficulty facing this approach. But what we see in the GET Implementation Committee is too much agency turf battling and an inadequate country focus.

Seventh, we must be prepared to indicate our requirements for a successful system and make it clear that we will not be willing to operate within a framework which is not workable. We have considerable but obviously not unlimited leverage. But we should not forget the reasons that the Bank is an attractive channel to many donors and should be explicit about the features necessary to protect our ability to operate in a professional manner. I realize that the counter pressures are strong and an extensive education effort is necessary starting with what we would like to see rather than what we may end up with.



Ernest Stern

cc: Thalwitz
Rajagopalan
Sandstrom

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

Mr. Stern
C1/3/16

DATE: October 11, 1991

TO: Messrs. Qureshi, Stern, Thalwitz and Sandstrom

FROM: Mohamed T. El-Ashry *MTE*

EXTENSION:

SUBJECT: GEF - Institutional Options

As agreed at the October 2 briefing on the GEF, attached is a draft paper on insitutional options for an evolving GEF. An earlier draft was reviewed by Hans Wyss (Operations), Stephen Silard (Finance), and Ofosu-Amaah (Legal) and their comments have been incorporated.

I would appreciate any comments you may have at this stage (marked-up copies are fine). We will revise the paper accordingly and arrange a meeting to discuss the new draft as well as next steps.

Thank you.

Attachment

cc: Mr. Rajagopalan

GEF - Institutional Options

1. There is considerable interest and debate in international environmental circles about the future evolution of the Global Environment Facility (GEF). This debate is gathering steam not only in Ministries of Finance but also within other government constituencies such as Environment and Foreign Affairs. The non-governmental community has also demonstrated a keen interest in the future evolution of the GEF. It may be argued that this debate is premature: the GEF is still in its early stages and the Global Environment Trust Fund (GET), the core fund under the Facility, has still to disburse any funds for projects. However, both the United Nations Conference on Environment and Development (UNCED) process and the international discussions currently underway on global conventions for biodiversity and climate change have focused their attention on the GEF. Changes in the GEF are likely to be associated with that debate and may be formulated well before the pilot phase is complete.

2. There are a number of ways in which the GEF could evolve either in parallel or following the completion of the GET pilot program and its associated cofinancing schemes. Ultimately, the Participants will decide upon the desired institutional arrangement. Nevertheless, it is clearly in the Bank's interest to closely monitor the various approaches currently under debate and assess their implications for the institution. Furthermore, the Bank may wish to take a proactive role and influence the course of events. On the other hand, several key donors are likely to consult the Bank about its views on the efficacy of the options. This note outlines two composite alternatives which are under discussion at the present time. There is, however, any number of variants around these two major options and, where these are significant, they too are described and assessed.

3. The analysis assumes that any changes to the governance of the GEF would be forward looking and would, as a consequence, not unduly affect the current work associated with the pilot phase under the GET. In any case, by the time of the UNCED meeting in Rio (June, 1992) over 75 % of total funds under the GET will have been earmarked for projects which will have been endorsed by the Participants. This may make it difficult to significantly alter the direction of this phase of GEF. ←

4. This note is intended then to help focus Bank discussions and views on the subject so that a clear policy line can be formulated prior to the GEF Participants meeting in early December. Following the meeting, ENV would prepare a more detailed review of possible institutional changes to help in positioning the Bank in the debate leading to UNCED. *what's the ? conclusion*

5. Depending on whether the future GEF is viewed as a financing or an implementing mechanism, the two basic options, are (i) a centralized facility reporting to a governing council (in essence a modification or evolution of the existing governance arrangements); and (ii) a decentralized

system linked to the global conventions (in essence a proliferation of the existing Montreal Protocol arrangements).

Option A - The Centralized Facility within the Bank

6. This model would be characterized by:

(i) a Governing Council (GC) or body composed of high-level representatives (possibly ministerial) whose mandate is to review the broad policies and strategies of the GEF. It would not review specific project proposals, although it would call for an annual report/retrospective of the Facility's effectiveness. The Council would include broad representation from developed and developing countries and might, at the discretion of the Council, include NGOs as observers. It would assemble once a year and would require a small secretariat to serve it. Decisions in the Council would likely be taken on the basis of consensus rather than a formal voting system.

However, it may be the case that the Participants would insist on a voting system. One critical question would be whether the Council would include responsibilities for the allocation of funds to each of the three implementing agencies. Decisions on this could be made on the basis of work programs provided by each agency or on the Council's perceived need for resource flows to particular agencies. The issue of inter-agency competition for resources would be minimized if the Governing Council had authority for funding allocations. The recent experience of the Implementation Committee, where the Bank had worked hard to convince UNDP to dramatically reduce its commitment to projects under the Second Tranche, underlines the importance of an arrangement whereby resource allocation between agencies should not rest with any single implementing agency.

on the contrary.

(ii) Approval of projects would be independent of the Governing Council. Each implementing agency would rely upon its own approval process, although this would only be feasible if the GC allocates funds between agencies. At present, the approval of bank projects is the responsibility of bank management. In the future, this could become the responsibility of the Board or a Committee of the Board. An advantage of relying upon the Bank Board to approve GEF projects is that it would have the ability to approve all three types of projects¹. This is a preferred option from the Bank's perspective. There have been discussions by some Participants of the possibility of an independent approval body nominated by the Governing Council which would approve project submissions from each of the implementing agencies. One argument put forward is that there would be some advantages in having a system that could ensure a degree of comparability. However, the constituent instruments of the Bank would not permit this to happen. Any form of external approval would need to be limited to work programs as is currently the case for the Montreal Protocol.

For a Trust?

(iii) The Implementation Committee (IC) - an ad hoc working-level meeting of the three implementing agencies - would continue although its

¹ Freestanding, parallel cofinanced and joint cofinanced.

precise role would, in turn, depend upon the Council's role in allocating funds to each implementing agency. In the case where the Council did allocate funds, the

IC would be geared to regional consultations, coordination meetings and information sharing. It would not decide upon resource allocation between agencies.

(iv) The funding arrangements would continue as at present. The Bank would continue as overall financial manager. The GEF would provide a financing umbrella for general and specialized funds. A core untied fund (the GET) would be required as an "equalizer" to provide a programmatic response to the formulation and implementation of work programs. Specialized trust funds could be included under the umbrella, as indeed is being proposed in the case of the Brazil Rainforest Trust Fund (BRTF). Further work would be required to operationalize this in terms of how the GC would allocate funds and how allocation decisions would be made in light of possible convention provisions.

(v) Links with the global environmental conventions would need to be mapped out more clearly than at present. Under the above arrangements, the conventions would not have associated financial pools, although separate accounts could be established under the GET for each area covered by the convention concerned. Adherence to the more tangible outcomes of the conventions could be sought through the Council, which would provide clear guidance to the implementing agencies on such issues eg. whether a country would need to be a signatory to specific conventions before the agencies could commit funds for projects in that country.

(vi) the role of the Scientific and Technical Advisory Panel (STAP) would change over time. It could report to the Governing Council on strategic and scientific concerns and could continue to provide specific advisory services to the implementing agencies, either through its members or through the roster of experts it currently draws upon for highly specialized advice. However, if each convention had its own specialized STAP or technical standing committee, the GC could draw upon them for advice and, therefore, may decide not to have a STAP appointed to serve it directly.

Option B: Decentralized system

7. This model would essentially consist of a proliferation of the Montreal Protocol arrangements. It is characterized by:

(a) each convention would have its own governance arrangements, source of funding and working modalities - i.e. each convention is a self-contained "package". Governance arrangements within the framework of each convention would likely include an annual meeting of the Parties, a separate executive committee which would allocate funds amongst implementing agencies and approve work programs, and a separate STAP to provide scientific and technical input. This approach would, in effect, consist of a number of Montreal Protocol models. The Bank, as in the case of the Montreal Protocol, would become an implementing agency and would, on a periodic basis be

allocated funds and an agreed work program. The funds allocated to it would be constituted as trust funds as in the case of the OTF.

(b) There would be no rationale for a central coordination body. UNEP's governing council might possibly review progress of the conventions and might consider generic issues associated with their implementation. However, all executive functions would be tested within the individual convention's framework.

(c) Implementing agencies would have work programs approved by the executive committees under the individual convention governances. Specific projects would continue to be approved by the implementing agencies, provided that work programs were approved by the particular convention's Executive Committee.

8. The above arrangements, which are being seriously discussed by some donors, would not likely be in the long term interests of the Bank. The present Montreal Protocol is slow, cumbersome, highly politicized and provides for too much micro-management. Accountability for the development and management of specific project and program interventions might become diffused and management and overhead costs associated with this approach would be very high. Furthermore, there would be no capacity to deal with global environmental issues on a common basis.]??

because the sums are puny.

Issues

9. Whatever options eventually materialize in discussions with Participants, there are a number of issues which the Bank will need to consider in the near future. These include:

(a) approval of projects. A careful calibration of the project approval process will be necessary based, in particular, on the role the GC will play in funds allocation. Much discussion among Participants will center around the approval process and it will be important that the implementing agencies carefully analyze the implications of any alternative presented. Within the bank, either the management or the Board should approve projects. Any form of external approval must be upstream (i.e. work program as in the Montreal Protocol) leaving final approval exclusively within the institution;

jointly?

(b) relationship with country programming. If the GEF is to substantively address global environmental issues it can only be done within the broad context of "sustainable development" and with reference to country strategies and environmental action plans. More thought will be needed on how this linkage could be established, both in terms of the Bank's country programming and in how it will relate to the conventions, once signed. Another important issue is how UNCED's "Agenda 21" would interface with country programming since the Agenda addresses primarily national concerns related to environment and development;

(c) the process of innovation. As the GEF moves from "demonstration" to "mainstream" some thought will be required to structurally underpin innovation, technological adaptation and basic research and scientific investigation; and

(d) role of other implementing agencies. Specialized UN agencies and MDBs will continue to play a role in the GEF. Some UN agencies may be designated as secretariat to particular conventions, others may wish to play a role as executing agencies. Their role vis-a-vis the GEF will need to be clarified.

