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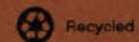
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Senior Vice President Chronological Records - Ernest Stern - November 1991

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es

CHRON FILE
November 1991

OFFICE MEMORANDUM

DATE: November 1, 1991

TO: Mr. Lewis Preston

FROM: Ernest Stern *ES*

SUBJECT: Administration Cost Report

1. The attached Administrative Cost Report was instituted at Barber Conable's request at the time he established the so called Apex Reporting System. Under this system, each senior Vice Presidential Unit prepared a quarterly report on the progress of work (Progress against budget contracts) and budget. CPB reviews the APEX Reports submitted by the Senior Vice Presidents and prepares a summary report for the President. *summary report*
2. The administrative cost report prepared by Controller serves the purpose of communicating the official budget, commitment and expense figures to all managers and notes any major deviations from past trends at fairly high levels of aggregation. It does not try to go into budget performance assessments or issues as this function is reserved for the CPB APEX report.
3. If you find the administrative cost report useful we will continue to prepare it over the balances of FY92 with a view toward integrating it in FY93 with CPB reports on the Work Program and budget.

cc: Mr. Eccles
Mr. Ruddy

OFFICE MEMORANDUM

DATE: October 31, 1991
TO: Lewis Preston
FROM: Ernest Stern *ES*
EXTENSION: 82004
SUBJECT: Administrative Cost Report as of September 30, 1991

1. Attached please find the Controller's report on administrative costs as of September 30, 1991. The report will be circulated to all managers at the level of Division Chief and above.
2. The data presented in this report is obtained from the Budget Accounting System which is the depository of the Bank's budget and expense data. Administrative costs include outstanding commitment balances in addition to paid expenses.
3. Bank's administrative costs during the first quarter of FY92 amounted to USD 319 million compared to USD 276 million recorded for FY91. In nominal terms, the administrative costs were higher by 16 percent compared to the same period of last year - of which, an estimated 8.5 percent was attributed to price inflation including staff compensation adjustment. As a percentage of FY92 budget, however, the administrative costs were broadly in line with those for last year at this time (around 30%).
4. There was an increase in "Other Staff Costs" (USD 25.7 million) due to two factors:
(a) Provision for non-pension retirement benefits for FY92 in the amount of USD 16.3 million was made in this quarter whereas in the last FY it was made in the third and fourth quarters;
(b) Approximately USD 7 million represented Bank's increased obligation (including price inflation) for the Pension Plan based on recent actuarial projections.
5. The commitments on "Operational Travel" through the first quarter are higher this year -especially, in EMENA (68% increase) followed by Asia (36%) and Africa (24%). The increase appears high, partly because of lower commitments in FY91 due to Gulf Crisis, but also because of a high volume of annual meeting travel committed in the first quarter of FY92.
6. There are no significant patterns or trends in the first quarter figures that would suggest abnormal commitment or expenditure or indicate problem of budget management. Please let me know if you have any comments on the report or if you need more information from the Controller's.

Attachment

cc: Messrs. S. Eccles, CTRVP;
R. Picciotto, CPBVP;
M. Ruddy, ACTDR;
R. Deshpande, ACTAB

Ms. J. Le Vourc'h, ACTCA

11-005
11-1-91

The World Bank/International Finance Corporation

Office Memorandum

Date: October 30, 1991

To: See Distribution Below

From: Jean-François Rischard, INVDR *WR*

Extension: 80920

Subject: **Reserve Management Seminars**

JFR
It's great that you've got this of the ground. Congratulations. The program looks good.
11/1/91

This is to give you details on the upcoming seminars on reserve management, the arrangements for which are currently being finalized. The Investment Department will be sponsoring four seminars on reserve management for the North Africa and Middle East Region and the East Asia and Pacific Region, which will be taught by practitioners from both the trading and systems areas of the Department. The emphasis of these seminars is on risk management and controls, as well as on backoffice and systems requirements. We have sent invitations to bank directors (chairmen, deputy governors, directors) for the two-day seminar on *Policy Issues* and to portfolio managers and other practitioners for the five-day seminar on *Practical Aspects*. The Country Departments and other FTA units within the Bank suggested candidates from their respective areas, and we met with 20 central bankers in Bangkok who also provided us names. Letters of invitation have already been sent out.

These regional seminars have been organized on a shoestring budget. They will cost the Bank only about \$500 per participant. We have no resources to help participants pay for travel and hotel expenses; hence the need to hold these first seminars close to the regional participants. In the future, if and when we obtain UNDP funding to help pay participants' travel expenses, we may hold the seminars here in Washington, which would be far more effective, as we can give them "live" demonstrations.

Details regarding the agenda are provided in the attached brochure. Please feel free to call Jennifer Johnson-Calari (Ext. 80925) should you have any comments or suggestions, particularly regarding candidates whom you think may particularly benefit from the seminar. We would like to invite those actually responsible for the reserve management process.

Distribution

Ernest Stern (FINSV), Donald Roth (TREV), Caio Koch-Weser (TREV), Jessica Einhorn (FODDR), D.C. Rao (IECDR), John Niehuss (CFSVP), Amnon Golan (EDIDR)

cc: Jon Hitchings (TREV), Lester Seigel (TRET), Ramasastry Ambarish (TRET), Jaimini Bhagwati (TRET), Kenneth Lay (FODDR), Afsaneh Mashayekhi (FODG4), Jamil Baz (FODG4), Jan Wright (FODPC), John Shilling (CFSFA), Morag Van Praag (CFSFA), Masood Ahmed (IECDI), John Underwood (IECDI), Censlantijn Claessens (IECDI), Ana Delbue (IECDI), Xavier Simon (EDIFI)

Attachment

JJohnson-Calari:tj

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 1, 1991

Mr. Roth

Don -

I note from a couple of recent documents that it may not have been clear to TRE that the effective date of the management changes is December 1. Until such time, I would appreciate it if we could retain the normal distribution and communication channels. To the extent necessary, I will inform the President; I will also organize the transfer of information to Mr. Karaosmanoglu so that you will not be without appropriate guidance after December 1. To do otherwise will only add to the already heavy document flow and complicate the complex decision-making structure.



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

ERNEST STERN
Senior Vice President
Finance

November 1, 1991

Ms. Jan Nolan
Brookings Institution
1775 Massachusetts Avenue, N.W
Washington, D.C. 20036

Dear Jan,

I enclose a copy of the Annual Meeting speeches of
Messrs. Preston and Camdessus. Both contain comments on
defense expenditures I thought you might be interested in.

Sincerely,

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

BOARDS OF GOVERNORS • 1991 ANNUAL MEETINGS • BANGKOK, THAILAND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

Press Release No. 3

October 15, 1991

EMBARGOED FOR RELEASE UNTIL DELIVERY EXPECTED
at 11:01 a.m. Bangkok time (12:01 a.m. Washington time)
Tuesday, October 15, 1991

Address by Lewis T. Preston
to the Board of Governors of the World Bank Group

Introduction

Mr. Prime Minister, Mr. Chairman, Governors, Delegates --

Welcome to these Annual Meetings. And a special welcome to the delegates from countries which have applied for membership. I would like to thank the people and government of Thailand for their warm welcome and generous hospitality.

Mr. Chairman, I want to start with a tribute to Barber Conable. At the last Annual Meeting, no one knew -- perhaps not even Barber himself -- that he would retire before the Governors would meet again. Many of you may not have had an opportunity to say goodbye to him. Allow me, therefore, on behalf of everyone here, to express deep gratitude to Barber Conable for his stewardship of the World Bank Group these past five years. During this tumultuous time, he ensured that the Bank, IFC and MIGA responded effectively to the changing needs of their members. He repeatedly emphasized the importance of the human and environmental aspects of development, and strengthened the Bank's work in these areas. And amidst the urgent need for economic adjustment, he rededicated the Bank to its fundamental objective of reducing poverty. I am honored to follow Barber Conable in this challenging position.

Allow me also to say how pleased I am that Michel Camdessus will be continuing as Managing Director of the Fund. I look forward to working closely with him in the years ahead.

Unprecedented Opportunities for Development

Ladies and gentlemen, this is a time of unprecedented opportunities. The Cold War has ended. Political and economic liberalization is occurring in many parts of the world. Agreement on how to promote sustainable development is broader than ever before.

The pace and complexity of change have been staggering in the last few years. The competition for capital and markets has increased. Nations of the world have become increasingly interdependent. At the same time, strong centrifugal forces have emerged within nations. Environmental problems have become steadily more urgent. And we face new development challenges in the efforts to restructure the centrally-planned economies of Eastern Europe, and to help reshape the economy of the Soviet Union and its Republics. The implications of these changes are truly global in nature.

This morning I want to discuss how we can take advantage of the opportunities and deal with the challenges before us, so that we can make progress toward our ultimate objective -- the reduction of poverty.

Ladies and gentlemen, one can be optimistic about the world's prospects. Consider, for a moment, how different the world is today from a decade ago.

The industrial economies appear poised for relatively stable growth. Unlike the early 1980s, there is reasonable price stability. To maintain price stability and steady growth, industrial countries will need to continue to pursue actively the sound policies and cooperation which have served us well in recent years.

Second, the world economy has become much more integrated. Trade expanded more rapidly than income during the 1980s, which benefitted both efficient producers and consumers. A successful conclusion this year to the Uruguay Round of trade negotiations will push this process forward. Industrial nations must accept the major responsibility for fostering a more open international trading system. Failure to reach an agreement which results in significantly reduced barriers to trade will undermine domestic policy reform and reduce potential output in developing countries. Failure will also reduce the impact of external assistance to these countries. No international issue affects the developing countries more.

Third, over the past decade, progress also has been made in managing the debt of low- and middle-income countries. Yet, many developing countries are still struggling with their debt burden. This, in turn, discourages new investments and impedes access to capital markets. Experience shows that adjustment programs and good faith negotiations with creditors, both public and private, can help relieve the pressure of debt and restore access to capital markets. Foreign direct investment is on the rise, reflecting a welcome shift from debt to equity financing. Chile and Mexico have demonstrated what can be done. We must build on that experience.

Fourth, the most dramatic difference from 10 years ago, of course, is the relaxation of superpower tension. This offers an opportunity to redirect vast resources in industrial countries to investment and development. It can help reduce budgetary strains and thus ease the worldwide competition for capital. Just as important, the stage is now set for the countries of Eastern Europe, the Soviet Union, and other countries around the world to be fully integrated into the global economy. The entire world community will benefit.

Fifth, and equally fundamental is the broad convergence of development thinking which has replaced ideological conflict. The role of government is being reconsidered throughout the world, and the potential of the private sector increasingly appreciated. Peoples and governments are recognizing that it is their country's policy framework and governance which will largely determine their future prosperity. External conditions are a factor, of course. But the quality of domestic institutions and policies determines how well countries adjust to external shocks and exploit economic opportunities. This realization is perhaps the most important building block for the future.

These developments over the past decade are the source of my optimism. Developing countries can meet the tremendous challenges ahead with the effective support of the international community.

Competitiveness Requires Sound Policy

Measured by indicators of economic growth, literacy, mortality and nutrition, the quality of peoples' lives in developing countries as a group has improved over the last 30 years. The income of developing countries has increased faster than in either the United Kingdom or the United States during their periods of most rapid expansion. But aggregate figures mask wide differences in performance between countries and regions. For instance, over the last 30 years, per capita income in East Asian countries increased over 5 percent annually, compared to less than half a percent in Africa. And, any optimism must be tempered by the realization that 1990 and 1991 have been the years of slowest growth for developing countries since 1965.

In the decade ahead, competition for capital and for goods and services will be intense and will place great pressure on developing countries. The competition for scarce resources will put a premium on sound investments and on increased efficiency in the use of resources. The decisive influence on a country's economic performance will be the policies the government pursues and the quality of services it provides. Those that pursue policies which permit producers and consumers to adapt to the changing world economy will flourish; those that do not, risk being left further behind.

Implementing efficiency-oriented policies takes perseverance and commitment. It also requires skill, well-run institutions, and a conducive legal framework. The consensus on what constitutes appropriate policies must be followed by actions which will sustain these policies. Only then will these policies yield the expected improvements in standards of living.

Balance Between Government and Market

Our experience as a multilateral development institution demonstrates that development is most likely to succeed when there is an appropriate balance between the role of government and the role of the private sector. Governments must assume those economic tasks which markets cannot; markets should be relied upon for the production and distribution of most goods and services. Striking this market-friendly balance ensures more efficient use of both private and public resources.

Increasingly, countries are relying on, and responding to, market forces to improve the efficiency of resource use. The outward-looking policy practiced by the rapidly growing countries of East Asia continues to yield excellent results. Eastern Europe is adopting the market model. Chile and Mexico are inspiring imitation in Latin America; and Indonesia is doing likewise in Asia. In Africa, more than two dozen countries are undertaking bold adjustment programs which were unthinkable only a decade ago. Yet, much remains to be done.

The potential for enlarging the scope for private initiative must be exploited. A healthy private sector can be the main source of innovation and employment, provided there is confidence in sound and consistent economic management. Many governments are trying to enlarge the private sector by selling off state enterprises.

But privatization, which can be complicated and slow, is only part of the answer. Government policies must encourage new and existing entrepreneurs, support the creation of small enterprises, and provide a well-supervised, efficient financial sector. They also must ensure access to technology, information and best practices

As governments do less of what they should not be doing, they must do more of what they should be doing. And they must do it better.

In our increasingly interdependent and competitive world, where communications and technological innovation have no boundaries, nations can thrive only with a healthy, literate, well-trained population. Efficient investment in education, especially for females, and health care systems must have the highest priority. A critical requirement for improving both the human condition and the environment in many countries is to slow down population growth rates. Improved access to voluntary family planning services is essential. These investments in people will reap enormous benefits, not only for the individuals and families involved, but also for their nations as a whole.

Beyond investments in human resources, governments must make or encourage the needed investments in infrastructure to support efficient production and distribution. Governments must provide incentives and establish regulations to protect the environment. Regulations also must ensure that markets operate fairly and consistently with the country's objectives to develop its people and reduce poverty.

Emphasizing government commitment in one area often implies reducing it in another. Given the changing world order, the security situation in all countries may permit a reduction in present defense outlays. Sovereign nations, of course, have an obligation to provide for their national security. But current military spending in many developing countries far exceeds their spending on education and health together. Reductions in defense expenditures would increase domestic savings, allowing a reallocation of scarce resources to other high priorities, and would reduce requirements for external capital. We cannot afford to miss this opportunity.

Growth and Poverty Reduction Remain Fundamental

Ladies and gentlemen, the role of the World Bank Group will be shaped by the constantly changing global opportunities and challenges. But, our fundamental objective remains the same -- to promote sustainable growth and reduce poverty. In order for the World Bank Group to continue to provide leadership for development and help our members adapt to new realities, it, too, must accommodate to change and remain flexible.

The effectiveness of the Bank as a multilateral development agency, and the strength of the Bank as a financial institution, rest heavily on the quality of its staff and its continuously accumulating knowledge. Ideas and analysis derived from worldwide experience are the foundation of our advice to policy-makers in industrial and developing countries. In recent years, policy reform and adjustment, debt management and our new members have increased the demand for some of the Bank's non-lending services. Our commitments to reducing poverty, to integrating environmental protection into all our work, to enabling women to realize their potential for development, and to stimulating the private sector all rely heavily on these services.

Because there is stiff competition for both domestic and external capital needed to accelerate growth and reduce poverty, one of our fundamental objectives must be to help improve efficiency of investment and maximize its return. The potential benefits are immense. Even a modest improvement in the efficiency with which resources are utilized in the developing world would result in greatly improved living standards for the world's poor.

Mobilizing Additional Capital

More efficient use of existing resources must be complemented by additional capital. Bank Group lending and investment should be expanding. The restraint is neither our capital base nor our capacity to take risks prudently. Rather, it is the need for our borrowers to establish a conducive climate for investment with high economic payoff. Vigorous implementation of adjustment programs, including reform in major sectors, will expand opportunities for investment lending.