10. The options will clearly need further evaluation both with regard to the internal requirements and the articles of agreement of the bank but also with regard to the formal relations with the partner agencies, UNEP and UNDP.

A L L - I N - 1 N O T E

DATE: 16-Oct-1991 01:00am EST

TO: Michael Ruddy

(MICHAEL RUDDY@A1@VAX12)

FROM: Ernest Stern, FINSV

(ERNEST STERN AT A1 AT WBAM)

EXT.:

SUBJECT: RE: PW Recommendations for INV

Since you are commenting on them, I guess that you must have seen the ones related to INV. The procedure is to have the Department responsible prepare the response---as usual.

CC: jean-francois rischard@a1@wbam

CC: donald roth @a1@wbam

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

ERNEST STERN
Senior Vice President
Finance

October 16, 1991

Mr. El-Ashry

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-Ernest Stern

cc: Thalwitz
Rajagopalan
Sandstrom

The World Bank

ERNEST STERN
Senior Vice President
Finance

10/16

Don -

I saw in the paper that
Moody's had downgraded
Japanese security houses. Does
that put them out of
trading range for us?

By the way, how many
exceptions have we got
out on the credit limitations
for bank deposits or trading.

Ernie

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

ERNEST STERN
Senior Vice President
Finance

October 17, 1991

Mr. Qureshi

Moeen -

I spoke with the person at the NY Fed. I did not get a clean go ahead. He indicated that he could give more information face-to-face but on the phone, he indicated: (a) he had not been contacted by Kroll, (b) the El-Narayan family had substantial interests in BCCI, (c) the practice of the family was to run enterprises through designated agents, and we might want to know who these are in the case of Dhabi Trading.

I did not reach Andrew Crockett, who is not likely to know much about this, anyway. I cannot contact George at the Bank of England until next week, but we may want to wait until we hear more from the Fed. Let me know.



cc: Mr. Sandstrom

A L L - I N - 1 N O T E

DATE: 17-Oct-1991 06:01am EST

TO: Everardus Stoutjesdijk

(EVERARDUS STOUTJESDIJK AT A1 AT WBAM)

FROM: Ernest Stern, FINSV

(ERNEST STERN AT A1 AT WBAM)

EXT.:

SUBJECT: Dhabi Trading

Could you have someone in CFS find out from Kroll whom they contacted among the US regulators regarding Dhabi Trading? I need to have the information by the time I am back in the office on October 27. Thank you.

The World Bank

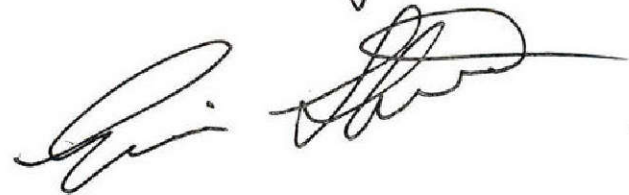
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

10/17

Dear Frances

Many thanks for all your work to make another underwriter's dinner successful. It was a great site and a wonderful party. My colleagues and I sink deeper into debt to you every year.

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a long horizontal flourish extending to the right.

The World Bank

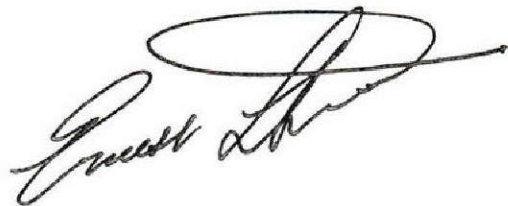
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

September 17, 1991

To Whom It May Concern:

Miss Petchara Limchawalit worked in my office as Junior Secretary during the Annual Meetings in Bangkok in October 1991. She is a very capable secretary with excellent secretarial skills and a very pleasant disposition. She would be an asset to any office.

A handwritten signature in cursive script, appearing to read "Ernest Stern", with a large, stylized loop at the end.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

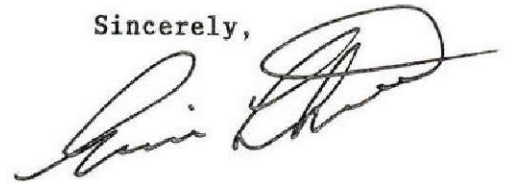
October 17, 1991

Miss Kantima Chambundabongse
World Bank
Resident Mission
Bangkok, Thailand

Dear Khun Jim,

Just a note to express my appreciation and thanks for all the help you have given us, particularly in making all the arrangements for our trip to Chang Mai and Sukhotai.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", written in a cursive style.

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

ERNEST STERN
Senior Vice President
Finance

October 17, 1991

Khun Praphant Asava-Aree
Managing Director
N.C.C. Management and Development Co., Ltd.
Queen Sirikit Convention Center
New Rajadapisck Road, Klongtoey
Bangkok, Thailand

Dear Khun Praphant:

Thank you very much for the lovely flower arrangement you sent to my office. My staff and I have thoroughly enjoyed it.

Sincerely,



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

ERNEST STERN
Senior Vice President
Finance

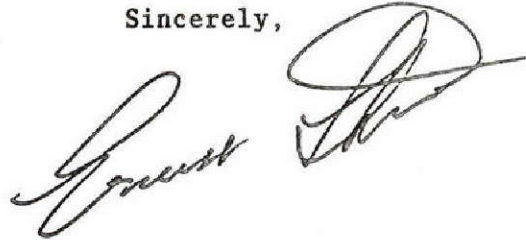
October 17, 1991

Khun Apinan Attaburanakul
Catering Manager
Royal Orchid Sheraton Hotel
2 Captain Bush Lane
Bangkok 10500

Dear Khun Apinan:

I was very pleased with the arrangements for the IDA-10 lunch which I hosted on Saturday, October 12, and would like to thank you and your staff for all the hard work you all have so generously and patiently put into making it so.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern", written in dark ink.

cc: Mr. Peter B. Hollaus, General Manager

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

ERNEST STERN
Senior Vice President
Finance

October 17, 1991

Khun Naris Ahamadchula
Catering Manager
Dusit Thani Hotel
946 Rama IV Road
Bangkok, Thailand

Dear Khun Naris:

Thank you for all the arrangements you have made for the Government Borrowers' Forum, which I hosted on Monday, October 14, in the Dusit Thani Hall.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a long horizontal line extending from the end of the signature.

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

ERNEST STERN
Senior Vice President
Finance

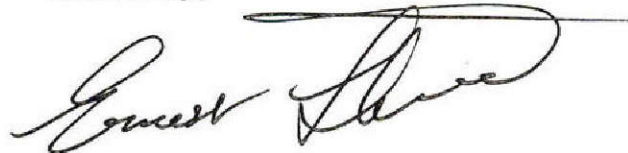
October 17, 1991

Mr. Daniel McCafferty
General Manager
Dusit Thani Hotel
946 Rama IV Road
Bangkok, Thailand

Dear Mr. McCafferty:

Just to let you know how much my wife and I have enjoyed our stay in the Dusit Thani Hotel, and how particularly impressed we have been of the excellent service by your staff. I would also like to thank you and your staff for the hard work they have put into making the Government Borrowers' Forum luncheon, which I hosted in the Dusit Thani Hall on Monday, October 14, a success.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a long horizontal flourish extending to the right.

cc: Khun Naris Ahamadchula
Khun Apichai Phongluangthamm
Miss Oakley

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

ERNEST STERN
Senior Vice President
Finance

October 17, 1991

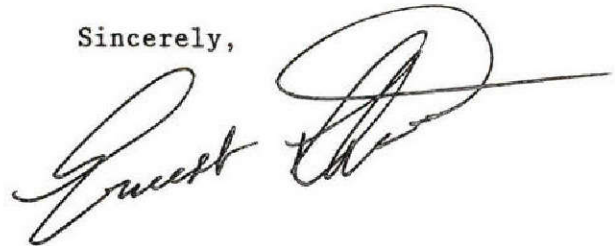
Khun Boonchu B. Potel
Catering Manager
Hilton International Bangkok
2 Wireless Road
Bangkok

Dear Khun Boonchu:

The outstanding service you and your colleagues have provided us could not have been more aptly reflected than it was on Monday evening. The reception/dinner which I hosted in the garden/Buntarik Room was a success: I was very pleased with all phases of the arrangement, and a number of our guests have since complimented us for the exquisite setting, excellent food and superior service. I realize the hard work it entailed, but your patience and cooperation have made the preparatory work easier for my staff and the function extremely special.

Thank you.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a long, sweeping horizontal line extending to the right.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

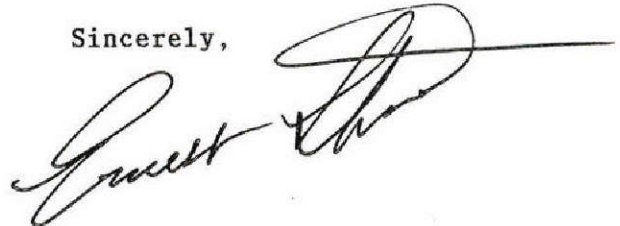
October 17, 1991

Mr. Michael Bamberg
Managing Director
Hilton International Bangkok
2 Wireless Road
Bangkok

Dear Mr. Bamberg:

I would like to compliment and thank you and your staff for the splendid job you have done in ensuring the success of the Underwriters Reception/Dinner, which I hosted on Monday, October 14, in the garden and Buntarik Room. I would particularly like to mention that the service the Hilton staff have provided us, from the early stage of the preparatory work until last Monday, have been truly outstanding.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a long horizontal flourish extending to the right.

cc: Mr. Ronald van Weezel, Executive MD
Khun Boonchu B. Potel, Catering Manager
Miss Oakley

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 17, 1991

Thanpuying Lursakdi Sampattisiri
Hilton International Bangkok
2 Wireless Road
Bangkok

Dear Thanpuying Lursakdi:

The Annual Meetings afford me the occasion to thank our financial partners worldwide for their collaboration during the course of the year, by way of a reception and dinner. This year, we held the reception and dinner last Monday, October 14, in the Buntarik Room at the Hilton. I must say, we could not have made a better choice of a venue. The garden provided a lovely setting for the reception, and our guests and I simply marvelled at the wide variety of the plants and flowers, at how intricately and beautifully arranged they are, and at how the garden itself is maintained with so much care. The view of the garden from the Buntarik Room over dinner was equally spectacular.