The World Bank Group, and the other development lending institutions, must intensify efforts to mobilize funds from the private markets for development. IFC will be well-placed to expand its role as a result of its capital increase. The World Bank, with its capacity to intermediate at the finest terms, likewise can expand its operations in support of the private sector. MIGA's guarantees help overcome investor reluctance to venture into unfamiliar country environments.

The poorest countries, of course, cannot borrow on commercial terms. For these countries, a substantial replenishment of the International Development Association is crucial to sustain reform programs and reduce poverty. Discussions on IDA-10 started this week. Simply maintaining the real volume of IDA-9 will not be adequate, if we are to respond to the many and diverse requirements of the increased number of countries which must rely on concessional assistance. Despite the budgetary constraints in many donor countries, I hope we can count on everyone to make a determined effort to expand IDA's resources.

Competition for external capital also puts a premium on effective coordination of assistance. We continue to collaborate closely with our sister institution, the International Monetary Fund and with other international agencies, bilateral donors and the private sector. Together, we must make the best use of all available resources in support of our common objectives. I attach particular importance to the Global Environment Facility as a new and evolving multilateral instrument for addressing our environmental concerns in a collaborative and pragmatic manner.

Mr. Chairman, we live in a complex, rapidly changing and highly competitive world. We must help our members use scarce domestic and external resources as effectively as possible to accelerate development, stimulate employment and, thus, reduce poverty. Poverty reduction, to which I personally am fully committed, remains the World Bank Group's overarching objective.

Role of The World Bank in Reducing Poverty

And how do we plan to realize this objective?

First, the Bank Group must serve as a strong leader of the worldwide development effort. We must articulate the interests of developing countries in global fora and policy councils of industrial countries, and help coordinate the efforts of the many government and non-governmental organizations that contribute to development.

Second, the Bank Group must support policy reform at both macro and sector levels to help assure that the incentive and regulatory frameworks promote efficiency in the use of resources. Country policies determine the effectiveness with which human and financial resources can be used. Through our economic and sector analysis, our technical assistance and our policy dialogue, we must provide our members with the best available advice on the design and implementation of improved policies.

Third, the Bank Group must ensure that the policy framework is balanced. The Bank must take into account interests of the poor so that growth is equitable; environmental aspects so that development is sustainable; human resource issues to provide the basis for a modernizing economy; and the role of women who are vital to the development effort.

Fourth, the Bank Group must continue to be strong financially, capable of mobilizing funds from the world's markets and lending them to our members at the lowest possible cost. We must be in a position to expand our lending and investments in support of sound reform programs.

And, fifth, the Bank Group must have efficient management. The size of our resources and the complexity of our mandate are no justification for a ponderous bureaucracy. We must speed up our decision-making and improve our responsiveness. The changes announced recently in our management structure and processes should continue to provide us with the needed organizational capacity to respond effectively and quickly to the growing needs of our clients.

Fundamental to all of our efforts is our client focus. We must continue to provide useful services to our member countries in the most effective way. Our capacities must remain consistent with our priorities. We must maintain the right balance between finance, policy dialogue and technical assistance. We must be adequately equipped to help our borrowers at various levels of development, and with different needs.

Conclusion

The task is formidable, but the World Bank Group has almost half a century's experience, a strong capital base, and a highly skilled, internationally experienced and dedicated staff. I am optimistic that, with your full backing, we can achieve our development objectives. I hope you share both my optimism and my determination. I look forward to working with all of you.

Thank you.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

Press Release No. 4

October 15, 1991

EMBARGOED FOR RELEASE UNTIL DELIVERY EXPECTED
at 11:01 a.m. Bangkok time (12:01 a.m. Washington, D.C. time)
Tuesday, October 15, 1991

Address by M. Camdessus
Chairman of the Executive Board and
Managing Director of the International Monetary Fund
to
the Board of Governors of the Fund

Mr. Chairman, Governors, Ladies and Gentlemen, I welcome you to our Annual Meetings. In particular I extend a warm welcome to Mongolia, which has joined the membership, and to the delegations of Albania, Estonia, Latvia, Lithuania, the Marshall Islands, Micronesia, Switzerland, and the USSR. In addition, I would like to extend a cordial greeting to the new President of the World Bank. Like many of you, I have known and admired Lewis Preston for many years. I look forward to working with him and benefiting from his wisdom and experience. You may be assured that the close and constructive collaboration that we developed with Barber Conable will continue.

Since you have invited me to continue to serve as Managing Director of the Fund for a second term of office, may I simply thank you for your confidence in me, and say that I look forward to what promises to be a very challenging period.

I would also like to express my gratitude to our Thai hosts for their wonderful hospitality. They have given us a fine introduction to Thailand's magnificent culture. Our meetings are affording us the opportunity to view at first hand its example of successful development, which has combined rapid growth, relatively moderate inflation, and progress in reducing poverty. More remains to be done, but I believe that Thailand is well positioned to continue to make rapid progress.

Governors, we come together at a unique moment in history. We face historic opportunities, stemming from the better prospects for peace and development

- in the Middle East, after the tragedy of last year;

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- in Southern Africa, with the dismantling of apartheid and the lifting of sanctions;
- in the countries of Eastern Europe and the Soviet Union, with their fundamental transition to democracy and a market economy; and
- in so many other countries throughout the world where stronger economic policies are being implemented.

These prospects have created an unprecedented opportunity to improve the lives of many millions of people.

But the period of transition ahead will be difficult.

One of the central functions of the Fund is to assist countries during difficult times of transition. We face formidable responsibilities. So it is important for us this morning to identify our priorities clearly: first, to assess what remains to be done with respect to the issues still on our agenda from the 1980s; second, to identify the new tasks that are emerging; and third, to see how we can find enough savings in the world to meet both past needs for financing and those now emerging.

I. Our Unfinished Agenda

Let us start here in Asia.

The sustained success that Thailand and several other Asian countries have achieved over the past decades should be an inspiration to others. The achievements of seven ^{1/} dynamic Asian economies during the 1980s, despite a frequently difficult international environment, are remarkable. They grew by about 7 percent a year--more than twice the average of all other developing countries--while maintaining viable external payments positions and, for most of the decade, relatively low inflation.

What can we learn from this Asian experience? Six basic elements of an effective economic strategy:

- prudent fiscal and monetary policies, conducted in a medium-term perspective;
- structural policies that emphasize private initiative, an outward orientation, and efficient markets;
- sustained high rates of saving allowing substantial productive investment, thereby promoting growth while avoiding excessive foreign borrowing;

^{1/} Hong Kong, Indonesia, Korea, Malaysia, Singapore, Taiwan Province of China, and Thailand.

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- sound management of the public sector;
- an open approach to trade and financial activities, as well as to the payments system; and
- continuing efforts to bring about genuine improvement in the human condition, through education and better health services--in short, through a concern for social progress and respect for the environment.

The Asian continent is, nevertheless, far from completing its agenda. Even the highly successful economies still confront important challenges. Moreover, large numbers of Asians still live in extreme poverty. Eradicating this evil must be a priority for the 1990s. Strong and sustained growth is, in the end, the only way to conquer poverty, but growth loses its key raison d'être if it does not lead to an improvement in the living standards of the population as a whole, in particular the poor. If the growth process does not satisfy this basic objective, it cannot mobilize human potential, so that in the end it cannot be sustained.

What is encouraging is that an increasing number of Asian countries are now implementing bold economic policies. And here I would mention India as a case in point, where the authorities have recently introduced a strong program, with substantial IMF assistance, in a major effort to revitalize an economy that faces a severe crisis.

Second, let us turn to Africa--but what I have to say about Africa also applies to all other parts of the world where extreme poverty is the predominant fact of life. Yet there is a striking contrast between their harsh plight at present and their encouraging prospects if they apply sound policies to generate adequate and sustainable growth.

It bears noting that the picture in Africa is varied. Some countries have been set back as a result of civil wars, ethnic conflicts, large-scale migrations of refugees, famine, or natural disasters. They face severe handicaps in their efforts to create acceptable living standards for their people. These countries require quick humanitarian assistance to alleviate the immediate suffering. We must stand ready to help them generously when they move to implement credible programs of reconstruction and economic reform.

Some of these countries, such as Liberia, Sierra Leone, Somalia, the Sudan, and Zambia have accumulated financial arrears to the Bretton Woods institutions. To help them, the IMF has recently established a new instrument, known as the "rights accumulation" program. This instrument is already proving to be useful. I call on all countries in arrears to work with us with a view to resolving this problem so that they can return to the mainstream of international cooperation.

Fortunately, the overall situation in Africa is more promising. More and more African countries are recognizing the need to embark on far-reaching reforms, and to persevere with a strategy that will produce

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sustainable growth. Many of them are implementing strong programs and moving toward a more democratic political system. I am heartened by their courage and commitment. At present some 25 African countries are implementing economic adjustment programs supported by Fund arrangements. At the end of September, outstanding Fund credit to these countries totaled about \$7.8 billion. Moreover, negotiations for similar programs have recently been concluded with three additional countries, while talks are under way with several more. So the prospects are good that soon more than 30 African countries will be implementing growth-oriented adjustment strategies supported by the IMF. Our assistance is helping to catalyze wide international support for these countries.

Where programs have been implemented vigorously, they are producing impressive results. In particular, the countries that have seriously pursued reform programs supported by our "concessional facilities" (the SAF and ESAF) have achieved annual average growth of over 4 percent over the past three to four years, compared with only about half that rate in the three years before these programs were introduced^{1/}. Moreover, the export performance of many of these countries has improved sharply as nontraditional exports have responded well to realistic exchange rates and structural reforms. And these countries could do better.

These results reinforce my firm belief that it is possible to reverse the downward trend in per capita income that has blighted Africa for the past 20 years or so. And that it is possible to improve the external situation and reduce the vulnerability of these economies, even in the context of the pronounced deterioration in their terms of trade in recent years.

The IMF's recent experience in Africa indicates that we now have an appropriate instrument, in the Enhanced Structural Adjustment Facility, to help low-income countries within the framework of constructive collaboration with the World Bank and the regional development banks. The progress made would not have been possible without concessional help. I am encouraged by indications of support for my proposal to extend the eligibility of ESAF to ten or eleven additional low-income countries.

^{1/} This increase may appear insufficient. I agree. The short-term gains may be slight, particularly in per capita terms. But if this growth continues, in the longer term it will result in a fundamental improvement in living conditions. For example, a recent Fund study shows that if real per capita income in Bangladesh--one of the poorest countries in Asia--were to continue to grow at the meager 1 percent annual rate recorded over the past decade, it would take this country some 40 years to reach the stage at which the average person will cross the poverty line. But if growth is increased to the rate recently seen in many of the Fund's SAF and ESAF programs, this will allow an annual increase of about 2.5 percent in real per capita income, and the crossover time will be reduced to 16 years. That is a striking difference, and shows why the effort is worthwhile.

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Mr. Chairman, the outlook for African countries and other poor countries is now surely more promising than before. To fulfill this promise, however, these countries need strong international support and must themselves be fully committed to the firm implementation of sound policies. Several countries have not yet embarked on this path, but when they are ready the Fund will be unflinching in its support.

Third, I would like to refer not to a region but to a problem, one that in the minds of many is associated mainly with Latin America but in fact also affects many countries in Africa, Eastern Europe, and elsewhere: debt. We have made good but slow progress with regard to the debt problem. We know now that this slowness was perhaps inevitable in view of the sheer size of the problem and these countries' deeply-rooted structural and macroeconomic imbalances--of which high inflation and excessive debt were only the most telling symptoms.

Some of the countries with the most severe problems have made significant strides. These countries are overcoming their difficulties through their own strong efforts, backed by considerable assistance from the international community. The example of Mexico--only a few years ago one of the countries most heavily encumbered by debt, but now showing vigorous growth--has been an inspiration to others. It is encouraging for the Fund to see that several debtor countries, and I mention only Chile, Mexico, and Venezuela as examples, are now leaving the ranks of countries with serious debt problems, and joining those of countries with buoyant opportunities. This is well illustrated by the renewal of net spontaneous flows of external resources to them and their improved access to world capital markets. Argentina also has made great strides in restructuring its economy, and is attracting capital inflows. The major sacrifices these countries have made, and the sustained support by the international community, are bearing fruit.

Yet many debtors are still in a precarious situation, especially those that postponed the decision to embark on a strong strategy of economic recovery. Clearly, the debt strategy will continue to require major efforts on the part of all participants--the debtors themselves, friendly governments, the international institutions, and the commercial banks--for several years to come. Allow me to mention four areas where particular efforts are called for.

There is, first, a pressing need to ease the burden of official debt on the poorest countries. I very much welcome the declaration issued at the London Summit reaffirming that the poorest and most indebted countries must benefit from "very special" terms, going well beyond the Toronto terms. I am certain that the London declaration reflected a broad consensus among the creditor countries, and I hope that the Paris Club will soon apply a more concessional approach to its restructuring operations, in cases justified by the plight and the efforts of debtor countries.

Second, we should do better when we apply the debt strategy to those heavily-indebted middle-income countries that face an onerous burden of official bilateral debt. Reduction of this burden would certainly be

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merited, again on a case by case basis, where the burden cannot be eased by traditional rescheduling techniques and where it threatens to undermine adjustment efforts.

Third, it is important that countries seeking a restructuring of their obligations, and their bankers, move expeditiously to comprehensive settlements as part of their overall adjustment effort.

Fourthly, I am concerned about the situation of certain countries that have refrained from seeking a rescheduling of their sizable debt despite constrained external circumstances, and are implementing strong policies. It is important that these countries should receive adequate support from official donors and commercial banks.

II. New Challenges

New challenges are ahead: reconstruction in the Middle East, and the process of reform in Central and Eastern Europe and the Soviet Union.

The Middle East crisis was a tragic reminder of the fragility of peace. The war's immediate impact on a number of countries was severe, and its repercussions were widespread. However, the community of nations responded swiftly and effectively. The Fund adapted its mechanisms and devised new means of coordination and action. Shortly after the Annual Meetings last year, the Executive Board completed its review of the IMF's facilities and approved the adaptation of some instruments in order to enable us to provide early and effective assistance to those member countries that were seriously affected. The Fund has committed more than \$14 billion ^{1/} of financial assistance to member countries since the onset of the crisis, which has helped many of the countries that were adversely affected.

Looking beyond the immediate consequences of the crisis, I am hopeful that several of the affected countries will undertake more determined reform efforts. I am especially encouraged that Egypt has embarked on a major program of structural adjustment and reform, in conjunction with firmer macroeconomic policies. Progress can also be expected in Algeria, where an impressive array of structural reforms is under way. The vigorous policies being implemented in Morocco, Tunisia, and other countries, are opening up promising prospects for the region.

The countries of Central and Eastern Europe have now embarked on an unprecedented political and economic transformation. They are moving toward free and democratic societies, and passing from a failed system of central planning to market-oriented economies. They are also seeking closer integration into the global trading and financial networks, following the disintegration of the CMEA trading system. They know that introduction of market-oriented systems will succeed only if it is accompanied by firm and

^{1/} Including \$3 billion under the CCFF (Compensatory and Contingency Financing Facility).

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consistent macroeconomic policies to deal with their immediate economic problems, keep inflation under control, and ensure a viable external position.

These countries need and deserve substantial and sustained support from the rest of the world. It is essential that expanding markets be open to them.

The IMF is actively helping the fundamental reforms of Central and Eastern Europe. Our disbursement of over \$4 billion in financial assistance to five member countries ^{1/} in the region in 1991 will help to catalyze over \$20 billion in total flows to these countries. This total includes substantial assistance from the World Bank, the Group of 24 under the leadership of the EEC, the Paris Club, and private capital flows. The amounts committed are even larger. This is an impressive demonstration of international solidarity, and we should be encouraged by the results of these programs so far. But we should entertain no illusions: most of these countries will require much technical and financial assistance for some years to come, although foreign private capital should eventually take the place of official assistance. Moreover the efforts must soon be broadened to include Albania, and we must be prepared to provide more assistance to Yugoslavia once a peaceful solution is found to its present conflicts.

Last, but by no means least, the historic changes under way in the Baltic states and the Soviet Union present a major and most welcome challenge to us all. They have opened a "new frontier" for our spirit of initiative and cooperation. For the Bretton Woods institutions, a long-awaited opportunity for them to become truly universal, and to serve the entire family of nations with a renewed sense of commitment, is drawing close. The IMF is fully aware of the difficulty of this task. But we are prepared to do everything in our power to facilitate these countries' transition, in close cooperation with other institutions and contributors. We have started to work with the Baltic countries. And on October 5, I had the honor of signing with President Gorbachev an agreement on a special association. This will enable us to work with the Union and the Republics to help them design and implement their reforms, and to provide wide-ranging technical assistance, all in the strong hope that this special association may soon lead to full membership. Needless to say, we look forward to being able to help this great country realize its enormous economic potential, to working with this community of peoples who have contributed so much over the centuries to the arts, to technology, indeed to all areas of intellectual and spiritual life, to our civilization at its highest.

Governors, it is easy to identify our common responsibilities;

- to persevere with and support sound strategies in Asia, Africa, and Latin America; and

^{1/} Bulgaria, Czechoslovakia, Hungary, Poland, and Romania.

- to meet the new challenges in the Middle East, Eastern Europe, and the Soviet Union.

But how can we find an effective strategy to meet these historic challenges? How, when we see a decline in saving in the industrial countries; when vast amounts of public resources are being wasted on unproductive spending; when the Uruguay Round is still not completed; when official development assistance is stagnating in real terms, and when our support mechanisms are so frequently paralyzed by endless discussions about burden sharing? How, when we are not confident of our ability to meet the existing challenges, can we take on new ones?

The answer lies in two ideas: universal adjustment and appropriate financing.

III. Universal Adjustment and Appropriate Financing

Adjustment has to be universal. Every country has to adjust. Both the surplus and the deficit countries must strive for better policies. Any country that believes it can make a smaller effort than its neighbors is simply refusing to take on its fair share of the common effort. Stronger policies are essential, both in developing countries and in the industrial countries, whose contribution to the growth of the world economy is vital. It is therefore crucial to promote:

- sound monetary and fiscal policies;
- measures to enhance the efficiency of markets by means of structural adjustment, free competition, and redefinition of the role of the State-- with less government involvement, but more effective performance in those areas where government involvement is necessary;
- an open and liberal approach to international trade and investment; and
- promotion of national saving, inter alia through cuts in unproductive public spending.

Every country needs to do better in several of these areas, if not in all. It is by applying to themselves the highest standards of management that a country will also make its most valuable contribution to the prosperity of the rest of the world.

Let us briefly consider each of these elements.

First, sound monetary and fiscal policies.

The slowdown in the industrial countries is putting economic policies and our system of policy coordination and surveillance to the test. We must restore conditions that will allow sustained growth at a satisfactory pace, while improving price stability and avoiding a re-emergence of excessive

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payments imbalances. The Fund will continue and intensify its work to promote sound policies in the industrial countries, and effective cooperation between them, through the exercise of Fund surveillance. This is one of our most important tasks.

Recent developments point to a moderate recovery in the industrial countries. We expect their growth in 1992 to be just below 3 percent, about its average for the 1980s. These countries should take steps to ensure that the expansionary phase that is beginning is a sustained one that it is not marred by high inflation or other symptoms of macroeconomic imbalance. A continued pursuit of cautious monetary policies is needed, because the recession has bottomed out with inflation still at an excessive rate of 4.5 percent. The steps already taken to reduce fiscal deficits in several industrial countries--notably Canada, Germany, Italy and the United States--go in the right direction. In the United States, it is essential that the Budget Agreement be fully implemented, and complemented by additional measures if these are necessary to achieve the medium-term fiscal goal.

The fight against inflation is no less urgent in the developing countries. Experience clearly shows that it is financial stability, not inflation, that allows high growth to be sustained over the long run.

Second, structural and systemic reforms are essential to revitalize the operation of a market-based economy and improve overall efficiency. This also entails a profound rethinking of the role of the State. There are two types of measures which are relevant to most countries:

- The deregulation and modernization of markets to enable them more effectively to play their roles of creating growth and employment. This is particularly important in Western Europe, which needs to cure the social cancer of long-term unemployment, with its tragic waste of human potential. This can best be achieved by reforming the functioning of labor markets, not by deflecting macroeconomic policies from their long-term objective of maintaining sustainable growth.

- A shift in the role of the State, to complement the expanded role of markets. Government can now focus on those important areas where its actions are indispensable and most effective--security, education, health, social safety nets, and establishing transparent rules so that markets operate efficiently--rather than participating directly in the production and distribution of goods. This is the crux of what is meant by the concept of "good governance," whose key principles include transparency, accountability, and the "Rule of Law," on which I recently elaborated in Kampala.

Third, Liberal trade and investment.

The experience of the entire postwar era--the past four decades or more--provides conclusive evidence that trade and development are closely interlinked. An outward-looking orientation has been an important ingredient in the growth strategy of all the successful countries. Indeed,

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the gradual liberalization of international trade has gone hand in hand with the emergence of greater freedom in domestic economic systems and with the increased recognition that the most powerful source of growth is private initiative. There is now a clear consensus that all countries can benefit from policies that expose the economy to both domestic and international competition.

In sum, a greater openness to international trade and investment is an essential corollary to domestic measures aimed at promoting efficiency and adaptability to change.

In today's world of rapid and fundamental change, it is important for domestic and external policies to be mutually reinforcing. I regret, therefore, that many industrial countries continue to use trade policy defensively. This runs counter to their own domestic interest in promoting competition and efficiency at home, and it hurts their trade partners. By contrast, many developing countries, particularly in Latin America and Eastern Europe, have recently implemented trade liberalization measures, as an essential element of their growth-oriented strategies. Some 45 of them have acted unilaterally to liberalize trade substantially, without waiting for the conclusion of the Uruguay Round.

The need for a successful conclusion to the Uruguay Round cannot be overemphasized. The industrial countries must act now to reject protectionism and to reaffirm their commitment to an open multilateral system in which global market forces determine resource allocation. This would powerfully stimulate the world economy in the decade ahead and contribute materially to solving its major problems.

Many countries are benefitting from the increased scope for international investment flows, as capital markets have become more global with the dismantling of restrictions. In particular those countries that are introducing market-based reforms are finding that measures to encourage capital inflows can contribute powerfully to their growth strategies.

Fourth, Saving and investment.

Policies to promote saving and investment are key elements of a credible strategy to meet the old and the new global challenges. But here we face a serious risk: saving and investment rates in the industrial countries have been declining over the past fifteen years. The sluggish growth of saving has contributed significantly to an increase in real interest rates, from negative levels in the late 1970s to positive high levels in the 1980s. A continued decline in saving and investment rates would be most unfortunate. On the contrary, the industrial countries will need to increase business fixed investment substantially, even to maintain an average growth rate of about 2 3/4 percent in the coming decade. Since private saving rates in the industrial countries are not likely to rise much, if at all, over the medium-term, there is no alternative to raising public savings in order to meet this need. In addition, the developing countries will need to raise their investment rates substantially in

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relation to GNP--by about 2 percent according to the most recent estimates--if they are to show a better growth performance in the 1990s than in the 1980s. This problem of an ex ante shortfall of investment capital has been with us for a long time, but there now are major additional claims on the global supply of savings.

In the absence of concerted and decisive action, the potential imbalance between projected savings and intended investment can only be resolved by a further increase in real interest rates. This would discourage some investment, most probably to the detriment of the developing and reforming countries. It would increase debt-service burdens and undermine the growth strategies of all.

Such a scenario is unacceptable. But it is avoidable, provided all countries act soon to improve their savings performance, especially by cutting unproductive spending. How?

It will be essential for some of the major industrial countries to reinforce their efforts to reduce their fiscal deficits. Many developing countries also need to reduce their budget deficits and encourage higher rates of private savings formation. And all countries should redouble their efforts to cut unproductive spending. The possibilities for budget cuts will vary from country to country--wherever there is waste, or inefficient investment, or unnecessary spending on prestige projects, or on programs that have outlived their usefulness.

We need to tackle at the international level one of the most glaring and pernicious examples of unproductive spending--excessive protective subsidies.

Reductions in these subsidies could release substantial budgetary resources for other, more productive, uses. This should be seen as an essential component of any strategy to promote efficiency and competition. There are many examples, but I will cite only one. The abolition of agricultural support measures in the industrial countries would allow a reduction in budgetary outlays of more than \$100 billion a year.

Military spending is another area where substantial savings are now possible. International tensions are subsiding, and this should allow deep cuts, for the first time perhaps in more than half a century. We all welcome the recent announcements by major countries that they will reduce their military spending. A lot is at stake here. Each country must judge for itself what level of defense spending is consistent with its national priorities. But this clearly also has important economic and financial effects. This is therefore directly relevant to the work of the IMF.

If the industrial countries were to reduce their military expenditures by only 20 percent from their level in 1989--and this is by no means an unthinkable cut--there would be budgetary savings of some \$90 billion or more a year, after the initial cost of the major reallocation of resources. Moreover, average military spending in the world is some 4.5 percent of GDP.

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This is surely too high, in present circumstances. I hope that all countries will examine whether they have scope to reduce their military spending. And if the countries whose military spending is relatively high can reduce it to the world average, they will release some \$140 billion for other uses.

In sum, many countries should now be in a better position to reallocate human and financial resources from military purposes to more productive uses, and so improve both their own prospects for growth and those of their partners.

While on this subject, may I enter a particular plea. We must not ignore the international trade in armaments. It is most desirable to avoid a recurrence of a situation in which substantial holdings of offensive weapons--far beyond the justified needs for defense--can be readily accumulated and indeed financed on easy terms. One very practical first step would be to tighten the rules for granting export credits for arms sales.

The scope for these potential budgetary savings is substantial. In just these two areas taken together, they amount to several times--I repeat several times--the additional need for savings to meet the new global challenges. This is not to say, however, that this will be easy to achieve. Quite the contrary. We all know that strong vested interests will have to be confronted, and we know the courage and statesmanship that will be required by all of you who are responsible for these decisions.

In essence, the problem of global saving is not so much one of scarcity as one of misuse. We want to avoid a most unfortunate new increase in real interest rates. Therefore we need action by all countries to reassess their priorities for Government spending, to reflect the results of this reassessment in national budgets, and to promote higher national savings.

* * * * *

Mr. Chairman, let us assume that all countries embark on adjustment efforts such as I have just outlined. Let us assume, as part of these efforts, that the developing countries, and those in transition to a market economy, adopt credible programs and commit themselves to their implementation. What then? Will that be sufficient? Will they face an international environment in which their efforts will succeed? And will the present international mechanisms for cooperation and financial support be sufficient? Will the IMF be able to fulfill its basic mandate to help mobilize this support? Will the IMF be properly equipped, for example, to assist member countries--and here I quote Article I of the Articles of Agreement--"to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity"?

There are no easy answers to these questions. I know that those of you who work so hard, and not always successfully, to put together appropriate financing packages for deserving countries, sometimes have doubts.

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Can we fully allay these doubts? I do not know. But I can propose three concrete measures that together should help the community of nations to meet the financial challenges of the period ahead.

First, the donor countries should increase the provision of official development assistance in real terms. This is essential for at least three reasons:

- to give a new impetus to development, especially in the very poor countries where the transition to more democratic regimes is making the challenge of development both more urgent and more promising, and where we know very well that increased trade and commercial flows cannot alone be the answer;
- to help create more effective social safety nets, and to maintain education and health care at acceptable levels;
- to help with the demobilization of military or guerrilla forces that is becoming possible with the reduction in tensions and armed conflicts, and to help these people return to productive jobs.

But can we increase ODA? I see no convincing reason why not. In the new world that we face today, surely the industrial countries should intensify their efforts to meet the UN objective of 0.7 percent of their GNP. Yet at present they are only halfway toward its achievement. Do we not all remember the many proposals over the years, which suggested that a reduction in military spending would lead to a simultaneous increase in official development assistance? We are now living at an exceptional moment in history when this must be possible.

Second, we need to strengthen the international institutions, so that they can play their proper roles more effectively. The multilateral institutions have admirably committed staff with the necessary experience. And their existing mechanisms for burden sharing represent a workable compromise.

Therefore I hope the membership will continue to provide adequate resources to the World Bank Group and the regional development banks.

In the IMF, are our resources sufficient at a time when the Fund has some \$50 billion in outstanding assistance^{1/}, when we have programs in effect with some 50 members, and when some 20 to 25 other members are approaching us for help?

The expected pace of temporary IMF assistance to members in the next several years will call for large additional commitments of monetary resources. Nevertheless, provided the quota increase comes into effect on

^{1/} Outstanding Fund credit and undrawn balances under commitments.

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time, the Fund's own resources will be adequate to meet the projected demands for the period immediately ahead. But these new resources are now needed urgently. I therefore appeal to our members to ensure that the quota increase and the Third Amendment come into effect with no further delays.

It is also the duty of the Fund to always be ready for the unexpected. This requires, more than ever, that we meet new challenges with imaginative solutions. That is why I particularly welcome the proposal by Japan to re-examine the twin questions of SDR allocations and the method of their distribution. These issues will be on the agenda of the Executive Board this coming winter, and we will report on them to the April meeting of the Interim Committee. I hope that we will be able to address this question in the spirit of searching for a truly universal international monetary system. We should avoid any temptation to pour the young wine of our new challenges into the old wineskins of yesterday's rhetoric. For new challenges, there must be new solutions.

This has already brought me to the last of my three points, how to strengthen the international monetary system. There is scope for improvement in the working of the system. In addition to the SDR issue, the Fund will continue working in the period ahead to create better conditions for exchange rates to be less volatile, and to provide a credible yardstick for price stability. Both are essential features of a sound and stable international monetary system.

* * * * *

Governors, I have talked about the need for universal adjustment and financing. In sum, about the need for universal cooperation in these difficult times of transition, so that all countries continue to apply sound policies and receive sufficient support. Universal adjustment and financing, universal cooperation. If we can give these concepts new vitality, new meaning, what a difference this will make to the world! Let us join forces in this common effort. Let us enlarge our sense of responsibility to encompass the new dimensions of the world, as it becomes truly one world.

The World Bank

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

Office of the
Senior Vice President
Finance

11/2

Sven -

We need to do something
about this habit of
people (not only Raj)
to cc all three of
us. Maybe once we're
in place we can do
it individually, or whoever
handles the incoming mail
can get in touch with
the units. (E)

FROM:

V. Rajagopalan

ROOM NO.:
S5-055

EXTENSION:
33419

URGENT

ERNEST STERN
Senior Vice President
Finance

Paul

There are a lot of editorial points to clean up but substantively the paper is fine. Particularly in the early part, keep in mind that very few EDs have any idea about yields, option prices etc. We need to put the matter as plainly as possible if we expect a positive discussion.

There also are a couple of points noted where I did not understand what we were aiming at.

If you want to discuss any of this please come up; if not, let me have a cleaned up version.

I assume this has been seen, and cleared by Legal, CTR, and FPR.

The Operational Guidelines need work. I assume they are to be issued by TRE.



OFFICE MEMORANDUM

cc:CSV

10-146
11-1-91
DATE: October 30, 1991

TO: Mr. Ernest Stern

THROUGH: Donald C. Roth and Kenneth G. Lay

FROM: Paul J. Siegelbaum

EXTENSION: 80752

SUBJECT: Debt Repurchase Board Paper

Attached is a draft Board paper proposing that the Executive Directors grant Management the authority to purchase outstanding Bank bonds in the market. The draft reflects the comments of Jessica Einhorn and Kenneth Lay, as well as the discussion of this topic with Mr. Stern on July 30.

Also attached is a preliminary draft of internal operational guidelines which we plan to apply to the U.S. dollar debt repurchases described in the Board paper. While we would not expect to distribute the guidelines to the Board, they do give the sense of how we would plan to use this new authority, if granted by the Board.

Your comments on the attached drafts would be appreciated.