The Monday reception/dinner was a most pleasant and enjoyable experience for me and my guests. Thank you for making it so.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", followed by a long horizontal line extending to the right.

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

ERNEST STERN
Senior Vice President
Finance

October 17, 1991

Mr. Qureshi

Moeen -

I spoke with the person at the NY Fed. I did not get a clean go ahead. He indicated that he could give more information face-to-face but on the phone, he indicated: (a) he had not been contacted by Kroll, (b) the El-Narayan family had substantial interests in BCCI, (c) the practice of the family was to run enterprises through designated agents, and we might want to know who these are in the case of Dhabi Trading.

I did not reach Andrew Crockett, who is not likely to know much about this, anyway. I cannot contact George at the Bank of England until next week, but we may want to wait until we hear more from the Fed. Let me know.



cc: Mr. Sandstrom

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: October 25, 1991 01:27pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Jack Mossop, FINPE

(JACK MOSSOP)

EXT.: 82630

SUBJECT: Pension Department

In Mr. Alisbah's FYI announcement dated 10/4/91, he referred to the Pension Department as the Pension Administration Department. Mr. Santiago would like to ensure the Department's name in the database is officially "Pension Department".

Please confirm that this small change to "Pension Department" is O.K., in which case do I need to clear this with Ian Scott?

Thanks.

CC: Nestor V. Santiago
CC: Charlotte Mandel

(NESTOR V. SANTIAGO)
(CHARLOTTE MANDEL)

*5012
es
10/27/91*

THE WORLD BANK

10-109 10-23-91		ROUTING SLIP		Date 10-23-91	
OFFICE OF THE PRESIDENT					
Name				Room No.	
Attila Karaosmanoglu					
Ernie Stern o/r					
← Sven					
To Handle				Note and File	
Appropriate Disposition				Prepare Reply	
Approval				Per Our Conversation	
Information				Recommendation	
Remarks					
FIAS - let's discuss the attached / Sven Sun I have no objection to this. On the contrary, I proposed the same thing last time around. It makes all kinds of sense. 					
From					

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION/MULTILATERAL
INVESTMENT GUARANTEE AGENCY
OFFICE MEMORANDUM

DATE: October 8, 1991

TO: Mr. Lewis T. Preston, EXC

FROM: William Ryrie, CEXVP, and Yoshio Terasawa, MIGEX

EXT.: 30381, 36138

SUBJECT; Foreign Investment Advisory Service

1. Some decisions need to be taken on the future funding and supervision of the Foreign Investment Advisory Service (FIAS). FIAS is a somewhat unique unit that was founded by IFC in 1986 to advise member governments on their foreign investment policies, programs and institutions. FIAS became a joint venture of IFC and MIGA in 1988, when MIGA became operational as both organizations have a mandate to provide the services that FIAS provides. As a joint venture FIAS is unique because it has staff from both IFC and MIGA reporting to a single manager (presently an IFC staff member). FIAS has obtained most of its funding from outside sources (80% in FY91).
2. The Boards of IFC and MIGA reviewed the operation of FIAS last December and gave general support for continuing the joint venture between IFC and MIGA. It was also agreed that some more formal mechanisms for relations with the Bank would be considered, including the provision of funding from the Bank to support the FIAS budget. In July the subject was raised again in the IFC Board when the United States chair proposed that FIAS should revert to management by IFC.
3. At the same time, it has become necessary to consider the future funding of FIAS, because many of the outside sources of funding are coming to an end, and replenishment is required if FIAS is to continue beyond the next year or so. Demand for FIAS' services is strong and growing so that we should plan for a considerable expansion in the coming years. FIAS is still very small with a staff of nine policy analysts plus a manager.
4. Against this background, we have been discussing a revised arrangement whereby IFC would take a larger role in the funding and management of FIAS, but still continue the joint venture with MIGA so that FIAS will continue to benefit from the experiences of both IFC and MIGA. In addition, the Bank would be called upon to help provide policy guidance and to contribute to the funding.
5. Under this proposal, the Bank Group (IFC, MIGA, and the Bank) together would provide FIAS with 50% of its total funding requirements. IFC would contribute 50% of this amount, with the Bank and MIGA each contributing 25%. Thus, for the period FY92-95, IFC would contribute about \$5 million, and the Bank

and MIGA would contribute about \$2.5 million each. Such a contribution from the Bank would be a new source of funding for FIAS. The other 50% of the budget funding could come from fees paid by clients and support from donors, including drawings on a Trust Fund which exists for FIAS and for which we would seek replenishment. This pattern of financing partly reflects the fact that MIGA would find it difficult to provide 50% of the funding required by a growing FIAS.

6. We also propose that the manager of FIAS should be a Director with more autonomy. At the same time, a supervisory committee chaired by the EVP of IFC, and including representatives of IBRD and MIGA would be established to exercise general surveillance over the work of FIAS. The manager (director) of FIAS would be nominated by IFC, subject to the consent of MIGA. FIAS would continue to be composed of IFC and MIGA staff, in proportion to the funding each provides (two to one).

7. We have discussed these proposals with Moeen Qureshi and Sven Sandstrom. We would like to discuss them with you as soon as possible. We hope you will agree to contributions by the Bank in the amount of about \$2.5 million for the period FY92-95.

PM

chm

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

ERNEST STERN
Senior Vice President
Finance

FAXED earlier

October 28, 1991

Miss Mami Asano
The World Bank
Tokyo Office

Dear Miss Asano,

I just wanted to thank you for your help in transiting Tokyo. The arrangements worked out very well and enabled us to sleep much longer than would have been possible otherwise.

Sincerely,

Ernest Stern

THE WORLD BANK
Washington, D.C. 20433

OFFICE OF THE SENIOR VICE PRESIDENT, FINANCE
FAX No.: (202) 477-6658

Facsimile Transmittal Form

DATE: October 30, 1991
TO: Miss Mami Asano
The World Bank
Tokyo Office
Tokyo, Japan
FAX NO.: 81-3-3214-3657
FROM: Ernest Stern

No. of Pages: 2
(including this page)

TRANSMISSION CONFIRMATION REPORT No.=000520

DATE/TIME	OCT 30, 1991 11:40AM
DURATION	43s
TRANSMITTER (FROM)	WB FINSU 202 477 6658 202 477 6658
RECEIVER (TO)	----- 8132143657
PAGES XMITTED	02
PAGES ERRORED	
RESULT	OK
COMM. MODE	G3
RESOLUTION	NORMAL

5005509212

10-121
10-25-91

The World Bank/International Finance Corporation

Office Memorandum

Date: October 9, 1991

To: Messrs. Ernest Stern, FINSV, Donald Roth, TREVP, Caio Koch-Weser, TREVP

From: Jean-François Rischard, INVDR *WR*

Extension: 72211

Subject: Reflecting on Our FY91 Trading Performance

Overview

1. Our FY91 trading performance was 20 basis points in excess of that of the improved benchmarks enacted on July 1, 1990. While this is 5 basis points below the FY90 performance, 60% of FY91 corresponded to the Gulf War period with its unpredictable turns of events. Also, we restrained our deposit-placing activities and resales activities around the turn of the calendar year due to Gulf War-related concerns and the need to establish sound resales contracts from a legal standpoint. This restraint did cost us about 3-4 basis points.

2. A hidden but nevertheless germane aspect of performance is a qualitative one, namely, the degree to which we have diversified our trading internally. Internal diversification aims at enabling us to achieve a higher ratio between performance and its standard deviation. In other words, it should help us average the 20-30 basis points that represent adequate performance with lesser year to year fluctuations, or to score a higher average for a given level of performance fluctuation. It will take several years of hindsight to obtain evidence as to whether this benefit has indeed been achieved. Our diversification efforts can be summarized as follows, comparing 1988 (pre-benchmark times) with 1991 (current setup):

Trading Object	Method of Trading					
	Passive	Active	Model-Guided	Passive	Active	Model-Guided
Duration						
Yield Curve						
Value Trading						
Volatility						
Intermarket Spreads						
	1988			1991		

- 1 bond switches, butterflies, basis trades, covered forwards, etc. executed without altering the duration or yield curve composition of the benchmark
- 2 buy-and-hold portfolio (mostly 2-year notes)
- 3 mortgage-backed portfolio
- 4 model-guided trading across four families of models
- 5 occasional bond switches and butterflies only.

cc:es
Thanks. Most useful. I'm not sure I buy into \$14. Markets will vary, so good performance above a stable benchmark will sometimes be more difficult to achieve. But sustained good performance takes care of the market backdrop.
EQ
10

paper attached

3. The performance graphs for FY91 are attached (Annex 1). Annex 2 contains a P&L breakdown for the US dollar portfolio. Those types of breakdowns were not yet available for non-dollar portfolios in FY91 as the performance measurement system was developed first for the dollar side. Now that the work is complete, P&L breakdowns are available for all portfolios.

North American Portfolio

4. The aggregate performance was 31 basis points over the North American benchmark, which is more than 95% US dollar-based. Out of this, half was achieved by the global Money Markets team and half by the North American bond traders.

5. The Money Market team's contribution had (predictably) a smoother time path, and reflected both excellent Fed Funds trading and nimble-footed repo activities (Annex 2). The bond team had a great start, lost some of its early gains as a result of the Kuwait invasion, and then progressed remarkably smoothly given the volatile turn of events. Much of the trading success was achieved as the curve steepened dramatically in the US, which rewarded the frequent "steepener" trades the bond team put on (short the 10-30 year bonds, long the intermediate notes or the short term).

Non-Dollar Portfolio

6. The Europe and Asia portfolio finished only 6 basis points over its combined benchmark, which had been subject to significant improvements at the start of the year. What's more, this disappointing performance was only achieved in the final months after the team reorganized to incorporate the UK into the EMS portfolio and to clearly distinguish duration/intermarket positioning from value trading. The low point in the EMS/UK portfolios was reached in the October to January period. It started with the UK trader being surprised -- like virtually all other market participants -- by the unexpectedly early joining of the EMS by the UK on an October weekend. Those first UK losses were followed by other setbacks in this most unpredictable of all markets, until the UK portfolio was folded into the EMS portfolio. We often observe this phenomenon -- a trader who took a significant loss early, when little performance had yet been accumulated, trades often in a gunshy manner, and therefore poorly, in the aftermath.