Attachments

cc: Attila Karaosmanoglu, Caio Koch-Weser, Jessica P. Einhorn,
FOD Chiefs, Scott B. White, Barbara Oppen



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/04/1991	Document Type Memorandum			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Lawrence Summers, VP Development Economics				
Subject / Title Clearance to Level 25 Positions - Ms. Patricia Annez				
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			

ERNEST STERN
Senior Vice President
Finance

November 4, 1991

Mr. Preston

Lew -

Interest Rate Basis for a Single Currency Loan

(1) Some time ago, we set up a working group to consider whether we could expand our lending product choice, consistent with maintaining our currency pool operation. The group has concluded that it is feasible to provide a single currency alternative to the currency pool to accommodate risk management needs of selected borrowers. I have discussed this with my senior colleagues in Finance, and we agree with this conclusion. A work program that would give us a product design by June 1992 has been formulated.

(2) We also agreed that we should select one interest rate basis for the single currency loan. There were three alternatives:

- (a) the same interest rate for the currency as is used in the existing variable lending rate, which is an average of a portfolio of fixed rate medium-to long-term debt;
- (b) a fixed rate based on Bank funding cost at the time of disbursement; and
- (c) an average of a portfolio of floating rate medium-to long-term debt, pegged to LIBOR.

(3) We evaluated the alternative rate bases against the basic principle that our cooperative structure is valuable to the Bank and any new product should be consistent with this structure. This structure provides risk and benefit-sharing, very efficient intermediation, equal spreads and fees. Product choice should not introduce cross subsidies, or increased generalized Bank exposure to market risks, or the opportunity for one class of borrowers to select against another.

(4) All three alternatives can be managed so as to be consistent with our cooperative structure. Since the objective of expanding product choice is to facilitate the risk management characteristics of our loans, there is a strong preference for a simple, business-like loan product which would have market-based pricing. This eliminated the first alternative. The second, though feasible, is administratively complex if we are not to incur additional interest rate risk. The preferred choice, therefore, would be a LIBOR-based loan (in any of our 3 major currencies). This is easy to manage financially and administratively.

(5) The type of borrower we have in mind are the financial intermediaries. Their onlending is complicated by our currency pool arrangement, and they normally onlend in a single currency and bear the exchange and interest rate risks (or the government does). By no means all fully understand this aspect of their intermediation. A single currency loan would simplify their business greatly. But we do not really know yet the extent this group, or other borrowers, would be better served by LIBOR-based loans. We will be getting more information on this which will enable us to assess whether LIBOR-based loan is suitable for the majority of likely single currency borrowers. However, before we explore this further with borrowers and others, we would like some guidance on one aspect of the LIBOR alternative.

(6) The main advantage of the LIBOR option is its similarity with terms offered in the market, such as LIBOR-based commercial bank loans. Clearly, this makes it easy to explain and manage, although a Bank loan has a much longer term to maturity than typical LIBOR-based loans.

(7) However, the main advantage of a LIBOR based option leads also to the main concern. Would the Bank put its preferred creditor status at risk by offering the same interest basis as a typical commercial bank loan, particularly in situations where commercial banks are being asked to reschedule?

May we discuss?



Ernest Stern

L - I N - 1 N O T E

DATE: 04-Nov-1991 01:49pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Basil Kavalsky, FRM

(BASIL KAVALSKY)

EXT.: 80523

SUBJECT: USSR TA Funding

Re your question on this. As far as the Swiss are concerned I discussed this with Stephan Nellen some weeks back. He informed me that they had exhausted budget authority for Eastern Europe for the current fiscal year and would therefore only be able to commit funding next year. The amount they were thinking about was of the order of \$2 million. He is out this week and I will check next Monday if this is still the case.

On the Netherlands I spoke with Eveline Herfkens. The Dutch have NG5 million for this and her understanding was also that they would prefer it in the next fiscal year. She suggested I check with Jos de Vries that this is still the case as there may be the usual end of year scurry to spend money. The Dutch contribution is subject to conditions however. They would like this to be part of more general fund-raising (without any specific burden-sharing). I suggested that I would draft a memo to her which would explain what we are doing on this re the Swiss, consultant trust funds and cofinancing. Hopefully this will be a sufficient fig-leaf. I will follow up on this in the next few days.

Basil
OK - but don't push
the Dutch. I'm not
about to be pushed
into a fund-raising
exercise by conditions
on F15 million.

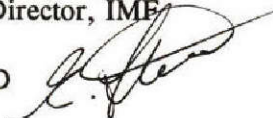
[Signature]
11/4/91

OFFICE MEMORANDUM

DATE: November 4, 1991

TO: Mr. Michel Camdessus, Managing Director, IMF

FROM: Ernest Stern, Acting President, IBRD



EXTENSION: 82004

SUBJECT: BURUNDI - Policy Framework Paper - 1991-94

The Committee of the Whole of the Executive Directors of the Bank and IDA discussed the paper entitled "Burundi: Policy Framework Paper, 1991-94" on October 31, 1991. Attached for your information is the Chairman's Summary to provide background for the discussion of the PFP by the Executive Directors of the IMF.

Attachment

/eh



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/04/1991	Document Type Board Record			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Michel Camdessus, Managing Director, IMF				
Subject / Title Burundi Policy Framework Paper 1991-1994				
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
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The World Bank
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

November 4, 1991

Mr. Picciotto

Bob -

Would you please work out with Messrs. Thalwitz and Cheetham a definition of the local cost expenditures to be borne by the USSR and/or the participating republics? As our program gets in gear, it is important that we have a clear statement at the outset so that we do not set precedents which might be cumbersome to reverse.

Our financing is limited; the EDs are interested in the subject; and the USSR is a middle(+) income country. We, therefore, do not want to be spending our grant funds for costs which the USSR can readily bear.

I would appreciate it if I could see a draft in about a week's time.



cc: Mr. Thalwitz
Mr. Cheetham

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

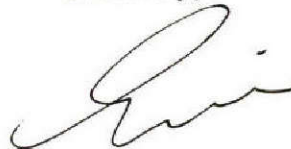
November 4, 1991

Mr. Fred C. Bergsten
Director
Institute for International Economics
11 Dupont Circle, N.W.
Washington, D.C. 20036

Dear Fred,

I do not know whether you have ever thought much about the mystery of the ECU value diverging from the basket currencies. It struck me as peculiar at the time. The Bank of England had a go at explaining it, but this is a more elegant explanation. I think you will find it interesting.

Sincerely,

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

Washington, D.C.
Oct. 17, 1991

CC:CS ✓

The Private ECU: A Currency Floating on Gossamer Wings

David Folkerts-Landau ^{1/}
Deputy Chief, Capital Markets Division
International Monetary Fund

Peter M. Garber
Professor of Economics
Brown University

Prepared for a Conference on
"Monetary and Financial Instruments in ECU: Statistical Aspects"
Sponsored by Eurostat, Commission of the European Communities, Luxembourg
Luxembourg, 23 and 24 September 1991

^{1/} The views expressed are the authors' alone and do not necessarily represent the views of the International Monetary Fund. The authors are grateful for information and data received from the Kredietbank N.V. the Bank for International Settlements, and Eurostat.

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/4

Sven

One other item - is
anyone looking ^{at} making
the external affairs
officers report to
EXT? (while staying
where they are).

(E)

The World Bank

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

Office of the
Senior Vice President
Finance

11/4

Sven

This needs to be
assigned somewhere -
CEC or COPD.



International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

DECLASSIFIED

AUG 04 2025

SecM91-1344

FROM: The Acting Secretary

WBG ARCHIVES

October 8, 1991

QUARTERLY REPORT ON PENDING TRANCHE RELEASES OF ADJUSTMENT OPERATIONS

Attached for information is the latest "Quarterly Report on Pending Tranche Releases of Adjustment Operations." Questions on this report may be addressed to Mr. Satish Mannan (ext. 81944).

Distribution

Executive Directors and Alternates

President

President's Council

Vice Presidents, Bank, IFC and MIGA

Directors and Department Heads, Bank, IFC and MIGA

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

DATE: November 1, 1991 08:06pm

TO: Attila Karaosmanoglu
TO: Ernest Stern

(ATTILA KARAOSMANOGLU)
(ERNEST STERN)

FROM: Sven Sandstrom, EXC

(SVEN SANDSTROM)

EXT.: 81138

SUBJECT: World Debt Tables

I attach an EM from DC FYI.

Please let DC and/or me have your comments, if any, on the draft World Debt Tables paper on Monday.

Sven

Sven
a) I don't mind the
\$15,000
b) If that doesn't do the
trick we can move
to the new system
next year. DC's
other points can,
I guess, be met.
②
11/4

L - I N - 1 N O T E

DATE: 01-Nov-1991 04:26pm EST

TO: Sven Sandstrom

(SVEN SANDSTROM)

FROM: D. C. Rao, IECDR

(D. C. RAO)

EXT.: 33800

SUBJECT: World debt tables

Sven,

We have exercised our ingenuity as best we can and made some enquiries re the implications of letting EDs see a draft before publication.

In summary, we can still manage to publish this calendar year provided

-you do not have very major comments on Monday

-revisions following the Board seminar are really minor

-the distribution of the report to the EDs is only one week prior to the seminar

-and someone picks up the additional cost of accelerated printing (we do not have a reliable estimate of this yet, but guess this will be around \$15,000).

If any one of these assumptions is false, the publication date will slip to 1992, which will be a very big shame considering staff have worked terribly hard to meet impossible deadlines in order to avoid this.

A compromise would be for us to stick with the old system this year; for Preston to hear the complaints from EDs and rule that next year we will move to a procedure whereby EDs get to see the draft first. I honestly do not think we will have more trouble on this issue this year than we did last year; and last year we survived.

CC: Masood Ahmed
CC: Alexander Shakow
CC: Larry Summers
CC: Johannes Linn

(MASOOD AHMED)
(ALEXANDER SHAKOW)
(LARRY SUMMERS)
(JOHANNES LINN)

Bilser
Entirely in
agreement
11/4/91
DECLASSIFIED

CONFIDENTIAL

Mr. Thalwitz

AUG 04 2025

November 4, 1991

Wilfried:

WBG ARCHIVES

You have seen the note that Russ has sent me on November 1 concerning the staffing of his Department. It raises a number of issues for me.

1. First of all, if in essence Russ is dropping the Project Advisor position, I understand his rationale. However, I would then expect the Region to use him for their existing vacancy for PA unless something else agreeable to him can be worked out in the Region.
2. As you know, I have been supporting the idea of a special senior complement for the Soviet Union TA. This was based on the understanding that you would draw on the list of displace staff in SVP offices without tripping over the issue of their grade levels. I do not find it acceptable to be told now that Russ is only interested in Costas Michalopoulos. There are a number of staff who can provide "strong intellectual and analytical leadership on the Soviet Union". Fred Levy, Anandarup Ray and Dennis de Tray are some that come to mind. There are also others. I hope you can come back with some additional suggestions beyond those provide by Russ.
3. The issue of Chief Economist is still with us. We have an incumbent (Parvez) who is very keen on the job and two displace staff who have been cleared for Chief Economist (Costas and Fred). If we can accommodate these three staff, I do not mind turning to other cleared chief economist candidates but I cannot justify selection of a not yet cleared candidate -- however good he or she may be.

Let us discuss early in the week.

Bilser
Bilser

cc: Mr. de Capitani

bcc: Mr. Stern, Mr. Sandstrom

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 4, 1991

Mr. Coady

Pat -

I did not want you to miss the historic occasion recorded on the attached daily Overdues Report.

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

Overdue Service Payments Summary

Updated On:Thursday, October 31, 1991

International Bank for Reconstruction and Development
Summary of Overdue Service Payments as of 10/31/91

(\$US Millions)

----- Days Overdue -----				
			Over	
30-44	45-59	60-180	180	Total
-----	-----	-----	-----	-----
NO country with Overdues				

Overdue Service Payments Summary

*: Disbursements suspended

LOAN Accounting & Borrower Services Division

International Development Association
Summary of Overdue Service Payments as of 10/31/91

(\$US Millions)

	----- Days Overdue -----				
	30-44	45-59	60-180	Over 180	Total
	-----	-----	-----	-----	-----
NO country with Overdues					

Overdue Service Payments Summary

LOAN Accounting & Borrower Services Division

*: Disbursements suspended

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 4, 1991

Mr. Koch-Weser
Mr. Stoutjesdijk

Additional Loan Product

I would like us to proceed with the next steps in designing a LIBOR-based, single currency loan. We should plan to have ready for management review, by March 31, 1992, notes on:

- (a) selection/eligibility criteria
- (b) systems aspects
- (c) accounting procedures
- (d) borrowing and liquidity aspects
- (e) QB82 impact
- (f) pricing principles

For purposes of consulting with borrowers, we should envisage a LIBOR-based loan, with a choice in DM, Yen, USD. We should take the opportunity to inquire into their interest in fixed rate (market based) loans and/or their interest in swapping (with or without our help) to fixed, if they choose LIBOR. We should limit ourselves to consulting on financial intermediaries of all types which, I believe, is a natural client base for this and, at the same time, an easily justified initial cap on demand.



cc: Mr. Wood
Mr. Roth
Mr. Eccles
Mrs. Einhorn

L - I N - 1 N O T E

DATE: 04-Nov-1991 03:01pm

TO: Jack Mossop

(JACK MOSSOP)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Update on Unit Vacancies

Please give us an update on unit vacancies and status of recruitment, etc. at Thursday's SFM.

L - I N - 1 N O T E

DATE: 04-Nov-1991 03:03pm

TO: Cindy Scherr

(CINDY SCHERR)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: FYI

For Thursday's SFM. FYI only---no need to mention as an agenda item.

L - I N - 1 N O T E

DATE: 04-Nov-1991 03:01pm EST

TO: Jack Mossop

(JACK MOSSOP)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Update on Unit Vacancies

Please give us an update on unit vacancies and status of recruitment, etc. at Thursday's SFM.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 4, 1991

Mr. Sandstrom

Sven -

I am sorry that in my earlier quick-reading of the debt tables, I missed the extensive treatment of Net Transfers. (Summary p. 5 and tables). Mr. Potter's memo, which I mentioned to you, made me look for the subject.

My views on the matter are well-known, so I will not bother to repeat them. But, given the regular misuse to castigate the Bank that is made of this concept and the (by definition) limited capacity we have to eliminate the Bank's negative net transfers, the treatment in the text is not acceptable.

If we should point out that net transfers were negative globally (and I do not particularly object to that), we also need to expand the treatment to put it in proper context. Among the points to be added are:

- o Net transfer is an incomplete account of the benefits of capital since the output generated by the investment is not captured.
- o Positive net transfers, except for grants and DFI, add to the stock of debt.
- o If all capital were debt financing, then positive net transfers can only be maintained if new debt flows are at least equal to amortization plus interest payments. This means that unless exports grow consistently more rapidly than interest payments, the debt service ratio will deteriorate steadily. We cannot, at the same time, argue for debt reduction on the grounds that the debt burden is too high (and debt service ratios rising), and argue for more debt creation. If we mean to say that net negative transfers created by debt instruments should be offset by the DFI and grants, let us say so.
- o For lending institutions, this means that (new borrowers aside) they will have negative net transfers in their mature borrower portfolios, barring periods of special support. Consistently, capitalizing the interest due, which is what positive net transfers

implies, cannot be supported by any private or publicly-financed capital base.

- o Positive net transfers are not necessarily desirable for all countries at all times. The greater the DFI (and grant) components, the less risk positive net transfer poses; the greater the debt creating component, the greater the risk of an inability to service the debt.

I will be glad to sit down with you and Larry, if you wish, to discuss this; or you can handle it. But what we cannot do is to continue to shoot ourselves in the foot. (I note that Chapter 4, quite properly, discusses net resource flows---not net transfers).



Ernest Stern

L - I N - 1 N O T E

DATE: 04-Nov-1991 11:19am

TO: Basil Kavalsky

(BASIL KAVALSKY)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: USSR Trust Fund

Would you let me know the status of the Swiss and Dutch contributions to the USSR Trust Fund? Who is responsible for the discussions? Is there a timeframe? Is there a draft agreement, etc.?