7. The Japanese performance was equally disappointing, and contrary to the EMS case, never recovered after collapsing around the turn of the calendar year. We never quite caught the turns, and the traders showed clear signs of fatigue in the final months.

Lessons and Perspective

8. Need for Clear Performance Disaggregation. One of the learning experiences on the non-dollar portfolio side was one that is now past us: some of the difficulties we experienced had to do with the lack of reliable sub-account and performance disaggregation in the non-dollar portfolios, as compared to the by then crystal-clear US disaggregation. Thus, the non-dollar team did not benefit from the same clarity of feedback as the dollar traders. But of course, that is no more than a partial explanation. As of FY92, with the final phase of development of our performance systems now complete, all portfolios are disaggregated and all traders know where they stand in every respect.

9. Importance of Market Backdrop in Judging Performance. Another insight is that performance is a complex mixture of factors. For a large and, I am sure, predominant part, performance reflects the quality of traders' judgments and, in particular, the drive and discipline which they apply to their activities. It also reflects the ability of the Senior Manager to promote a good mix between directional trading and value trading, i.e. not just making good directional bets but also making sure that sufficient staff resources are devoted to seeking out and exploiting pricing aberrations independent of those directional bets.

10. Besides these factors, though, there is also a "background" factor which makes performance interpretations inherently tricky: some markets are comparatively easy to trade, and some are comparatively hard to trade. For example, markets that remain in a trading range for long periods of time and which contain little value trading "gravy" are hard to exploit (this happens often in Japan). Markets that are in between economic contraction and recovery, with conflicting economic announcements, are also hard to take a reasoned position in -- whether that position goes one way or the other (e.g., in the US at this time).

11. Other markets that are hard to trade profitably, to give other examples, are those which are affected by political volatility (often the case in the UK) or which enter unknown territory (Germany since the unification, although we understand things a little better now).

12. Those are obvious cases of hard markets and while they may be difficult to trade directionally, they may nevertheless offer good volatility trading opportunities. A more interesting finding, though, is that we can also broadly distinguish hard-to-trade and easy-to-trade markets based on the combination of bullishness/bearishness and the slope of the yield curve:

	<u>Comparatively Easy-to-Trade Markets</u>	<u>Comparatively Difficult-to-Trade Markets</u>
Bull Markets	Bull market <u>and</u> positive yield curve slope (US second half of FY91)	Bull market <u>and</u> inverted yield curve (Japan FY91; UK FY91)
Bear Markets	Bear market <u>and</u> inverted yield curve (UK FY90; Japan FY90)	Bear market <u>and</u> positive yield curve slope (maybe US and UK soon?)

13. The yield curve element plays in as follows, taking the example of the difficult-to-trade combination of a bull market with an inverted curve: you are supposed to go long compared to the benchmark, but the slope of the curve is such that this will cost you "carry" every day, which creates a disincentive to do so. An easy market is the FY90 UK case of a highly inverted curve against the backdrop of a bear market: you are supposed to go short, and the curve helps you to do that by paying you extra return points every day. No wonder we made out like bandits in that year in the UK.

14. The point of all this is that any judgement of performance in a particular market needs to take both the quality of trading and the inherent traits of the market backdrop into account. Good performance measurements are essential, but don't tell you much about either element per se.

15. Intermarket Diversification. Besides man-made internal diversification by multiplying instruments and trading objects/methods, we benefit from a natural source of diversification by virtue of having essentially three -- only loosely

correlated -- markets: \$, Y, EMS. This is clearly the more powerful of the two diversification elements, illustrated here through a crude summary of FY90, FY91, and FY92 results:

	<u>FY90</u>	<u>FY91</u>	<u>FY92</u> (1st quarter)
EMS	+71	+9	+ 6
Japan	+11	0	+29
US	+14	+31	+ 5
Overall	+25	+20	+11

16. Note that this relay pattern applies mostly to bond trading; our active global money markets trading, with its small successive gains every month in each market, acts like a flywheel.

Attachments

J-FRischard:tj

30 June 91

Monthly Investment Report

Revised 7/10/91

Global (100%)*

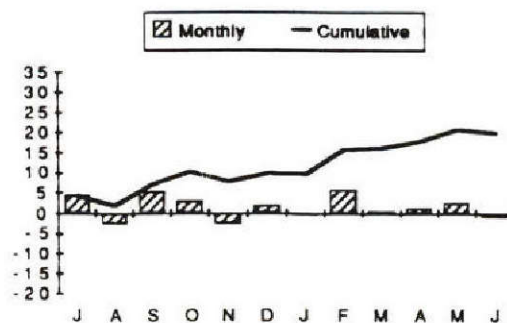
Financial Return Y-t-d Annual M-t-d

Benchmark 9.21 9.21 .45

Portfolio 9.41 9.41 .44

Size (\$m) 17853

Portfolio vs. Benchmark



*Includes net profit and loss on long-term Global trading as of 6/30/91: 1 basis point

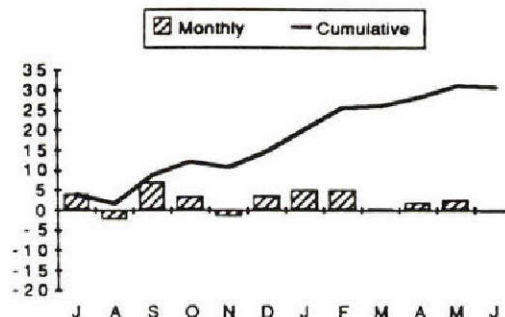
US + Canada (56%)

Financial Return Y-t-d Annual M-t-d

Benchmark 8.49 8.49 .33

Portfolio 8.80 8.80 .33

Size (\$m) 9965



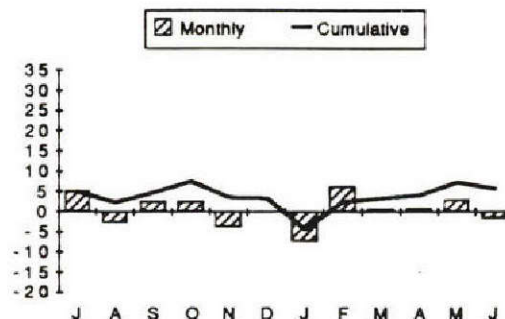
Europe & Asia (44%)

Financial Return Y-t-d Annual M-t-d

Benchmark 10.14 10.14 .59

Portfolio 10.20 10.20 .57

Size (\$m) 7888



ize represents the average book value since the beginning of the fiscal year.

30 June 91

Monthly Investment Report

Revised 7/10/91

EMS & UK (26%)

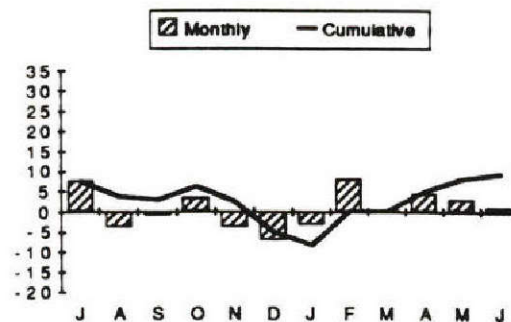
Financial Return Y-t-d Annual M-t-d

Benchmark 11.52 11.52 .67

Portfolio 11.61 11.51 .69

Size (\$m) 4602

Portfolio vs. Benchmark



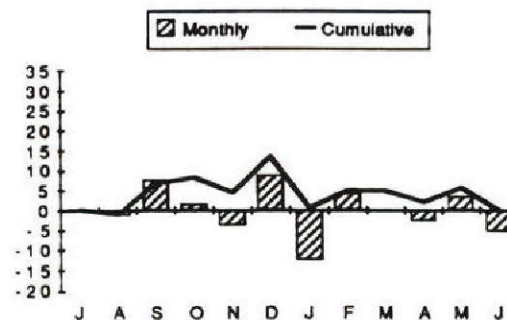
Japan (18%)

Financial Return Y-t-d Annual M-t-d

Benchmark 8.18 8.18 .48

Portfolio 8.18 8.18 .43

Size (\$m) 3286



US Performance by Components

09/20/91 14:05:38			FY91	
			Basis Points	Dollars
DIV4	Index	1 Index	27.8	10.2
		2 Floater	-3.4	-0.3
		3 Term Deposit	23.0	4.6
		Subtotal		14.4
	Trading	1 Trading		1.5
		2 Repo*		0.7
		Subtotal		2.2
	Total			16.6
DIV1	Index	1 Buy & Hold 2 year	26.6	6.6
		2 Currents	-6.2	-1.0
		3 Spread		2.9
		4 Repo*		2.2
		Subtotal		10.6
	Trading	1 Trading		5.7
		2 Positioning		-1.7
		3 Global		-1.0
	Subtotal			3.1
	Total			13.6
DIV3				
	Total	Option		0.0
		Analytic		0.0
DIV2	Global			2.5
	Total			2.5
Department	Global			0.2
	Total			0.2
Total			31.4	33.0

* the Repo in FY91 was allocated in most of the accounts.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 28, 1991

Mr. Preston

Lew-

In regard to Salomon Brothers, I propose to lift our trading suspension in early November. Before doing so, I will advise Gerry and ask him whether he knows of any facts which we ought to be aware of before proceeding. But I would not give him a veto on our decision.

We have done our due diligence on the bond trading side and we are satisfied. The current management team is established and committed to ethical behavior. Our suspension was not a punitive measure but a signal that we could not accept, in our financial partners, the kind of behavior disclosed. The behavior has ceased, steps to prevent a reoccurrence have been taken, and those involved have been removed from the firm. Prosecutorial and congressional investigations may continue for some time, and private lawsuits will no doubt take years to settle. But this cannot be our concern. If further actions are taken by regulatory or judicial authorities, they will be based on the same facts. Their relevance for us relates only to Salomon Brothers' credit rating; capital capacity; or primary dealer status. If they lose the latter, or are downgraded, it would trigger automatic actions by us. That, of course, means there is a risk that we would have to suspend again after having resumed relations. But as long as Salomon is clear about that, it is their problem not ours. Our potential action, by itself, does not create a systemic risk and we need not make that judgement on Salomon's behalf.

Resumption of trading will not mean automatic inclusion in our underwriting syndicates.

Do you have any problem with this?

A handwritten signature in dark ink, appearing to be "J. S.", with a long horizontal line extending from the bottom of the signature.



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - October 1991		Barcode No. 30265366		
Document Date 10/08/1991	Document Type Memorandum			
Correspondents / Participants From: Ibrahim Shihata, LEGVP To: Mr. Lewis Preston				
Subject / Title Reassignment of the Responsibilities of the President and Senior Vice President, Finance for Financial Matters				
Exception(s) Attorney-Client Privilege				
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. <table border="1"><tr><td>Withdrawn by Salma Berrada El Azizi</td><td>Date July 31, 2025</td></tr></table>	Withdrawn by Salma Berrada El Azizi	Date July 31, 2025
Withdrawn by Salma Berrada El Azizi	Date July 31, 2025			

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 28, 1991

Mr. Preston

Lew-

We have met with both Nomura and Nikko. They have done all they are going to do internally. This includes some firings, some resignations to take responsibility, apparently thorough internal investigations and improved control systems. MoF investigations have been completed and punishments, varying by offense, have been handed out.

The longest suspension (involving some of Nomura's branches equity trading) ends by end November. I propose to lift our suspension on syndicate participation shortly thereafter, unless there are new disclosures before then. We could treat Nikko and Nomura differently, but I don't think it is desirable for us to mirror government action too closely. Nor do I believe that waiting any longer would serve any particular purpose.

We have a global Euroyen issue on the drawing board. I have asked Treasurer not to consider launching this before the first quarter of next year.

Do you have any problems with this?

A handwritten signature in dark ink, appearing to be "Ernest Stern", written in a cursive style.

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

September 9, 1991

Dear Colleague,

I enclose "Strengthening Donor Participation in Public Expenditure Reviews," the draft report of the SPA Working Group on Public Expenditures, and ask for your comments by September 26. The report has been prepared for discussion at the Tokyo meeting of the SPA in October. (The main text accompanies this letter; Annexes I and II will be delivered separately by DHL.)

As you know, the Working Group was formed at the SPA donors' meeting held in April 1991 and asked to recommend actions by recipient countries, SPA donors and the Bretton Woods Institutions, to strengthen public expenditure planning, implementation and monitoring in SPA countries. Members of the Working Group include: the IMF, European Commission, UNDP, African Development Bank, Canada, The Netherlands, Switzerland, United Kingdom, and United States. An outline and work program for the draft report was agreed at a meeting of the Working Group hosted by the Swiss Government and held in Berne, Switzerland on June 24th and 25th, 1991.

The attached draft was prepared by a study team headed by senior Bank staff working with experienced consultants financed by the Canadian and Swiss governments. The IMF staff also contributed to the draft, especially Annex II, on public expenditure statistics and indicators. We believe the report addresses all the key issues identified by the Working Group, including recommendations for a work program.

As we plan to distribute the final draft on October 1, as part of the documentation for the SPA meeting in Tokyo, we will need to receive your comments on this draft by September 26, if we are to be able to take them into account in finalizing the report.

We are pleased with the strong support of the SPA to date on this exercise, and look forward to your continued cooperation.

Sincerely



Ishrat Husain
Chief Economist, Africa Region

Attachments

→ Atila (for the future)

The problem seems real enough, but the solution p. 21ft, seems way off-track if I read this right. We don't need a strategy to develop a better budget system -- we need some people to sit down with a willing government and put in a system. And it is not more important to have the PER manager satisfied (one of us) than to have a system for the gov't.



Agency for International Development
Washington, D.C. 20523

SEP 23 1991

Assistant Administrator
for Africa

BK
Interesting. Presumably
we can use it as US C
view. There are 2
operate

Attached is the Summary and Conclusions of the paper Has Policy Reform Hurt the Poor in Africa?, which the Agency for International Development agreed to present at the SPA meeting in Tokyo. The paper itself, which is somewhat lengthy and contains the data and documentation supporting the conclusions, will be available in Tokyo. The paper was drafted by Dr. David Sahn of Cornell University, who is the manager of a large research effort jointly sponsored by Cornell and U.S.A.I.D. to examine the issue of adjustment and poverty in sub-Saharan Africa. This work is still on-going and will not be completed until the summer of 1993; nevertheless, the work to date suggests a number of important conclusions:

- o Government spending has not declined as a percentage of GNP.
- o Public expenditure on social services generally, and health and education in particular, were as likely to rise as to decline after adjustment; moreover, the share of increases in budget resources allocated to the social service sectors tended to increase following adjustment.
- o We do not yet have good data on the important question of how sectoral adjustment programs have affected intra-sectoral allocations and the access of the poor to primary education, basic health care and other social services.
- o Prior to adjustment, public subsidies were not targeted to the poor, so elimination of subsidies largely affected the better-off classes who had benefitted from subsidy programs and the bureaucracies which were administering the subsidies. The poor were basically unaffected by the cuts in subsidy programs.
- o Africa's poor are primarily rural, derive a large share of their income from food they produce and consume directly, and have diversified sources of income off-farm. Their well-being has therefore been relatively insulated from changes in market prices.
- o Devaluations did not increase the price of food, which is the major item in poor households' budgets. As a result, purchasing power of the poor did not fall during adjustment.

a) adj. he
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b) the poor
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Qu

- o The few models which permit conclusions about the real incomes of the poor show that incomes of the rural poor were not affected by policy reform in several countries, give ambiguous results for Ghana, but show that real income of the poor did fall in the Cote d'Ivoire.
- o Changes in prices of goods produced by the rural poor have improved their possibilities for increasing incomes as a result of adjustment, except for farmers producing commodities the world prices of which have fallen.
- o In general, the evidence suggests that moving quickly to reform markets and institutions will not hurt the poor. However, it cannot be concluded that such reform will quickly benefit the poor.

The fundamental conclusion that we have drawn from this work is that **there is no evidence that adjustment has hurt the poor**; in fact, by and large, the evidence suggests that the poor are either unaffected or benefit from adjustment programs in most countries. This should not be surprising. Most of the policies that are being reformed in Africa were not only inimical to growth but were biased in favor of subsidizing the urban areas and taxing the rural areas and providing services to elites at the expense of the population as a whole.

In our view, in considering how best to alleviate poverty in Africa, the following critical issues should be addressed: (1) how to accelerate growth; and (2) to ensure that growth is broad-based. The compelling questions which we are left with and which cannot be answered by our analyses, are, inter alia:

- (1) How can the interests of the poor be better incorporated into a macro policy structure that is consistent with the principles of sound economic management?
- (2) How can structural impediments which segment markets be removed so that investment can be mobilized and the poor can participate more fully in the economic recovery?
- (3) How can the interests of the poor be given greater voice in public policy decision making?

I look forward to discussing this paper and these issues with you next month in Tokyo.

Sincerely,


Scott M. Spangler

HAS POLICY REFORM HURT THE POOR IN AFRICA?

David E. Sahn

SUMMARY AND CONCLUSIONS

A few years ago we began doing research to test the controversial hypothesis that structural adjustment was having deleterious effects on the living standards of the poor, as well as contributing to the creation of new poor. The findings emerging from the work to date indicate that the potential and real negative impacts of economic policy reform undertaken in Africa during the past decade were minimal and isolated. This is a reflection of the fact that the starting point for policy reform in sub-Saharan Africa was widespread poverty, stagnating economic growth, and a dearth of government-provided social services which, when available, were skewed in favor of higher income groups and of low quality. In addition, other key characteristics of African economies embarking on adjustment included acute market distortions and economies where consumers and producers had already developed mechanisms (albeit often inefficient in terms of fostering growth and inadequate in terms of maintaining adequate living standards) to respond to the inept and counterproductive intervention of the state.

In considering the effects of adjustment on the poor, two primary pathways exist, both of which revolve around redefining the role of the state. The first pathway is through fiscal policy reforms, including changes in the level and allocation of public expenditures. Second is the effect of reforms of various markets and market structures that will affect

incomes and prices as mediated by the impact on factor payments, prices, employment, and output.

Concerning issues of fiscal policy, a number of key points arise. First, total government expenditures as a share of GDP have not declined during the course of the 1980s. Likewise, in real terms, nearly half of the countries for which data are available have seen total expenditures rise in the period after adjustment, and half decline. This suggests no overall pattern of government contraction in conjunction with instituting economic reforms, although the fact that an increasingly large share of total expenditures are devoted to interest payments is a source of concern.

Second, when examining the real levels of social-sectoral expenditures, those for education and health increased during the course of the decade. This occurred despite a temporary decline in 1984-1985. When the same data are examined on a per capita basis, however, the results show that the service sector was stressed by the incredibly fast rate of population growth. Education spending per capita at the end of 1987 was approximately 5 percent lower than at the beginning of the decade, although there is some tentative evidence that this erosion was compensated for in 1988-1990.

Third, health and education expenditures as a share of total expenditures, or as a share of discretionary expenditures (i.e., those net of interest payments), also show no sign of decline during the 1980s. And once again, the data from 1988-1989 shows some tentative indications that social-sector spending is gaining in importance relative to other sectors.

A further look at intersectoral distribution of resources during the post-adjustment period was undertaken using a fixed effects model that

enables the derivation of time-period specific elasticities of sectoral expenditures with respect to total government spending. The results show, first and foremost, that after adjustment the elasticities were of a greater magnitude. This signifies that during the years since countries began undertaking reforms, a larger share of any increase in total spending was being allocated to the social sector than other sectors. For example, in middle income countries, a 10 percent increase in total expenditures would translate into a 11.3 percent increase in health spending in the years since countries have begun adjusting, compared to only an 8.3 percent increase in the years prior to adjustment. Second, the elasticities are also higher for middle than low-income countries, and higher for education than health.