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/2

Elena

Thanks for sending me
David's ECU paper. It is
indeed interesting and a
more elegant explanation
than the BotE paper.



The World Bank/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 5, 1991 06:10pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Vinod Thomas, ASIVP

(VINOD THOMAS)

EXT.: 81415

SUBJECT: WDR91

Mr. Stern,

Thanks for your note on the N.Y. Times article. I also felt that Ranis went on a tangent to say what he wanted to say. But reading your note, I also wondered whether it is worthwhile to send N.Y. Times a non-defensive comment (from you?!) on what both donors and recipients have learnt, according to our book on Adjustment Lending. I would appreciate your judgment on this.

Vinod

Vinod -

I'm not of the
letter-to-the-editor
school. But that's a
matter of taste.

Erin
11/6/91



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/26/1991	Document Type Letter			
Correspondents / Participants From: V.S. Raghavan To: Ernest Stern, Senior VP Finance				
Subject / Title [Payment Withdrawal]				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence Deliberative 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			

OFFICE MEMORANDUM

DATE: November 5, 1991

TO: Mr. Michel Camdessus, Managing Director, IMF

FROM: Ernest Stern, Acting President 

EXT: 82004

SUBJECT: GUINEA - Policy Framework Paper, 1991-94

The Committee of the Whole of the Executive Directors of the Bank and IDA discussed the paper entitled "Guinea: Policy Framework Paper, 1991 to 1994" on November 5, 1991.

Attached for your information, is the Chairman's summary of the discussion.

Attachment



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/05/1991	Document Type Board Record			
Correspondents / Participants From: Ernest Stern, FINSV To: Michel Camdessus, Managing Director, IMF				
Subject / Title Guinea Policy Framework Paper 1991-94				
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
Washington, D.C. 20433
U.S.A.

11/5

Office of the
Senior Vice President
Finance

R.P.

If these pages are OK
with you they can go in
Final. If not, lets talk
about the points at issue.

I didn't understand the last
two sentences of para 1
(may be nomenclature) or the
last sentence of p15. It
may now say what was
intended but I'm not sure
since there is no purpose
given in the text for the
detailed exploration. *ed*

DRAFT

MANAGING TECHNICAL ASSISTANCE IN THE 1990s

**REPORT OF THE TECHNICAL ASSISTANCE
REVIEW TASK FORCE**

November 4, 1991

MANAGING TECHNICAL ASSISTANCE IN THE 1990s

REPORT OF THE TECHNICAL ASSISTANCE REVIEW TASK FORCE

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- 1 Gap Filled by Grant Facility
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EXECUTIVE SUMMARY

1. Technical assistance is a major enterprise for the World Bank. It is embedded in all Bank services funded out of the Bank's \$1 billion budget. ~~In fiscal 1991~~ ^{and} it was the purpose of about \$1.9 billion in loans, primarily components of projects, ^{approved in FY 1991} and it is the exclusive focus of a wide range of reimbursable programs managed by the Bank on behalf of the United Nations Development Program (\$83 million in fiscal 1991) and other donors (\$125 million in fiscal 1991). The Bank also provides technical assistance through nonreimbursable and cooperative programs and the Economic Development Institute. These budget-funded means of technical assistance delivery totaled \$45 million in fiscal 1991. 17.?

2. Widespread policy changes, some of them triggered by the Bank, have made the traditional link between Bank lending and technical assistance even more critical. Greater reliance on the market, ~~retreat from massive state~~ ^{reduced reliance on state} intervention in the economy, deregulation ^{and of markets} and decentralization, combined with effective human resource development, have become dominant global precepts of economic management. But many of the Bank's borrowing member countries—including the countries in transition to market economies—lack ~~modern, independent~~ ^{modern} institutions able to implement these reforms. Consequently, ~~there has been pressure on the Bank to take an~~ ^{is being press} increasingly active role in provision of technical assistance in areas of policy reform, institutional development and capacity building "upstream" of normal lending operations.

3. The Bank is responding to these challenges. Technical assistance has risen as a proportion of Bank lending, and assistance for institutional development has risen as a proportion of technical assistance. Following consultations with the Board's Cost Effectiveness and Budget Practices Committee, changes are under way in the Bank's management of technical assistance funded by other agencies. This report of the Technical Assistance Review Task Force is part of a concerted effort to enhance the quality and effectiveness of Bank technical assistance.

4. While most of the Bank's borrowers, according to a survey commissioned in connection with this report, are relatively satisfied with technical assistance provided by the Bank, internal evaluations carried out by the Bank indicate that management of technical assistance does not always measure up to the standards applied to capital assistance, ^{However} and that assistance in institutional development is not as well managed as technical assistance in the traditional area of project and program support. The Bank's performance, relative to that of other donors, is ~~better than average~~ ^{that is} but not good enough for what is one of the Bank's fastest growing "product lines"—institutional development, policy reform, and capacity building. ^{activities}

5. There are several reasons why Bank technical assistance interventions have often failed to have the desired impact. One is the intrinsic difficulty of the work. It is ~~heavily~~ ^{very} staff intensive, ^{difficult} ~~problematic~~ to design, and with results that are often not measurable and ~~that can be realized only~~ over time. It frequently involves politically sensitive issues, ~~and requires staff skills well beyond~~ ^{normal project disciplines}. Moreover, the country situations often encountered (e.g. difficult civil service conditions, economic crisis, governance problems) make the goals of skills transfer and behavioral change even more difficult to achieve in the short run.

6. Nevertheless, in a wide range of situations, technical assistance can be ~~critical~~ ^{contribute} to the success of member countries' development efforts and the Bank's lending program. The inherent risks and difficulties must be managed as the Bank cannot back away from an expanding technical assistance role without weakening its overall development impact. Numerous reviews of the Bank's technical assistance record reveal these risks and difficulties, as well as the importance of achieving a higher rate of success. Such an improvement would have highly rewarding consequences for the Bank and its borrowers, and should be tackled as a medium-term strategic objective. Efforts to ^{It} ~~be~~ ^{to be} effective. ^{in the Bank's capacity to manage techn assist} Since current development strategies require expanded

improve the effectiveness of technical assistance should build on the Bank's experience, which indicates that the following factors have been critical to the success of technical assistance: (i) a high level of commitment and mutual interest on the part of the Bank and the borrower; (ii) ~~objectives of limited scope that are~~ consistent with the country's absorptive capacity; (iii) project design based on an accurate assessment of needs during preparation; and (iv) rigorous supervision.

well defined
An
7. The Bank can ~~achieve this goal by applying to~~ ^{improve the management of its} technical assistance ^{by applying to it} the same kind of professional management and high-quality staff inputs that investment and adjustment lending now elicit. What is required is Bank commitment to this goal as a priority, and the same degree of managerial accountability for results from the use of resources for technical assistance as for that of other operational resources. Specifically, the report calls for: (i) more explicit consideration of the technical assistance instrument in country strategy formulation; (ii) greater attention to institutional development expertise in human resource planning; (iii) an increased role for field missions; and ~~(iv) updated operational directives to guide task managers in ensuring that technical assistance is adequately designed, monitored, and evaluated.~~ ^{should be prepared expeditiously.}

8. ~~But~~ beyond process, the key ingredient is managerial—to apply to technical assistance the same kind of focus that has been demonstrably successful in attaining the performance standards set and achieved in the Bank's investment and adjustment lending. Though some of the subject matter is new, the techniques and procedures for managing it to high standards are not.

9. Traditional technical assistance approaches must adjust to a more complex mandate. Institutional development, no longer simply the strengthening of entities carrying out projects, now routinely includes civil service reform, improving and making more transparent the legal and regulatory frameworks, disseminating export quality standards, ~~creating incentives for the private sector, and in many cases shrinking oversized public sectors.~~ ^{Bank technical assistance activities} ~~are shifting somewhat from the relatively easier preinvestment feasibility and engineering studies to work that entails more complex and less clearly delineated institutional issues -- and where there are few guidelines valid across sectors and activities.~~ ^{reforms in Financial Sectors: design social safety system} Nevertheless, the Bank is rapidly "learning by doing" in institutional development, acquiring comparative advantage within the donor community, and is being increasingly looked to for leadership.

10. Recent expansion in the number of Bank experts in institutional development, coupled with the Task Force's recommendations for more intensive training of existing staff and enhanced research dissemination efforts, should result in steadily higher levels of competence. So should the ongoing shift in recruitment priorities towards staff with professional and managerial experience in sectoral disciplines. It is necessary to exercise selectivity in the Bank's institutional development work, but if member countries' interests are to be served the Bank cannot afford to delay building up its capacity and enhancing its effectiveness in this field.

11. Funding for project preparation and implementation is readily available through traditional sources: loans and project components, the Project Preparation Facility, and, on the grant side, UNDP and bilateral trust funds. There is, however, a gap in the Bank's tool kit for financing technical assistance for institutional development work associated with ~~broad-based~~ reform programs, special operational emphasis initiatives, or country management of external assistance. Countries are often reluctant to borrow for activities which do not lead to a loan or credit, where the specific benefits while potentially large appear uncertain and ~~where technical assistance funds from other sources are available on a grant basis.~~ The use of UNDP or bilateral trust funds runs into the strictures and priorities of those funding sources, with prohibitive transaction costs where small, discrete interventions are concerned.

12. The Task Force accordingly recommends the establishment of a new grant facility—the Institutional Development Promotion Fund—to be funded at \$50 million for an initial two-to-three-year period. The facility would be limited to use in middle- and low-income countries where

in countries where institutional development is a significant country strategy objective.

~~the Bank has a significant institutional development role to play. It would finance small, action-oriented schemes identified during and closely linked to the Bank's policy dialogue and economic and sector work.~~ This useful addition to the Bank's operational tool kit would enable staff to respond quickly and in a flexible manner to remove bottlenecks, strengthen the hand of those in the country who are trying to bring about reform, help promising initiatives to move ahead rapidly, and provide assistance in expediting worthwhile activities. By helping in these ways to improve the enabling environment for institution building and policy reform, it would serve to buttress lending operations. It is proposed that a Special Program be established in the administrative budget and that \$50 million be

13. The proposed facility/would also help attract funding from other donors for similar purposes and facilitate their administration. Untied contributions to the new facility would be sought from UNDP and other sources since the facility would be designed to enhance and complement other donors' technical assistance efforts. Indeed, the proposed grant facility would be expected to contribute to better management of existing funds. The rapid multiplication of individual donor trust funds has created coordination problems which the proposed facility may help resolve. By offering donors a consistent management framework the proposed facility would provide the potential of scale economies and help rationalize trust fund management. In this way, and along with the integration of reimbursable programs into the business planning process, the facility would also help ensure that bilateral funding is directed to coherent institutional development priorities.

allocate for a pilot per \$ 2-37 An evaluation would done the end of 2 years a the fac replenish as needs

14. Not only has the Bank's technical assistance funding expanded but so has that from other donors and agencies. Globally, technical assistance has become a big business. Including technical assistance grants and loans and loan components from the members of OECD's Development Assistance Committee, as well as from the regional development banks, United Nations agencies such as UNDP, the World Bank Group, and IMF, the total may well be in the neighborhood of \$20 billion annually. This global system of development aid needs to become more responsive. The United Nations system is reordering its technical assistance programs to emphasize human development, enhance competition and cost effectiveness, and tailor assistance to individual country needs. It is time for the Bank and the UNDP, as the two leading global and multisectoral agencies financing technical assistance, to review their relationships, priorities, and service delivery.

In that context

Should

15. ~~The forthcoming shift by the UNDP to a system of national as opposed to external agency execution of UNDP grant programs, is a significant initiative, the effects of which on the Bank's administration of UNDP funds is not yet fully clear.~~ The Bank should strengthen its relationship with the UNDP, especially with the aim of building local development institutions and country capacity to manage technical assistance, including encouragement of the local consulting profession. The 1987 and 1988 agreements with the UNDP should be reviewed and a new Operational Directive issued to guide Bank staff. The basic framework agreement with the UNDP should also be reviewed and, if necessary, amended. The Bank should engage the UNDP in detailed exploration of human development initiatives, financing of technical assistance for institutional development, and cooperative technical assistance management services.

has decided to shift to

16. The Bank is well-placed in many countries to play a critical role in broad, policy-based efforts to sharpen the focus of technical assistance from various sources, and to increase its impact. It should undertake this task in concert with the UNDP. The Bank should give strong support to the carrying out of National Technical Cooperation Assessment Programs (NaTCAPs) and assist countries, the UNDP, and donors to follow up in applying the findings of such assessments. The UNDP, with its field presence and long-standing mandate for technical assistance coordination, should continue to provide a forum for coordination of donor technical assistance. The Bank can help member countries develop a cohesive focus for technical assistance, utilizing the UNDP's presence in conjunction with the Bank's policy dialogue role.

17. The Task Force also recommends consultation with donors, in the context of OECD's Development Assistance Committee (DAC), to improve bilateral technical assistance. The DAC has just approved draft principles for reorienting technical cooperation that emphasize the central role of the recipient country in planning and evaluating technical cooperation; the importance of the private sector's role in development and the potential for greater use of local expertise also are stressed. Adoption of these principles by bilateral donors requires follow up; it would be useful for DAC to consider harmonization of policies and procedures for technical assistance and, where possible, encourage donors to untie technical assistance funds to promote competition among suppliers. It is recommended that the Bank pursue these questions with bilateral donors and encourage consultations among them—on an informal basis—considering that the Bank has only observer status in DAC.

L - I N - 1 N O T E

DATE: 05-Nov-1991 09:53am

TO: Ann Hammond

(ANN HAMMOND)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

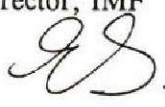
SUBJECT: If you have made a commitment

to show people your draft, you'd better go ahead and do so. But I hope it is not very many people. Dissemination of drafts can lead to false expectations and unfortunate (and unnecessary) comparisons between the draft and the final product. Moreover, we are working on a joint committee product, and, if we do our job properly, the views expressed will represent everyone's views, and all vestiges of different authorship of the reports' sections will have disappeared.

OFFICE MEMORANDUM

DATE: November 6, 1991

TO: Mr. Michel Camdessus, Managing Director, IMF

FROM: Ernest Stern, Acting President, IBRD 

EXTENSION: 82004

SUBJECT: UGANDA: Policy Framework Paper, 1991/92 - 1993/94

The Committee of the Whole of the Executive Directors of the Bank and IDA discussed the paper entitled "Uganda: Policy Framework Paper, 1991/92 - 1993/94" on November 5, 1991. Attached, for your information, is a summary of the main points of that discussion.

Attachment



Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/06/1991	Document Type Board Record			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Michel Camdessus, Managing Director, IMF				
Subject / Title Uganda Policy Framework Paper 1991-1994				
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
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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Peter McCawley
Deputy Director General
Community, Commercial and
International Programs Division
Australian International Development
Assistance Bureau (AIDAB)
P.O. Box 887
Canberra, ACT 2600, Australia

Dear Mr. McCawley:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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At the Bangkok meeting a number of Deputies asked for some elaboration of how IDA proposes to deal with issues of governance. In response to these comments, I am enclosing a report which was recently discussed by the Executive Directors: "Managing Development: The Governance Dimension -- A Discussion Paper" dated June 26, 1991.

As promised, I am also attaching a technical note, which estimates the real value of IDA9 in IDA10 terms.

I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN

cc: Mr. John H. Cosgrove, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Herbert Lust
Director
International Financial Institutions
Federal Ministry of Finance
Himmelpfortgasse 4-8
A-1015 Vienna, Austria

Dear Mr. Lust:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN *st*

cc: Mr. Bernard Snoy, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. J. P. Arnoldi
Inspector General
Head of International Relations
Treasury Department
Ministry of Finance
30 Avenue des Arts
1040 Brussels, Belgium

Dear Mr. Arnoldi:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Bernard Snoy, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Olavo Cesar da Rocha e Silva
Head, International Organizations and
Agreements Department - DEORI
Banco Central do Brasil
Caixa Postal 040170
Brasilia DF 70000, Brazil

Dear Mr. da Rocha e Silva:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Ernest Leung, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Allan Popoff
General Director
International Trade and Finance Branch
Department of Finance
140 O'Connor Street
Ottawa, Ontario K1A 0G5, Canada

Dear Mr. Popoff:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to follow up on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. N. F. Potter, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Jiri Vetrovsky
Director General of
International Financial Department
Federal Ministry of Finance
Letenska #15
11810 Prague, Czechoslovakia

Dear Mr. Vetrovsky:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to follow up on a number of items.