Third, the data from sub-Saharan Africa point to a system of social expenditures that has been heavily biased toward secondary education and hospital-based health care, both of which are generally not accessed by the poor. It would be an anomaly for the rural poor to be admitted to a hospital to be under the care of a physician, or to attend secondary school. These, however, represent the types of services that comprise most of the typical social-sector budget which consequently is heavily biased toward higher-income, urban households. Aggregate sectoral expenditure figures therefore mean little in terms of what services are actually received by the poor.

Reflecting concern over such skewness in the allocation of public services, adjustment programs in Africa have often included efforts to rationalize public expenditures and reorient social-sector spending. A potential cost of doing so, however, is that user fees and various cost-recovery schemes will generally accompany such restructuring programs. This

has, in some cases, sounded the alarm for those concerned with the social costs of adjustment. If anything, however, such moves are generally fiscally progressive in terms of their income distribution implications and will usually serve the poor given that the nonpoor are the major recipients of social-sector transfers. This is because, first, if the nonpoor can be made to pay for the services received, even if some of the poor have to contribute as well, it affords the opportunity for vastly increasing revenues. This will enable governments to expand services and improve their quality. Second, the major barrier to the poor's access to public services is not monetary cost but rather unavailability. The poor already frequently pay high costs for private-sector services because of the absence of public-sector options. Finally, the user fees will provide the needed funds to finance expenditures with large externalities, such as immunizations and AIDS control, that require large subsidies.

In sum, a key determinant of the effects of adjustment on poverty will be whether or not sectoral adjustment lending and the public expenditure review process will transform systems of social services that, as far as the poor are concerned, had degraded to abominably low levels concurrent with the pre-adjustment economic crisis. The experience to date from Africa suggests seven points. First, the quality and quantity of public services offered to the poor was so dismal that there was little scope for further deterioration, even if budget cuts were implemented. Second, this low quality of services was partially due to a crisis in inadequate recurrent expenditures that long pre-dated adjustment programs, and that even under the most optimistic growth and external financing scenarios, will not go

away in most countries in the years to come. Third, a disproportionate share of social service subsidies was allocated to urban areas and better-off households. Fourth, this is an artifact of the fact that, as with most other subsidies, those on health and education are rationed, implying that a large number of potential users do not get access. Fifth, consequently private-sector systems have already emerged for both the rich and poor alike. The few budget surveys that are available clearly show that even the poor find the resources to purchase care, albeit often from traditional healers and inadequately trained personnel. A sixth point is that a corollary of rationing in social services is that the quality of services offered is often grossly inadequate, reflecting the vain attempt to stretch a budget that is grievously inadequate for funding even the basic personnel and recurrent cost needs of social programs. Seventh, in many cases, moving to a system of cost recovery will likely have many advantages for Africa's poor. It will help encourage decentralized decision making in terms of the provision of services, if the local institutions that collect revenue are allowed a degree a discretion over how it is spent. And by having fee structures reflect actual costs of services, the poor will not only incur less of the burden since the costs for the types of primary services they access are low-cost in comparison to the university and cardiac care units that serve the elite, but more important, the poor stand to benefit from the expansion of services that cost-recovery will make possible. In terms of the ability of the poor to pay, it is worth considering that they already do so, either to receive services from the private sector or in the form of the costs of foregone wages due to illness or waiting and traveling time.

Of course, there remain exceptions to the appropriateness of instituting user charges.

In turning to the role of adjustment in promoting government disengagement from, and reforms of, markets, the primary policy variables are expenditure-switching policies that alter relative prices of basic consumer goods and producer outputs, mediated by a combination of trade reforms (e.g., devaluation of the real exchange rate) and the process of market liberalization. The latter is the complement of the former in that market controls impede the free flow of goods, and consequently liberalization will enable prices, rather than quantities, to clear the domestic market so that changes in border prices brought about by trade reform are transmitted to the producer and consumer.

But before expanding on the experience of countries in initiating expenditure-switching and market liberalization policies, and their consequent effects of prices and incomes, it is important to characterize the poor and their participation in markets. Although there remains a paucity of household-level data from Africa, some generalizations are possible. First, the poor are heavily concentrated in rural areas. Second, the income sources of the poor are highly diversified, although agricultural incomes remain most important. Third, a large share of agricultural incomes are from the production of nontradeables. But of greater significance, a large share of agricultural incomes is represented by the imputed value of food produced and consumed by the household. Fourth, home consumption of own production as a rule represents well in excess of half of the value of food expenditures, the share of which in total expenditures is high. All

of this presents a picture in which the poor are relatively insulated from the short-term and direct effects, both on the up-side and down-side, of adjustment-induced price shifts for tradeable goods. This is not to say that market reforms will not affect prices and earnings, and therefore real incomes. Nor is it to suggest that second-round effects, for example, changes in the demand for off-farm labor and the wages paid, will not play an important role in affecting rural incomes. It is to argue, however, that income changes, either on the up-side or down-side, will be marginal, and that even under the most optimistic scenario, poverty alleviation will need to be a long-term preoccupation of policy makers.

In assessing the impact of market-oriented reforms on poverty, the two most salient concerns are their effects on consumer prices for food staples and on the incomes of the poor. Concerning the former point, the data give no indication of generalized increases in real consumer prices in the wake of reform. This is so despite the significant real exchange rate devaluation that took place in most of the countries examined. The reasons devaluation did not bring about the expected increase in the real price of staple foods, especially tradable cereals, revolve around, first and foremost, the fact that prior to reforms, market-clearing consumer purchases were taking place on parallel markets where access to officially priced foreign exchange was negligible. These markets had already adjusted to the grievous distortions and were consequently not affected appreciably by reforms. Likewise, simultaneously with devaluation, other changes in trade policy and marketing arrangements were occurring that often were of greater importance in price determination, especially since official markets had

long ago become highly rationed and by and large limited to the urban and privileged consumers. As reforms in marketing occurred, and systems of tariffs were rationalized, the costs of marketing fell in a number of cases, reflecting greater competition, reduced transaction costs, and so forth. All of this contributed to more moderate free market retail prices in many of the countries examined.

In contrast, in countries that have failed to move forward in terms of making these long-overdue reforms, markets remain highly segmented and inefficient, contributing to prices in excess of what they would be in the absence of state controls. This once again argues for moving quickly to reform market structures and transform the role of the state from one of interfering in markets, to one of facilitating competition of private-sector agents through, for example, information collection and dissemination and infrastructure development.

In regard to incomes of the rural poor, in the absence of any longitudinal budget surveys for Africa, ideally we would resort to simulation models to explore the impact of reforms. However, models are in short supply for Africa, although research now underway is beginning to address this scarcity. While the models being developed for a number of countries are still under construction, the few that are complete are nonetheless insightful.

For example, a recent study from Malawi analyzes, among other policies, the failure to move rapidly toward parity prices for key exports. The results show that the taxation of export crops by parastatals resulted in

a lose-lose situation: lower economic growth and a more skewed distribution of income.

Another model examines the costs of adjustment in Cameroon, where unlike in most of Africa the level of distortions prior to reforms was low, and the need for adjustment was attributable instead to the loss of oil revenues. A number of important lessons emerge from the Cameroon study. The major mechanism through which the poor benefit are policies that shift the terms of trade in favor of agriculture. Policies to raise the price of agricultural goods relative to manufactures can take a variety of forms, however, and each has different implications both for aggregate income growth and income distribution, and consequently, the level of poverty. Most important is that real depreciation of the exchange rate is a key element to improving income distribution. Not only will real depreciation raise the price of tradeable goods being produced by poor farmers, but more importantly, it will reduce the relative price of certain nontraded services that figure prominently in intermediate costs for poor farmers.

Another model that examines the evolution of incomes from Tanzania, Madagascar, Ghana, and Côte d'Ivoire, shows little evidence that the incomes of the rural poor have been appreciably affected by policy reform in the first two countries but a fall in incomes did occur in Côte d'Ivoire. The reasons underlying these results are instructive. For example, adjustment was followed by a decline in rural incomes in Côte d'Ivoire because it is a CFA country where devaluation was precluded and where adjustment was therefore primarily expenditure-reducing (rather than switching) after a period of unsustainable investment. In Madagascar, rural incomes failed to

increase in the initial period of adjustment, in this case owing to the fact that the modeling exercise, which traced incomes through 1988, ended the year in which the producer price of rice was belatedly raised. In addition, the absence of any large increase in incomes is attributable to the fact that prices for Madagascar's export crops (vanilla, cloves, and coffee) did not rise with adjustment because of low world prices. In the case of Ghana, the model indicates that the incomes of the rural poor did not benefit from the early successes of adjustment. This is partly due to the fact that agricultural incomes are heavily weighted in the form of nontradeables, the relative prices of which are expected to fall as a result of expenditure-switching policies. In addition, rural wage income in Ghana is of considerable importance, and there was no evidence that wages rose in the period immediately after adjustment began. Where this model falls short, however, is its failure to incorporate the possibility of any aggregate supply response to price incentives. Nor does it allow for farmers to shift production from one crop to another in response to price signals. Both shortcomings make it likely that improvements in rural incomes, especially in countries like Ghana, are understated.

In the absence of more and better models, additional insight can be gained into the income effects of policy reform by examining proxy indicators such as the movement in producer prices. In this regard, the experience of a number of countries indicate that economic reform has resulted in a much improved incentive structure as explicit and implicit levels of taxation have been reduced. This applies to Guinea, Ghana, Madagascar, and Mozambique, to name of few. However, there are cases where

a combination of relatively high prices prior to reform, coupled with declining world prices have precluded raising producer prices, and thus, the incomes of poor farmers.