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Sincerely,

(Signed) ERNEST STERN 

cc: Mr. Bernard Snoy, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Sten Lilholt
Head of Division
Department of International Development Cooperation
Ministry of Foreign Affairs
2, Asiatisk Plads
DK-1448 Copenhagen K, Denmark

Dear Mr. Lilholt:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Einar Magnussen, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Erkki Laurila
Director, FINNIDA
Ministry of Foreign Affairs
Mannerheimintie 15-C
SF-00260 Helsinki, Finland

Dear Mr. Laurila:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Einar Magnussen, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mrs. Anne Le Lorier
Deputy Assistant Secretary for
Debt and Development Issues
Department of the Treasury
Ministry of Economy, Finance and the Budget
139, Rue de Bercy
75572 Paris, CEDEX 12, France

Dear Mrs. Le Lorier:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Jean-Pierre Landau, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Gerhard Boehmer
Deputy Director General
Multilateral Affairs
Federal Ministry of Economic Cooperation
Karl-Marx Strasse 4-6
Postfach 120322
5300 Bonn, Germany

Dear Mr. Boehmer:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN 

cc: Mr. Fritz Fischer, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Petros Kontos
Economic Counselor
Embassy of Greece
1636 Connecticut Ave., N.W.
Washington D.C. 20009

Dear Mr. Kontos:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Rosario Bonavoglia, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Andras Horvai
General Manager
International Development Institutions
National Bank of Hungary
Szabadsag ter 8-9
H-1850 Budapest V, Hungary

Dear Mr. Horvai:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN *ES*

cc: Mr. Bernard Snoy, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Jun Thormodsson
Deputy Secretary General
Ministry of Commerce
Arnarhvoll
Reykjavik, Iceland

Dear Mr. Thormodsson:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Einar Magnussen, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Maurice O'Connell
Second Secretary
Department of Finance
Upper Merrion Street
Dublin 2, Ireland

Dear Mr. O'Connell:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN *Y*

cc: Mr. N. F. Potter, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Pietro Masci
Division Chief
Multilateral Development Banks
Ministry of the Treasury
Via XX Settembre 97
I-00187 Rome, Italy

Dear Mr. Masci:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN₁₁

cc: Mr. Rosario Bonavoglia, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Shigemitsu Sugisaki
Deputy Director General
International Finance Bureau
Ministry of Finance
3-1-1 Kasumigasiki Chiyoda-ku
Tokyo 100, Japan

Dear Mr. Sugisaki:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN₄

cc: Mr. Masaki Shiratori, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/06/1991	Document Type Letter			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Bong-Hee Won, Advisor to the Executive Director				
Subject / Title Schedule of meetings				
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
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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Hisham Al-Woqayan
Director of Operations
Kuwait Fund for Arab Economic Development
c/o The United Bank of Kuwait
3, Lombard Street
London EC3V 9DT, United Kingdom

Dear Dr. Al-Woqayan:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to follow up on a number of items.

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As promised, I am also attaching a technical note, which estimates the real value of IDA9 in IDA10 terms.

I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN *y*

cc: Mr. Fawzi Hamad Al-Sultan, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Yves Mersch
Director of the Treasury
Ministry of Finance
3, Rue de la Congregation
Luxembourg
Grand Duchy of Luxembourg

Dear Mr. Mersch:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN

cc: Mr. Bernard Snoy, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Antonio Cervera-Sandoval
Director
International Financial Organizations
Ministerio de Hacienda y Credito Publico
Palacio Nacional
1 Patio Mariano
06066 Mexico, D.F., Mexico

Dear Mr. Cervera-Sandoval:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Moises Naim, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Ian M. de Jong
Director
Multilateral Financial Cooperation
Ministry of Development Cooperation
Bezuidenhoutseweg 67
The Hague, The Netherlands

Dear Mr. de Jong:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN₁₁

cc: Mrs. Eveline Herfkens, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Hessel Baas
Deputy Director
Development Cooperation Division
Ministry of External Relations and Trade
Wellington, New Zealand

Dear Mr. Baas:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

January 27-28, 1992	Paris
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Sincerely,

(Signed) ERNEST STERN *yl*

cc: Mr. John H. Cosgrove, Executive Director
Mr. John A. Wilson, Alternate Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Kjell Halvorsen
Deputy Director General
Multilateral Department
Ministry of Development Cooperation
P.O.Box 8142 Oslo Dep.
Victoria Terrasse 7
0033 Oslo 1, Norway

Dear Mr. Halvorsen:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN 

cc: Mr. Einar Magnussen, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Jerzy Hylewski
Director, Foreign Credit Department
National Bank of Poland
ul. swietokrzyska 11/21
00-950 Warsaw
Polish People's Republic

Dear Mr. Hylewski:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN

cc: Mr. Rosario Bonavoglia, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml
Mr. Andrzej Ilczuk, Advisor

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Jobarah Suraisry
Deputy Minister for
International Economic Cooperation
Ministry of Finance and National Economy
Riyadh 11177, Saudi Arabia

Dear Mr. Suraisry:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to follow up on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN

cc: Mr. Ibrahim Al-Assaf, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Francois Le Roux
Principal Resident Representative of
South Africa to the IMF and the World Bank
IMF, Room 13-205
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Le Roux:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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I look forward to seeing you in Paris on January 27 and 28. The background papers and the administrative arrangements for the meeting will be sent to you in the first week of January.

Sincerely,

(Signed) ERNEST STERN ²¹

bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mrs. Silvia Iranzo
Deputy Director General for
International Economy
Ministry of Finance and Economy
Alcala 11, Primer Piso
28014 Madrid, Spain

Dear Mrs. Iranzo:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN ²¹

cc: Mr. Moises Naim, Executive Director
Ms. Rocio Alberdi, Advisor
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Lennart Bage
Assistant Under Secretary
Department for International Cooperation
Ministry of Foreign Affairs
P.O. Box 16121
S-10323 Stockholm, Sweden

Dear Mr. Bage:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN *yl*

cc: Mr. Einar Magnussen, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Jean-Daniel Gerber
Head
Development Policy Service
Federal Office for Foreign Economic Affairs
Bundeshaus Ost
3003 Berne, Switzerland

Dear Mr. Gerber:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

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Sincerely,

(Signed) ERNEST STERN

cc: Mr. Stephan Nellen
Counsellor
Embassy of Switzerland
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Murat Ata Kudat
Director General
Foreign Economic Relations
Undersecretariat of Treasury
and Foreign Trade
Mithatpasa Cad. No. 18
Kat 1, Kizilay
Ankara, Turkey

Dear Mr. Kudat:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN₄

cc: Mr. Bernard Snoy, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Peter D.M. Freeman
Under Secretary
Overseas Development Administration
94 Victoria Street
London SW1E 5JL, United Kingdom

Dear Mr. Freeman:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN *ys*

cc: Mr. David Peretz, Executive Director
Mr. R. Graham-Harrison, Alternate Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. George A. Folsom
Deputy Assistant Secretary for
International Development & Debt Policy
Department of the Treasury
15th and Pennsylvania Avenues, N.W.
Washington D.C. 20220

Dear Mr. Folsom:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN 

cc: Mr. E. Patrick Coady, Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml

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

ERNEST STERN
Senior Vice President, Finance

November 6, 1991

Mr. Josip Kulisic
Assistant General Director - Treasury
Federal Secretariat for Finance
Bulevar Lenjina #2
5th Floor
11070 Belgrade, Yugoslavia

Dear Mr. Kulisic:

At the preliminary meeting in Bangkok on the IDA10 Replenishment, I promised to get back to you on a number of items.

Following our discussions in Bangkok, we have consulted on the schedule of meetings and possible venues. We propose to meet as follows:

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Sincerely,

(Signed) ERNEST STERN *71*

cc: Mrs. Eveline Herfkens, Executive Director
Mr. Boris Skapin, Alternate Executive Director
bcc: Messrs./Mmes. Wood, Linn, Kavalsky, Ohashi, Yap
LYap:ml



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/06/1991	Document Type Letter			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Fernando Carneiro, Alternate Executive Director				
Subject / Title [Schedule of meetings]				
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			

OFFICE MEMORANDUM

DATE: November 6, 1991

TO: Mr. Lewis Preston

FROM: Ernest Stern 

EXTENSION: 81664

SUBJECT: Administrative Cost Report

1. The attached Administrative Cost Report was instituted at Barber Conable's request at the time he established the APEX Reporting System. Under that system, each Senior Vice Presidential Unit prepares a quarterly report on the progress of work (against budget contracts) and budget. CPB reviews the APEX Reports submitted by the Senior Vice Presidents and prepares a summary report for the President.

2. The Administrative Cost Report prepared by the Controller serves the purpose of communicating the official budget, commitment and expense figures to all managers, and notes any major deviations from past trends at fairly high levels of aggregation. It does not try to go into budget performance assessments or issues as that function is reserved for the CPB APEX Report.

3. If you find the Administrative Cost Report useful, we will continue to prepare it over the balance of FY92, with the intention of integrating it in FY93 with CPB reports on the work program and budget.

Attachment

cc: Messrs. Eccles
Picciotto
Ruddy

OFFICE MEMORANDUM

DATE: November 6, 1991
TO: Mr. Lewis Preston
FROM: Ernest Stern *ES*
EXTENSION: 82004
SUBJECT: Administrative Cost Report as of September 30, 1991

1. Attached please find the Controller's report on administrative costs as of September 30, 1991. The report is also circulated to all managers at the level of Division Chief and above.
2. The data presented in this report are obtained from the Budget Accounting System which is the depository of the Bank's budget and expense data. Administrative costs include outstanding commitment balances in addition to paid expenses. There are no significant patterns or trends in the first quarter figures that would suggest abnormal commitment or expenditure or indicate problems of budget management.
3. The Bank's administrative costs during the first quarter of FY92 amounted to USD 319 million, 16 percent higher than the USD 276 million recorded in the same period of last year. An estimated 8.5 percent of this was attributed to price inflation, including staff compensation adjustment. Of the 7 percent difference, about half is due to the increased FY92 budget (over FY91 actuals), with the other half attributable to slightly higher rates of spending (30% this year, 29% last year).
4. There was an increase in "Other Staff Costs" (USD 25.7 million) due to two factors:
(a) Provision for non-pension retirement benefits for FY92 in the amount of USD 16.3 million was made in this quarter whereas in the last FY it was made in the third and fourth quarters;
(b) Approximately USD 7 million represented the Bank's increased obligation (including price inflation) for the Pension Plan based on recent actuarial projections.
5. The commitments on "Operational Travel" through the first quarter are higher this year -especially in EMENA (68% increase) followed by Asia (36%) and Africa (24%). The reason is largely because of low commitments in FY91 due to the Gulf Crisis, along with a high volume of annual meeting travel committed in the first quarter of FY92.
6. Please let me know if you have any comments on the report or if you need more information from Controller's.

Attachment

cc: Messrs. S. Eccles, CTRVP
R. Picciotto, CPBVP
M. Ruddy, ACTDR
R. Deshpande, ACTAB

Ms. J. Le Vourc'h, ACTCA

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 6, 1991

Mr. Preston

Lew -

Re: Privatization Paper

- (1) The discussion on the outline (attached) took over 2 hours.
- (2) There are two procedural points that I believe we have to deal with:
 - (a) We need to have a more explicit arrangement with IFC and MIGA. There was talk of joint authorship to which we did not respond. But there is no doubt that the EDs' expect treatment of the Bank Group - both in assessing lessons of experience and in defining the future role - and this cannot be done if we merely have IFC staff provide data. There needs to be a working advisory group so that we have IFC and MIGA institutional participation in the formulation of the conclusions and the specifics on the role of the Bank Group.
 - (b) We need to plan to have a seminar before presenting a Board paper. Although we were discussing only an outline, it was clear that there are strong views of the appropriate objectives of privatization, private management versus private ownership, and the scope for privatization. To go for a Board discussion of a completed paper, ready for publication, poses a high probability of a very negative reaction.
- (3) You may want to discuss these two points at the PSD meeting on November 15.



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FROM: The Acting Secretary

October 8, 1991

PRIVATIZATION: LESSONS OF EXPERIENCE FOR BANK GROUP LENDING

OUTLINE FOR A POLICY PAPER

Attached is an Outline for the paper entitled "Privatization: Lessons of Experience for Bank Group Lending". This Outline will be considered at a seminar of the Executive Directors to be held on Tuesday, November 5, 1991.

Questions on this paper should be referred to Mr. John Nellis (ext. 37482).

Distribution:

Executive Directors and Alternates
President
President's Council
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

PRIVATIZATION: LESSONS OF EXPERIENCE FOR BANK GROUP LENDING

OUTLINE FOR A POLICY PAPER

Country Economics Department
Public Sector Management and Private
Sector Development Division
September 25, 1991

PRIVATIZATION: LESSONS OF EXPERIENCE FOR BANK GROUP LENDING
OUTLINE FOR A POLICY PAPER

I. INTRODUCTION

1. Objectives

1. Increasingly, countries with widely varying economic and political systems are using privatization as a tool to improve the efficiency and lessen the burden of state-owned enterprises (SOEs). Countries as diverse as Argentina, France, Jamaica, Togo, New Zealand, the Philippines, Mexico, and the United Kingdom have implemented privatization programs, while others such as Sri Lanka, Laos, and much of Eastern and Central Europe are launching ambitious efforts to reduce state ownership. Privatization is an important component in Bank Group lending and policy dialogue. Currently, close to 150 Bank operations in 45 countries support reforms to privatize SOEs; approximately 30 IFC projects provide advisory support and/or investments in privatized firms; and 3 of MIGA's first 15 projects insure privatizations.

2. The objectives of the proposed policy paper are to examine the privatization experience in developed and developing countries, highlight key design and implementation issues, synthesize the lessons of experience, take stock of best available practice so as to provide guidance to Bank staff, and draw out policy implications for future Bank Group support for privatization. The paper will draw upon existing analyses and research, and a small set of specially commissioned analyses of country experiences and key practical and technical issues in privatization. The paper is primarily intended as a policy paper for the Board and senior management.

2. Scope and Methodology

3. The paper will concentrate on privatization through the transfer of ownership of SOEs to the private sector by means of partial or full sale of ongoing concerns, and sale of assets following liquidation. Since this has been the major form of privatization in developing countries to date, options involving the privatization of management but not ownership -- such as management contracts, leases, and contracting out of public services to the private sector -- are flagged and discussed as appropriate, but the paper will not analyze in detail these options.

4. The paper will focus on three major privatization themes: objectives and strategies; implementation issues; and the role and organization of the Bank Group in privatization (see below). The paper will also include a brief historical review of privatization experience. Data will be presented on the numbers and types of enterprises privatized, regional and sectoral trends over time, and outcomes vis-a-vis stated privatization objectives such as reduction in sector size, improvements in SOE performance, financial gains, capital market development, etc. Findings from the ongoing

2. Strategy Formulation

7. Strategy formulation involves choices on scope, timing, and method of privatization. Some countries have formulated grand "master plans" to set the scope and pace of reform for the entire SOE sector before implementation. The paper will explore the view that such plans, while potentially useful, risk delaying implementation as they could end up generating substantial debate and become an end in themselves. The paper will also analyze strategies for the timing of SOEs for sale, including the approach of targeting smaller and easier firms for initial sale (as a way of obtaining quick demonstration effects and developing a learning curve) and then broadening the scope to include more complex candidates, as well as the market effects of privatizing a large number of firms at the same time.

8. Strategic choices between sale and non-sale privatization options such as management contracts and leases must also be made. While such decisions need not be mutually exclusive and are usually made on a case-by-case basis, the paper will consider the criteria for making these decisions (including affordability of basic services), flag the conditions and circumstances under which non-sale options can be alternatives to outright sale, and assess the extent to which ownership change may be needed to lock in performance gains resulting from non-sale options. The paper will also examine the commercial, financial, legal, and political dimensions involved in choosing different sale techniques. One view is that the techniques most likely to yield the highest financial and performance gains (outright sale to foreign investors, for example) may be those which are least acceptable politically; and, conversely, the most politically attractive modes (public share offerings, for instance) may be least likely to obtain such gains.

3. Sequencing

9. Experience shows the importance of seizing the right political moment for privatization. The paper will weigh this against evidence which shows that efficiency gains are likely to depend on coordinating sales with parallel measures to improve competition (removal of price and trade distortions, opening up of markets, for example) and develop an adequate regulatory framework. Such measures are particularly relevant in the case of large SOEs or monopolies, or countries with serious market distortions. The paper will analyze the complementary reforms necessary for successful privatization, and address the different sequencing approaches, taking into account variations in enterprise and country conditions.

III. IMPLEMENTATION ISSUES

10. This part of the paper will focus on major aspects of the sale process, and their impact on policy design and outcomes. The key issues to be tackled are:

ownership of large SOEs, while limiting remaining government ownership rights. These options, as well as the use of a "golden share" mechanism in SOEs where foreign investment could play a major role in bringing access to new capital, markets, and technology, will be studied in detail.¹

15. The paper will also examine other commercial and financial aspects of privatization transactions, including the extent of desirable debt financing in the purchase of SOEs, role of debt/equity swaps, and treatment of financial liabilities. The role of financial markets and the government in financing post-privatization investments will also be considered, particularly in infrastructure-related projects where large investment programs are a critical element of the sales agreement.

4. Employee Issues

16. Resolving employee issues is a critical aspect of the privatization process. This is more difficult in countries where overstaffing and poor labor mobility lead to lay-offs and hardships. Nevertheless, innovative mechanisms such as attractive severance packages and redeployment schemes have been used to ease the transition; and employee share ownership schemes are being developed to elicit employee support. More in-depth assessments of such mechanisms are needed in view of some early findings: overly generous severance agreements (in relation to existing labor laws) and pension rights have become unaffordable in some cases; and, in others, wage distortions have continued in firms where employees became owners of the largest block of shares. This part of the paper will examine the employment effects of privatization in different circumstances, analyze mechanisms (including changes in labor laws) to mitigate social costs and increase employee incentives, and highlight those solutions which have worked best. It will point out that, as a precondition to privatization, reforming socialist economies may need to nationalize social safety net and social investment programs for which SOEs were previously responsible.

5. Managing Privatization

17. Governments must organize themselves to manage the implementation process. Experience shows that centralization of privatization responsibilities, minimal bureaucracy, and ready access to top decision-makers help maintain momentum and keep the process consistent and transparent. Sector ministries are usually slower to privatize, as vested interests are more salient. Related to the question of setting up an appropriate institutional structure is the question of developing an appropriate legal framework and obtaining the right technical and financial skills for privatization. These

¹ In some cases, governments have adopted the practice of reserving a "golden share" in the privatized firm, giving them the right to veto changes in the firm's articles of agreement. The golden share mechanism has been used on an exceptional basis, primarily for large enterprises with strategic or national interest.

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

DATE: 07-Nov-1991 07:12pm

TO: Robert Picciotto

(ROBERT PICCIOTTO)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Streamlining : Sector and Operations Policy Appeals

I support your position fully. Moreover, regarding the Economic Advisor position, Mr. Rajagopalan assured me that he would create that position out of his present complement if the right person could be found.

CC: Ian Scott

(IAN SCOTT)

CC: Bilsel Alisbah

(BILSEL ALISBAH)

T L - I N - 1 N O T E

DATE: 06-Nov-1991 04:59pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Robert Picciotto, CPBVP

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Streamlining : Sector and Operations Policy Appeals

Given that Raj has formally appealed the streamlining decisions, Bilsel and I would like to confirm that you are in agreement with the position taken in the attached note.

In overall terms, the surplus available for redeployment at the Departmental level has shrunk to 35 HL positions, down from the original 60 HL estimate. It would therefore be useful to hold the line.

CC: Bilsel Alisbah

(BILSEL ALISBAH)

CC: Ian Scott

(IAN SCOTT)

EM

Mr. Picciotto

I support your position fully. Moreover, regarding the Economic Advisor position Mr. Rajagopalan assured me that he would create that position out of his present complement if the right person could be found

ES
1/7

To: Mr. V. Rajagopalan, PRSVP

From: Bilsel Alisbah and Robert Picciotto

Subject: PRD

Thank you for your note of October 30, 1991 on the above subject.

The October 4 memorandum to the affected staff dealt with functional transfers. It highlighted that the number of positions to handle the job in the reconfigured units had not yet been firmed up. It gave the assurance that no staff separations were envisaged. And it stated that we expected the release of about 60 HL positions to the Bank's core operational functions.

It now appears that fewer positions will be available for redeployment to the regions. In part, this reflects our reconsideration of the proposed freezing of COD vacancies. These will be transferred to the Sector and Operations Policy Vice Presidency.

Such work on development effectiveness and poverty monitoring as you consider appropriate would have to be handled within the overall position envelope allocated to your Vice Presidency. We recognize that your office will be the institutional locus for monitoring poverty commitments and reporting on them to the President and to the Board. We believe one of the advantages of the new structure is that it will facilitate synergy between the sector departments and COD for this kind of work. And we suggest that you may wish to ask Mr. Wyss to use one or more of his vacancies to create this capability.

As far as the Program Management Unit is concerned, we have not seen fit to allocate positions to go along with the functional transfer of the budget responsibilities for three reasons : (i) the unit used to service the SVP of PRE, a role which has been eliminated; (ii) your Vice Presidency is already equipped with budget staff; (iii) budget procedures will be simplified. We also regret that we are unable to agree to your request for the transfer of HL and SL positions for OT support.

Finally, we have considered your request for an extra position to be used for an economic adviser. We regret that it cannot be accommodated in the context of the current exercise. The appointment of Mr. Bock to your senior management team cannot be viewed as incremental from a position and budget perspective in light of Mr. Preston's injunction to keep front offices light.

We do understand, of course, that given these decisions, some staff transfers will have to be arranged, that there may be transition problems and that your current work program may have to be adjusted.

U L - I N - 1 N O T E

DATE: 07-Nov-1991 07:10pm

TO: Robert Picciotto (ROBERT PICCIOTTO)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Redeployment and Organizational Streamlining

I do not intend to pursue a discussion about one position for very long. But I do want to note that I fail to understand your rationale. I do not doubt the other needs in the Bank. But we have an unsustainable personnel situation here, and no amount of budget simplification is going to eliminate a Vice President's need for a budget officer. Why this person should continue to occupy below grade position is beyond me. It is the kind of anomalies we are fond of building up instead of cleaning out. It is this kind of approach that leads to the kind of consultant overhang which then creates major problems.

CC: Ian Scott (IAN SCOTT)
CC: Bilsel Alisbah (BILSEL ALISBAH)

Office Memorandum

DATE: October 31, 1991

TO: Mr. Paul J. Siegelbaum

FROM: John Herlihy and Fan Fan Jen

EXT.: 80754 and 80765

SUBJECT: **Back-to-Office Report: Italian Demand for IBRD Securities**

Paul.

Thanks. Very useful.
I did not realize that
we had done more than
one high-coupon issue.
I have no comments on
the possible DN program
changes, except that
I would want to be
careful here too about
the extent of our
reliance on the Italian
market.

1. This back-to-office report summarizes for the record the information we received on the nature of Italian demand for IBRD securities on a trip to London and Milan between July 10 and July 17. The principal focus of the mission was on Discount Notes and short-term private placements in USD. In London we met with dealers in our Discount Note program and Chase Investment Bank which has brought us a number of short-term private placements. In Milan we met with merchant banks, mutual and investment funds, corporate holding companies and smaller commercial banks. The list of institutions visited and key points of some of the more informative meetings are attached as Annexes I and II.

2. This back-to-office report summarizes the information obtained in the following areas: (1) Italy's taxation and its implications for IBRD securities, (2) the nature of the demand for the Bank's major short-term instruments (Discount Notes and short-term private placements) in the Italian market, (3) potential modifications to the Discount Notes program, and (4) the potential for USD medium and long-term private placements.

Italian Tax Regulations As They Affect IBRD Securities

3. Italian tax regulations are complex and it may be difficult in advance to predict how a particular transaction will be treated. As a result, investors in general prefer securities and transaction structures which have been tried and tested in terms of their tax treatment, though some investors are prepared to undertake novel transactions on the expectation of a favorable tax treatment. The following tax discussion summarizes the consensus view amongst the more informed of the intermediaries and investors we met. It is by no means intended to be a complete discussion of the issue but to cover the aspects of tax treatment that were raised as important by investors.

4. IBRD securities enjoy the same tax status in Italy as do Italian Government securities. (See attached memo dated March 4, 1991 from Gian Domenico Spota, LEGAF). That is, these securities are tax exempt provided they are issued outside of Italy. Since IBRD has not issued any

securities in the domestic Italian market, IBRD issues currently outstanding are tax exempt in Italy. In addition to the offshore issues of the Italian government and IBRD, a small number of other institutions enjoy a tax exempt status: Italian State Railways (FFSS), National Electricity Board (ENEL), National Highways Board (ANAS), European Investment Bank (EIB), Euratom, and the European Coal and Steel Commission (ECSC). The value of the tax exemption of IBRD securities in Italy is increased by the fact that the bulk of Italian government securities are domestically issued and therefore taxable. Furthermore, the volume of tax free Italian government debt is declining as domestic government debt issued prior to 1986 (which is also tax exempt) matures.

5. Most investor groups focus on one of two aspects of the Bank's tax exempt status: the exemption from withholding and the exemption from corporate income tax. Intermediaries tend to emphasize the former (i.e. withholding) which is of value to nearly all investors. However, it became clear in discussions with investors that it is the exemption from corporate income tax rather than withholding which has driven the most aggressive of the placements carried out by the Bank in USD. We will briefly summarize the nature of the advantage derived from these two exemptions and the type of investors to which they are each important. It is important to point out that whichever of the aspects of tax exemption we are focusing on, securities which are tax exempt appeal principally to individuals and corporations who comply with the tax regulations.

6. Interest on IBRD securities (and other tax exempts) **is not subject to withholding** which applies to interest on financial instruments generally at a rate that varies from 12.5% on taxable government securities to 30% on most other instruments. Tax withheld can be offset against the income or corporate tax liability of individuals or corporations. However, individuals or corporates without a net tax liability may find it difficult to recover the tax. As an alternative to buying tax exempt issues, investors can purchase taxable issues and engage in coupon washing - sell these issues before the coupon date to subsequently repurchase them. Some intermediaries we spoke to are quite willing to carry out coupon laundering on behalf of their clients. Others have concerns about the strict legality of these operations.

7. Interest on IBRD securities (and other tax exempts) **is not subject to corporate income tax** - generally levied at a rate of 47%. Additional rules, however, limit the value of this exemption to many corporates. To the extent that a corporation generates tax free income from holding tax exempts, the amount of interest expense on borrowings that can be deducted from taxable income is correspondingly reduced. In addition, dividend payments, which are not normally subject to tax, become taxable to the extent that income is generated from tax exempt securities. The benefits of corporate tax exemption will be greatest, therefore, for a corporation that has significant taxable income, little or no interest on

borrowings that can be deducted for tax purposes and a low dividend pay-out ratio. Indeed, to take best advantage of investment in tax exempt issues, some corporates establish separate legal entities financed by equity which are responsible for Treasury operations¹.

8. Because the Bank has found a strong demand for high coupon issues out of Italy both in USD and in other currencies, we were interested in understanding the treatment of these issues for tax purposes. We need to distinguish here the treatment of natural high coupon currencies (e.g. Escudo) and off-market coupons issued at a premium. Current tax regulations make the purchase of natural high coupon currencies beneficial for the investor. For currencies with coupons above the Lire rates for the same maturity, the associated currency swap into Lire will show a loss at maturity which a tax paying corporate can take as a deduction for tax purposes, while enjoying tax exemption on the income derived from the high coupons.

9. Off market coupons (e.g. 20% coupon issues in USD priced at a premium) at one time enjoyed this same favorable tax treatment as natural high-coupon issues. Some years ago this treatment was changed so that the purchase of a high coupon issue at a premium combined with a swap into Lire would not produce the tax loss at maturity (this change in tax treatment followed some previous buying of high coupon issues at premia (including issues by the Bank in USD and Australian dollars). However, complex structuring may still achieve the desired tax treatment (one part of these structures would involve the securities purchase and swap carried out by separate legal entities). The willingness of corporates to carry out this kind of structuring varies greatly. We spoke to large corporates with an interest in tax exempt paper. Alberto Klausner, Finance Director of CIR, holding company of the Benedetti group, was extremely cautious in relation to transactions with complex structuring to avoid tax. On the other hand, Gemina Capital Markets was very open about its willingness to enter into complex structures to reduce its tax liability and that of its clients. In fact Gemina has (indirectly, through Chase Investment Banks in London) carried out a number of high coupon issues with the Bank at short-term maturities, for their own account and for placement with associated corporate entities

¹ It is quite complex for corporates to determine the net benefit to them of holding tax exempt versus taxable paper. In particular, investment managers will often not be fully aware of the net effects on the tax position of the corporation of holding tax exempt securities. In some cases corporate planners will dictate policies to investment managers on tax exempts versus taxables, and these policies will vary with the projected income situation of the corporation. In other cases investment managers may be given more discretion - in this case they may have a tendency to take account of the reductions in their direct tax liability from holding tax exempt securities but fail to factor in the consequent reduction in the tax deductibility of outstanding debt for the corporation as a whole.

(Fiat Group, Mediobanco and Pirelli are associated with Gemina). While these placements by the Bank were simple high coupon structures, we understand there was significant additional structuring by Gemina to achieve the best possible tax treatment.

10. The Bank has adopted the position of not being willing to enter into transactions which are highly structured to take advantage of the Italian tax exemption (we would be prepared to consider straightforward high coupon issues up to a limit of 20%). For the record, the following are the two aspects of both high-coupon and more structured transactions that most clearly emerged from our discussions:

- 1) The purpose of both high-coupon and more structured placements is to reduce the tax liability of the corporates involved. If the Bank does not facilitate these transactions, the institutions are likely to look for other tax exempt issuers in the primary or secondary market. They are not likely to turn to taxable investments.
- 2) The corporates involved are high quality institutions who comply with Italian tax and reporting requirements but attempt to minimize their tax liability within the existing regulations.

Italian Demand for IBRD Discount Notes

11. The Bank's Discount Notes have become a well-accepted product in the Italian market. In almost all cases investors purchase Discount Notes associated with swaps into Lire to provide them with a tax exempt short-term Lire asset². Increasingly Discount Notes have become a retail product, bought by banks to be broken down to smaller pieces (as small as USD 50,000) and sold through their branches to wealthy individuals. We were told that even in remote areas, IBRD Discount Notes are a familiar product to wealthy retail clients. Corporates (with a need for tax exempt paper) also purchase the notes but have decreased the volume as retail clients have become increasingly involved³.

12. Discount Notes swapped into Lire are considered to be the most expensive short-term tax exempt paper available. We were repeatedly informed by investors and intermediaries alike that Discount Notes are too aggressively priced (more than 20 basis points below the yield on short-

² While IBRD Discount Notes are themselves tax exempt, the capital gain on the associated swap is taxable.

³ This discussion refers only to regular Discount Notes and short-term private placements issued at par. The aggressive demand for high coupon short-term private placements has come from the corporate sector for the reasons outlined above.

term private placements issue by EIB which are also tax exempt). Nevertheless the demand continues to be strong because of the difficulty in obtaining or constructing alternative products and the greater flexibility of IBRD Discount Notes. In addition to the retail demand, Discount Notes are often used by larger institutional clients as a last resort when no other tax exempt instruments meeting their requirements are available. This type of demand is not very sensitive to price.