Despite the considerable variability in the experiences of the countries in the region, the fact is that policy reform has afforded many countries in Africa a way to raise rural incomes in the short term, without harmful collateral effects through higher consumer prices. In some instances these opportunities have been neglected, with governments instead preferring to generate revenues or distribute rents through explicit and implicit taxation, even if it be highly distortionary and regressive. A key lesson that emerges here, however, is that income gains for the poor can be achieved if reforms of trade policy and market structures are adopted, thereby reducing taxation and increasing efficiency. While expenditure-switching policies and institutional reforms, including efforts to make parastatals more fiscally responsible and responsive to the farmers' needs, have been undertaken in many countries, there nevertheless has been considerable resistance to undertaking reforms in a number of cases, with harmful results for the poor. Indeed, in cases such as Malawi, the underlying reason for the present system of rules and regulations regarding pricing and marketing of export crops can only find explanation in the desire of the government to continue to tax the smallholder sector, and to protect the favored estate sector. Likewise in Cameroon, the inability to devalue the exchange rate, coupled with the slow pace with which the monopoly power in marketing cocoa, coffee, and cotton is being relinquished, is hardly justified by the purported need for price stabilization. While

poor farmers do benefit from some degree of stability, especially the institution of a price floor, the existing state-controlled system has simply fostered inefficiencies in export crop marketing, thereby lowering prices to producers and offering them no tangible benefits.

In sum, the experience of adjustment in Africa suggests that it generally does not cause or aggravate poverty. Exceptions are cases such as Côte d'Ivoire whose government-led investment resulted in an unsustainable overexpansion of the economy, and Cameroon, where the need for, and response to, adjustment is similar to that of other oil producing countries that were hard hit by a fall in oil prices. But on the whole, the starting point for policy reform in sub-Saharan Africa were countries with widespread poverty, stagnating economic growth, acute distortions, and economies where consumers and producers had already developed mechanisms to respond to the inept and corrupt intervention of the state. Parallel markets and various types of coping mechanisms (e.g., home consumption, private health care) had emerged in response to the fact that government had long ago failed in its ability to deliver vital services, including in the areas of infrastructure and agricultural research and extension, to say nothing of social services including health and education.

The widely held presumption of deleterious effects of adjustment on Africa's poor is a reflection of the understandable, albeit erroneous tendency to confuse the reforms being undertaken with the economic crisis that precipitated the need for such policy changes. An equally important weakness in much of the thinking about the effects of adjustment revolves around the question of who were the beneficiaries of distortions, and thus

the losers when distortions were (or in many cases, hopefully will be) reversed. The criticisms that adjustment reduced subsidies, raised prices, slowed down increases in minimum wages, and so forth, overlooks the fact that subsidies and rent-seeking opportunities were rarely enjoyed by the poor. Rather, the politically powerful urban elite, in particular, were the beneficiaries of distortions that both hurt the poor in the short term, as manifested in shortages of goods and services and scarcity prices, and in the medium and long term by retarding the pace of economic growth.

The identity of the beneficiaries and the losers from pre-reform policies has some important implications for the pace, sequencing and orderliness of adjustment. Concerning the first point, there seems to be little evidence to suggest that those countries who were quick off the mark in making reforms jeopardized the welfare of the poor. Quite to the contrary: in many cases, the longer the old rules and regulations that governed the economy and perpetuated the distortions were allowed to remain in place, the slower the rate at which recovery would have positive effects. That is, the failure to reform corrupt economic structures and reverse ill-advised economic policies affected both the duration and level of poverty, directly and indirectly. Directly, the poor continued to lose when the pace of reform was retarded, since they were not among the beneficiaries of cheap food, subsidized fertilizer, negative interest rates, and grossly underpriced foreign exchange. Indirectly, the plight of the poor remains dismal when economic signals continue to be distorted, confidence continues to plummet, and growth falters.

As for the related question of sequencing, there is evidence from some countries that the poor have suffered as a consequence of a general reluctance of government to take real and significant steps toward removing market distortions. Instead, many governments initially pursued limited stabilization measures that seemed to placate the donors, at least in the short term, and only pursue structural reforms in subsequent years. For example, it appears likely that political economy considerations made it easier for countries such as Madagascar to reduce investment or recurrent spending on schools, maintenance of roads, and so forth, than to free up foreign exchange markets and remove punitive taxation of smallholders. Indeed, it was not until a few years after the initial stabilization phase that Madagascar began what could accurately be called structural adjustment. In such cases, the sequencing of adjustment undoubtedly hurts the poor, both directly and indirectly.

The lack of orderliness in the process of reform has perhaps proved most debilitating for the welfare of the poor. Countries such as Somalia, Zambia, and Zaire, and to a lesser extent Tanzania, have pursued adjustment in what could best be described as a chaotic fashion. On-again, off-again commitment to reforms has certainly impeded growth and created an environment of distrust and skepticism among key economic actors. This is in contrast to countries such as Ghana or Guinea that have basically kept on track and avoided the temptation to circumvent the spirit of the reforms underway.

These points underlie the fundamental lesson of this review: government disengagement is generally positive since market interventions,

often undertaken under the guise of promoting welfare, have a propensity to generate distortions that are in fact anti-poor. When the merits of various interventions in markets are initially put forth, whether it be stabilizing food prices, fertilizer subsidies, free access to health care, and so forth, they are often compelling. In practice, such actions are rarely considered in the broader context of macroeconomic sustainability and administrative feasibility. As a consequence, the hidden hand often takes over, leaving original objectives unmet and the most needy target groups unserved. The losses due to the high opportunity costs of direct government market interventions, coupled with inefficiencies and rent-seeking, become debilitating to the broader process of development, further imperiling the objective of poverty alleviation.

In general, then, moving quickly to reform markets and institutions will not hurt the poor. Doing so, however, will not always be a prescription for improving their welfare either, especially in the short term. Simply, underdeveloped market infrastructure, including an entrepreneurial class without experience, may mean that initially there will be a vacuum when state control recedes. While the evidence seems to point to a robust private-sector response, at least in the areas of commercial and trading activity, the case that adjustment will encourage investment or that it will facilitate agricultural innovation and greater access to export markets for smallholders, is much more difficult to make. This suggests in part a new role of government in terms of, for example, collecting and disseminating information, agricultural research, instituting appropriate investment codes, and so forth. But perhaps most important is to reduce

uncertainty and distrust of government, which impede investor confidence and the development of new, private-sector institutions that need to assume the roles originally envisaged by the state, but which it abdicated through sheer greed and ineptitude.

While the general conclusion, then, is that adjustment has had little to do with causing poverty in sub-Saharan Africa, it should not be expected to be a panacea either. As noted for Ghana, even assuming a respectable rate of GNP growth of 5.8 percent from the beginning of its economic recovery program, it will be the end of the century before real GNP equals the level of 1965. While one could argue that the population will not become dissatisfied with this sobering statistic, especially since most were not alive during the heady, post-independence days dating back 25 years, it does illustrate the daunting task being faced. There is clearly a need not to become overly optimistic about the medium-term potential for poverty alleviation, even adopting the most optimistic growth scenarios. On the other hand, as discussed in the last section, the difficult and at times perilous enterprise of instituting transfer programs seems no less challenging.

In the final analysis, the diversity of experiences reinforces the need for a country-by-country analysis to identify the appropriate characteristics of externally financed adjustment that will most quickly achieve the dual objectives of correcting economic imbalances and raising living standards. In that regard the two primary roles of external resources must be carefully considered. First, general financial support of economic reform can ensure that government spending and investment will

be maintained, and more importantly, help ensure that resources are allocated more efficiently. This will fuel economic growth and represents an opportunity to raise the living standards of the poor. The second channel through which external financing can affect the poor is by providing more subsidies and transfer programs to raise consumption in the short term.

This dichotomy, often framed in terms of the direct versus indirect route to poverty reduction, has been persistently debated by development economists, and underlies much of the contentious debate over how to make adjustment more compatible with the objectives of poverty alleviation. When placed in this framework, the problem basically reduces to the age-old debate on the merits of creating new income versus redistributing existing income through subsidies, in-kind payments, and so forth. The battle between these two perspectives is often fought on philosophical grounds rather than on the basis of economic empiricism or sound theoretical arguments. However, rather than view these as polar positions, their compatibility should be emphasized.

On the one hand, the sustained financing of investments in health, education, and other programs to directly raise incomes and consumption levels is predicated on the existence of a robust economy. On the other hand, circumstances exist in which regardless of the potential for economic expansion, low-income groups are imperiled in the short term. Programs to protect selected lower-income groups, if properly targeted and of a short-term nature, may be both desirable on humanitarian grounds and have a high rate of return as embodied in human capital development.

The optimal mix of the growth-oriented indirect path and the targeted direct path to alleviate poverty and raise living standards must be determined on a country-by-country basis. It is important, however, not to confuse the use of scarce financial resources to support investment and economic growth, rather than direct subsidies to the poor, with an approach to development where the benefits are not broad-based and do not provide equitable opportunities for all economic agents in the society. For a growth-oriented adjustment program to be successful, it will have to be broad-based enough to ensure that the poor as well as the other groups in society are integrally involved in generating and benefiting from the expansion in the economy's output. This can be facilitated by adjustment policies that promote the redistribution of assets and investment in human capital. Reform policies may need to be designed toward raising the returns to factors owned and controlled by the poor while attempting to redirect constrained budgetary resources toward services used by low-income households. Thus the marked distinction between a laissez-faire approach to development and an growth-oriented adjustment program that will improve the living standards of low-income groups must be recognized. At the same time, any misperception that adjustment programs which are concerned with generating more output in the economy are not also vital to the interests of the poor, needs to be corrected.

Developing appropriate strategies to both promote economic stability and growth and improve living standards then represents the research agenda for the future. Clearly, the salient question goes beyond the issue of the effect of economic reform on living standards. That is, since poverty in

Africa is endemic, and since a concerted effort must be made at all levels to ameliorate the dismal living conditions of such a large share of the population, the compelling question is: how can the interests of the poor be better incorporated into a macro policy structure that is consistent with the principles of sound economic management? Indeed, the fundamentals of getting prices right, restoring competitive markets for factors and outputs, removing the distortions that encourage rent seeking, revamping the public investment and expenditure process, and generally redefining the role of government through a process of state disengagement, are not a threat to the welfare of the poor. All these types of reforms are necessary to restore positive growth and address account imbalances. However, the measurement of the success of economic reform needs to transcend traditional macro outcomes (e.g., the balance of payments, GDP growth rate), and incorporate the issue of the prevalence of poverty. It is for this reason that the continuation of research on the links between policy reform and poverty will be most fruitful, and represents an important task that goes beyond simply dispelling the fallacy of adjustment's harmful effects on the poor.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

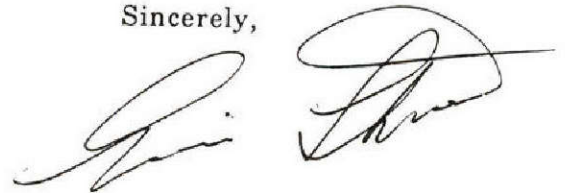
October 28, 1991

Professor Nicholas Stern
Sir John Hicks Professor of Economics
The London School of Economics and Political Science
University of London
Houghton Street
London WC2A 2AE
ENGLAND

Dear Professor Stern,

I am sorry your letter of September 25 did not reach me before my departure for Bangkok. I would, of course, be glad to meet with you -- either here or in London. Please let me know when you expect to be in Washington next. I shall let you know if I come to London, but I have no current plans to do so.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Ernest Stern', written in a cursive style.

The World Bank

Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

October 29, 1991

Mr. Preston

Lew -

Pakistan-Proposed ECO for Hub Power Complex

As promised, I contacted both the Federal Reserve Bank of New York and the Bank of England. The former had no adverse information on the owner of Dhabi Trading. The Bank of England similarly had no adverse information. Both noted that this could not, of course, preclude development of additional information in the future.

The Bank of England indicated what we ourselves had already focussed on, namely, that the underwriting obligation being undertaken by the Dhabi Trading company is very large, in comparison to the total size of the company and, therefore, they noted that we possibly were certain that all the participants were aware of the scale of the risk.

These two sets of comments do not seem to me to present a bar from proceeding with the project.

If you agree, the documents should be sent to the Secretary's Department today for distribution to the Board.

Ernest Stern
(Dictated on the phone)

OFFICE MEMORANDUM

October 30, 1991

TO: Mr. Robert Picciotto, CPBVP
FROM: Ernest Stern, FINSV *ES*
SUBJECT: Special Assistant Position

The Special Assistant position you refer to became vacant in February. I had indicated then that I would not replace my assistant. If proof of that is needed, it is found in the distribution of the Special Assistant's assignments to others. The position was promised to FPRVP after the FY92 budget construction since PBD did not allocate an additional position to us for a Data Administrator. Joe sent me the detailed terms of reference for the position (VP Data Administrator), which I approved in August, and the position was transferred in September. But I have no objection if you now want to count my redeployment as your saving and your redeployment, as long as FPR ends up with a Data Administrator.

The other vacant HL position (not a Section Chief) was placed in my contingency after the 1987 reorganization in case we needed another position in my office. I had planned to use it to correct a personnel/budget problem in FPRVP. The VP Budget Officer, grade 19, is sitting on a SL position. This makes no sense, and even less so now with the greater budget responsibility placed on the VPs. Since this position has not yet been transferred, I have no objection if you wish to show it as part of the restructuring savings. We will transfer it to PBD, and you can redeploy it to FPRVP.

cc: Mrs. Scherr
Mr. Mossop

L - I N - 1 N O T E

DATE: 31-Oct-1991 07:24pm

TO: Stephen Eccles

(STEPHEN ECCLES)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Yugoslavia

Please be sure that we do not suspend Yugoslavia until we know the amount of the glitched message. If the amount is correct, we do not need to worry about the 11/1 payments.

L - I N - 1 N O T E

DATE: 31-Oct-1991 05:27pm

TO: See Distribution Below

FROM: Fayezul Choudhury, LOALA

(FAYEZUL CHOUDHURY)

EXT.: 82100

SUBJECT: Yugoslavia overdues

No further payments have been received from Yugoslavia and so as of close of business today their arrears remain at approximately \$12.7 million. However, apparently a payment instruction did come in to the Federal Reserve from Yugoslavia but it was rejected because of a technical problem related to the message. We do not know if the amount involved was the outstanding balance or what precisely the reason for rejection was. Pending clarification of this the Country Department is conferring with Legal as to whether any exception can be made if this indeed was the missing amount and the reason for non payment was purely a technical hitch. Of course the problem is that come tomorrow they will have a new slew of payments coming due and, on the assumption they do not pay these tomorrow, they will not be current even if the \$12.7 million comes in.

I will keep you informed of developments tomorrow as they arise.

DISTRIBUTION:

TO: Ernest Stern
TO: Stephen Eccles
TO: V.S. Raghavan

(ERNEST STERN)
(STEPHEN ECCLES)
(V.S. RAGHAVAN)

Steve
Please be sure
we do not suspend
Yugo. till we
know the amount
of the glitched
message. If
the amount is
correct we do
not need to
worry about
the U/I
payments

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

ERNEST STERN
Senior Vice President, Finance

October 31, 1991

Dr. Mario Draghi
Director General
Ministero del Tesoro
Direzione Generale del Tesoro
Divisione 16a
Via XX Settembre 97
I-00187 Rome, Italy

Dear Mario:

Among the IDA donors, only Italy, the Netherlands and Greece have not yet formally notified their participation in the Ninth Replenishment. The additional commitment authority which these notifications would provide is likely to be needed by the Association at the end of the current calendar year.

I was pleased to learn that the Italian Senate has already approved the IDA9 legislation and I very much hope that your Government will be in a position to complete the notification formalities by the end of this year. Towards this end, I would be grateful for any assistance you can provide in expediting the necessary procedures.

May I take this opportunity to express, once again, our appreciation to you and your Government for your continued support.

Sincerely,

(Signed) ERNEST STERN *ml*

cc: Mr. Bonavoglia, Executive Director

bcc: Messrs. Wood, Kavalsky, Ohashi
Ms. Yap

PDeSantis:mlq

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: October 31, 1991 08:09am

TO: Attila Karaosmanoglu
TO: Ernest Stern

(ATTILA KARAOSMANOGLU)
(ERNEST STERN)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: SOP or OSP

Please see the attached. OSP seem ok. Any comments? Yes,

Sven

I think it wrong. The name was chosen carefully to convey the messages that
a) this was not a replacement for OPS and
b) sector policy (quality, technical skill etc) was priority.

The reason this comes up I'm told, is because some idiot thinks "SOP" is an insult. Both on substantive and perceptual grounds I'd take strong exception to an inversion. (If we must, just change the acronym to SAOP).



10/31

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: October 30, 1991 12:05pm EST

TO: Sven Sandstrom (SVEN SANDSTROM)
TO: Bilsel Alisbah (BILSEL ALISBAH)

FROM: Ian Scott, ORGHD (IAN SCOTT)

EXT.: 82330

SUBJECT: SOP or OSP.

After you had left for Bangkok, I learned that Raj was unhappy that his Vice Presidency would be called Sector and Operations Policy (SOP) rather than Operations and Sector Policy (OSP). He has now raised the question again. Please advise.

Ian

The World Bank
Washington, D.C. 20433

Office of the Senior Vice President, Finance
Fax: (202) 477-6658
Phone: (202) 458-2004

Facsimile Transmittal Form

DATE: October 31, 1991

No. of Pages: 2
(including this page)

TO : Mr. Nobuaki Kemmochi
Director
Tokyo Office

FAX #: 3214-3657

FROM: Ernest Stern *ES*

Re: Japan Credit Rating Agency

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

ERNEST STERN
Senior Vice President
Finance

October 30, 1991

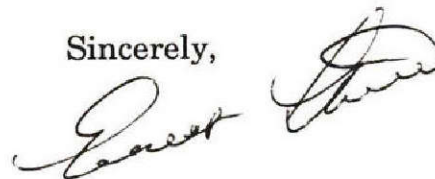
Mr. Nobuaki Kemmochi
Director
The World Bank
Tokyo Office

Dear Mr. Kemmochi,

Thank you for sending along JCRA's response. Mr. Jon Hitchings, in the Treasurer's Front Office, will be the person to contact regarding this matter in the future.

Best regards.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ernest Stern", written in dark ink.

The World Bank Tokyo Office

Room 916, Kokusai Bldg. 3-1-1, Marunouchi, Chiyoda-ku, Tokyo 100 Japan
Tokyo Office Phone: 03-3214-5001 Fax: 03-3214-3657 Telex: J26838

FACSIMILE TRANSMITTAL FORM

TOKYO FAX SERVICES USE ONLY
MESSAGE NUMBER : 1139

NUMBER OF PAGES : 2
(including this page)

DATE : October 29, 1991
TO : Mr. Ernest Stern, FINSV
COPY TO : Mr. Donald Roth, TREVP
FROM : Nobuaki Kemmochi, TOKDR
SUBJECT : Japan Credit Rating Agency, Ltd.

MESSAGE

I was today contacted by Japan Rating Agency, Ltd. who presented us with the copy of the letter to you as of October 23, 1991. I understand that the Bank accepts their offer and we could let them carry out the necessary procedures for the Bank's credit rating.

In this respect, I would appreciate it if you could provide me with the names of the responsible division and person in HQs for me to contact in the process of the above procedures in the future.

Best Regards
Nobuaki Kemmochi

Attachment : the copy of the letter from JCR

MASAO FUJIOKA
PRESIDENT

14FL SHUWA SHIBA-PARK BLDG. 8 WING,
2-4-1, SHIBA-KOEN, MINATO-KU,
TOKYO 105, JAPAN
TEL. 03(3432)9010
FAX. 03(3432)9019
TELEX.2424312 JCR J

October 23, 1991

Mr Ernest Stern
Senior Vice President - Finance
The World Bank
Washington, D.C. 20433
USA

Dear Mr Stern,

Thank you very much for your kind letter of October 11, 1991,
which was received while I was in Bangkok, attending the
World Bank/IMF General Meetings.

I fully appreciate your view, and we accept the alternative
stated in your letter that we use the resources of your Tokyo
office for our rating process. This will indeed help
eliminate travel expenses, enabling us to rate the World Bank
on a fully gratis basis.

We will contact Mr Nobuaki Kenmochi, Director - Tokyo Office,
from now on to carry out the necessary procedures for JCR to
assign a credit rating to your most esteemed Bank.

With best regards.

Yours sincerely,


Masao Fujioka

cc: Mr Nobuaki Kenmochi
Director
World Bank Tokyo Office