13. The reasons for the extraordinary retail demand for Discount Notes lie principally in the following considerations:

- 1) Exemption from withholding tax.
- 2) Short maturities are strongly preferred by retail investors because of potential need for cash or potential change in tax treatment.
- 3) Some retail investors show strong preference to diversify away from Italian risk.
- 4) Flexibility in timing of investment and maturity are particularly valued by retail clients.
- 5) Absence of reporting requirements (individuals do not have to report tax exempt investments).

14. For tax paying corporates, as described above, it is the exemption from corporate taxation rather than withholding that matters. While diversification from Italian risk is of some importance to these institutions, it generally matters less than for retail investors. For these institutions the short-term maturity of Discount Notes is also a great advantage. Because their tax status will vary from year to year depending on their earnings, it is useful to maintain short-term holdings which facilitate switching their portfolio from tax exempts to taxables and vice versa.

15. While Discount Notes swapped into Lire is a widely accepted product in Italy and provides a cheap source of funding to the Bank, it is clear that it cannot compete in terms of arbitrage with the direct Lire issues of the Bank. The principal reasons for this are:

- The swap from USD to Lire associated with a purchase of Discount Notes requires intermediation, generally by a commercial banks. Given the small size of these swaps, the cost passed on to the clients is likely to be significant.
- Because USD yields are lower than in Lire, the associated Lire swap will show a profit which is taxable.

Potential Modifications to the Discount Notes Program

16. Our discussions generally suggested that there was "nothing broken" in terms of the functioning of Discount Notes in Italy. The product is widely accepted and very popular. However, we present for discussion

some potential changes which would further facilitate the purchase of these notes by Italian investors. These modifications might not be desirable either because of our preference to continue to structure the program as part of the Federal Agency discount notes market sector or because of our concerns (legal and otherwise) of more directly orienting our program towards the Italian market. Possible changes would be as follows:

- 1) Adopt timing of pricing and acceptance of orders to facilitate Italian demand. We currently post prices at about 3:30 p.m. Italian time with acceptance of orders occurring after that. By this time it is sometimes too late for Italian institutions to execute Lire/Dollar swaps. The swaps are therefore executed the following day with some risk to these Italian intermediaries. Possible modification would be to determine the spread (against Libor benchmark) the day before. The pricing could then take place at the time of Libor fixings during the morning of the following day (Italian time). Earlier posting is another possibility.
- 2) Adopt a more stable pricing in terms of Libor with somewhat greater variations in terms of spread under the yield on Treasury bills.
- 3) Allow sales for forward settlement (say, one or two weeks). We have already been considering this change which would clearly be useful to some investors (we might even adopt a slightly tighter pricing in return for this flexibility on settlement).
- 4) In combination with sales for forward settlement, we might consider allowing the dealers to position the paper. This would permit the dealers to ensure themselves some supply of Discount Notes to satisfy the requirements of their best clients. Our discussions suggested this might be of some value to them. Again we might expect either to tighten pricing in return for flexibility, or indeed move to a system whereby part or all of the notes might on a periodic basis be auctioned among the dealers.
- 5) Listing the Discount Notes would allow mutual funds and some other restricted institutions to buy them. These institutions (which are generally free of corporate tax) would not necessarily be the most aggressive buyers of the notes - but listing would result in some increase in demand. Clearly this would be a departure from the practice of the Federal Agencies which do not list their Discount Note programs.
- 6) Establish a euroclear settlement alternative for Discount Notes. While investors familiar with Discount Notes did not view the current settlement procedures as a major drawback, settlement

through Euroclear would be a preferred option for Italian investors and would make it easier to attract new investors to the Notes.

Potential for Medium and Long-term Placements in USD

17. Our discussions with investors suggested that (in the absence of unusual structuring for tax purposes which we will not consider) it would be impossible to achieve the same arbitrage through medium and long-term placements in USD (or indeed in other currencies other than Lire) that we currently achieve through Discount Notes. The main reasons are:

- 1) Swaps into Lire are significantly more difficult to find and more expensive to execute at the longer maturities.
- 2) The preferences of the bulk of investors strongly favor short-term paper.
- 3) There is a supply of outstanding medium and long-term issues by tax exempts in the secondary market (including IBRD Globals). While there are advantages for the investor in purchasing a newly issued private placement rather than securities trading in the secondary market (coupon considerations, exact maturity, savings of bid/ask on significant purchase), the spreads on these outstanding issues nevertheless act as a constraint to the pricing of new issues.

18. In practice, we have not seen the same arbitrage from medium and long-term placements directed at the Italian market as from Discount Notes. Discount Notes have recently been carried out at spreads averaging 50 basis points below Treasuries, while to date medium and long-term placements have not achieved better than Treasuries less 10 basis points.

19. Institutions interested in medium and long-term paper in USD generally show a preference for floating rate paper. In large part this reflects the advantage of using floating rate paper to provide retail clients with a short-term asset through repos⁴. Using floating rate assets rather than fixed-rate instruments as a basis for repos reduces the risk for the

⁴ A number of institutions are currently engaging in a program of purchasing tax exempt issues in the secondary market for purposes of short-term repos in Lire to Italian investors (see attached summary of discussion with Salomon Brothers). The Italian banks have begun to carry out similar operations (though the hedging requirements are substantial). This supply of repos may present growing competition for Discount Notes as a tax exempt short term instrument. However, the inherent flexibility of discount notes is likely to make it a preferred instrument by investors.

repurchasing institution. In either case, however, these risks are significant and imply a high cost of intermediation. As a result, issuance of longer-term floating rate instruments for repo purposes would not generate the same arbitrage that the Bank can obtain from directly issuing Discount Notes.

Attachments

cc: J. Einhorn, K. Lay, H. Rothenbuhler, A. Mashayekhi
J. Wright, J. Ehsani, E. May, N. Mizuno
S. White
G. Spota

MEETINGS WITH INVESTORS AND INTERMEDIARIES

Riunione Adriatica di Sicurta (RAS) (Insurance and Fund Manager)

Contacts: Alberto M. Lotti, Director General, Mutual Fund
Gloria M. Leporati, Segretario, Mutual Fund

- Principal interest in IBRD paper comes from insurance side which has the usual corporate tax rate of 47% on corporate income.
- Mutual fund side is not subject to corporate income tax and therefore does not have as great an interest in tax exempt paper per se. They do, however, avoid the withholding they would be subject to at a rate of 30% on alternative banking instruments. They may also purchase tax exempts for trading purposes based on expected performance. They have a great interest in positioning and therefore value liquidity highly. For these reasons they buy IBRD ~~lire~~ issues particularly as their experience has been that these issues almost always tighten significantly in the secondary market. They are restricted in purchasing IBRD Discount notes because of absence of listing (only 0.5% of assets can be invested in non-listed issues).

Gemina (Holding Company)

Contacts: Marco Coppini, Capital Markets
Paolo Bosani, Commissionaria
Silvia Kofler, Commissionaria

- Gemina were involved in each of our last four high coupon short-term private placements in USD (carried out through Chase and CSFB) either for their own account or the account of their clients for which they manage funds. They manage funds for FIAT, RCS (major Italian publishing co.), Burghe (paper co.) and Pirelli. They have a major and continuing interest in tax exempt paper generally and specifically structured private placements with IBRD.

Akros (Merchant Bank)

Contacts: Barbara Giacomoni
Ducci Galletti
Marco Turrina

- Biggest buyer of IBRD Discount Notes - approximately USD 1 billion this fiscal year (in addition to USD 120 million of IBRD bonds with short remaining life). While they argued that the pricing of Discount Notes was very aggressive, they showed considerable interest in obtaining greater consistency of supply - with the potential of increasing their purchases by USD 1 billion a year if they could be assured of supply.
- Interested in maturity of 15 to 18 months.
- Bought Australian Dollar high coupon paper previously for their clients.
- Have a preference for possibility of physical delivery of bonds.

Compagnia Finanziaria Italiana (CFI) (Merchant Bank (CARIPLO group))

Contacts: Patrizia Franco Giacosa, Director, Treasury Capital Markets
Renato Di Tondo, Director, Treasury Capital Markets

- Invests 70% of their assets in tax-exempt Eurobonds.
- Would like semi-annual floater - LIBID - 40 to 45.
- Buyer of IBRD Discount Notes.

EPTA Consors (Consortium of 7 Merchant Banks & Fund Managers)

Contacts: Dott. Alessandro Cavalli, Vice Direttore

- Invests 95% of their asset in short-term tax exempt paper -
60% in 3-month
25% in 6-month
5% in 12-month
- Already a purchaser of Discount Notes, would be interested in obtaining volume on a consistent basis and potentially entering into USD 50 - 100 million short-term private placements.
- Does coupon washing to avoid 30% withholding tax.

Banca Popolare di Milano (Regional Banks with 220 Branches)

Contacts: Giovanni Pollastri, Manager, International Securities

- IBRD Discount Notes swapped into lire are an important retail product and is one option presented by BPM to their retail clients. The major competitive products are repos based on foreign tax exempts (e.g., EIB floating rate notes) and repos based on outstanding (tax-exempt) domestic Treasury bills.

Banca Manusardi

Contacts: Lucia Moro, Manager, Investment Department

- Clients are individuals.
- Invests in domestic REPO, but there is a shortage and therefore buy IBRD Discount Notes as a last resort.
- Repo - has to pay stamp duty for double contracts (buy and sell).

Fondigest (Mutual Fund)

Contacts: Dott. Ranuzzi (not present at meeting)
Francesco Volino Coppola

- Not involved in IBRD Discount Notes since they are not listed - only can buy 1.5% of their assets for unlisted securities.
- Mainly invest in domestic market and taxable instruments because they are not subject to corporate income tax.
- Not allowed to invest in CP, may invest in MTNs.
- Does coupon washing to avoid withholding tax.

CIR (Holding Company for the Benedetti Group)

Contacts: Alberto Klausner, Direttore Finanza Italia

- Given their projected income situation, tax exempts are very attractive. However the resulting taxation of dividends can be a problem for them.
- Cautious regarding instruments highly structured to reduce tax liability.
- Buyer of IBRD Discount Notes from time to time, potential interest in longer-term IBRD issues whose spreads are not distorted by Italian situation. We drew his attention to IBRD Global Bonds as liquid issues by the Bank whose spread was virtually unaffected by Italian demand. (CIR subsequently requested USD 125 million bonds in our most recent five year Global issue and was allocated about USD 50 million).

Banca Brignone (Regional Bank)

Contacts: Enrico Brignone, Direttore di Sede
Mr. Castelli
Mrs. Pezzalli

- Big investor of IBRD Discount Notes (approximately USD 600 million last year) - break it up and distribute to private investors, sometimes as small as USD 50,000.
- Very popular, even in remote villages ("fashion" instrument in Italy).

Gestcredit (Investment Fund (Credito Italiano Group))

Contacts: Mr. Guido Casella

- Prefer maturities up to 2 years.
- Need to invest in listed securities.
- Interested in synthetic Lire.
- Not interested in Euro-lire because the spread between Euro and domestic has narrowed and the yield has become too low.
- Does not like coupon washing - possible legal problems.

Salomon Brothers

Contacts: Simon Meadows
Alan Howard

- Salomon Brothers are carrying out a significant repo operation for Italian investors based on outstanding IBRD euro issues. Salomon buys IBRD outstanding euros with two or three years of remaining life and sells them to Italian investors on an agreement to repurchase for periods of three to six months. These short-term cash flows are then swapped into Lire. These operations have become significant since June of last year. They do not use IBRD global issues for these repo operations. They prefer to use older World Banks for this purpose where they can essentially control the whole issue. By holding 20%-30% of outstandings, Salomon avoids the risk of a spread widening through time. Salomon has found these operations profitable but very difficult to hedge. Hedging the underlying Treasury requires dynamic hedging techniques. The spread on the IBRD bonds remains unhedged. This has generally been to the advantage of Salomon to date. As these securities shorten in maturity spreads have tightened - responding to Italian demand. However, they would be at risk if IBRD's preferential tax position were to be ended. This would result in a widening of spreads on the IBRD securities with short remaining life which Salomon holds.
- The short-term repos provide the Italian investors with a return of Libid - 70 for three months. Salomon buys IBRD outstanding securities with spreads of 15 to 25 over Treasuries. In addition to IBRD securities, Salomon have also used EIB issues for repo purposes. In particular the recent ECU 400 million floater by EIB has been very useful for this purpose (generally floating rate issues provide much less hedging risk). The investors in these repo operations show no preference for either high or low coupon structures. The Italian banks are now becoming involved in carrying out similar repos to these now executed by Salomon. However, Salomon believe that the Italian banks are not fully aware of the complexities and risks involved in hedging these operations and some of them may be badly burned.

Chase Investment Bank

Contacts: Marco Ferrazi, Sr. VP
Lemy Gresh, Managing Director
Paolo Gilardi, Managing Director

- To obtain the type of arbitrage we have received in our deals with Chase carried out in the Spring (both short-term and five-year deal), they have needed to adopt quite complex structures. The fundamental idea is that the investor (tax paying corporate entities) avoids tax on interest payments and benefits from a tax loss at the maturity of these instruments. However by simply structuring a high coupon security issued at a discount does not necessarily achieve this purpose. The tax authorities would consider the interest on this security as it yields and would not recognize any loss for tax purposes. However, combining this structure with a swap which shows a loss (and possibly having the swap executed with a separate legal entity), the loss does become deductible for tax purposes. In relation to our recent five-year issue, Chase originally intended to break this up by selling the shorter cash flows to their corporate investor with later cash flows sold elsewhere. However, given the pricing of the different cash flows, the Italian corporates chose to take all of the cash flows associated with the issue.

LIST OF MEETINGS AND CONTACTS

<u>Institutions/Investors</u>	<u>Contacts</u>	<u>Address/Phone</u>
<u>London:</u>		
Salomon Brothers	Alan Howard Simon Meadows	111 Buckingham Palace Road 44-71-721-3625
Chase Investment Bank	Marco Ferrazi, Sr. VP Lemy Gresh, M Director Paolo Gilardi, Managing Director	Woolgate House Coleman Street 44-71-726-5548
Nomura Intern'l Plc	Andrew Pelling, Exec. Director Syndicate Dept. Franco Mora, Executive, Fixed Income Sales Takumi Shibata, Associate, Mng. Director, Syndication & SWAP Dept.	Nomura House 1, St. Martin's-le-Gd. 44-71-236-8811
CSFB	Guillaume D'Angerville, Synd. Alison Sparks, Syndicate Paolo Braghieri, Syndicate	2A Great Titchfield St 44-71-322-4876
Lehman Brothers	Gian Andrea Ameri, Director Fixed Income Sales Robert Appleby, Executive Director	1 Broad Gate St. 44-71-260-2367
Merrill Lynch	Marco Elser Lisa A. Farrow	25 Rope Maker St. 44-71-867-3016
<u>Milan:</u> (Arranged by Lehman Brothers)		
RAS	Alberto M. Lotti, Director General, Fund Gloria M. Leporati, Segretario, Fund	Corso Italia 23/20122 Milano
Gemina	Marco Coppini, Capital Markets Paolo Bosani Silvia Kofler	Via Curati, 16-18, 20121 Milano 02-6379-462 02-6379-1

Annex II Continued

<u>Institutions/Investors</u>	<u>Contacts</u>	<u>Address/Phone</u>
AKROS	Barbara Giacomoni Ducci Galletti Marco Turrina	Corso Italia 3 20122 Milano 02-8025-240/242
CFI	Patrizia Franco Giacosa, Director, Treas. Capt. Mkts. Renato Di Tondo, Director, Treasury Capital Mkts.	Via Manzoni, 17-20121 Milano 02-72001-343/856
EPTA Consors	Dott. Alessandro Cavalli Vice Direttore	Via Camperio 9, 20123 Milano 02-8827-1
<u>Milan:</u> (Arranged by CSFB)		
Banca Popolare Di Milano	Giovanni Pollastri Manager, Intern'l Securities	Piazza F. Meda, 4 Milano 02-7700-2773/2576
Banca Manusardi	Lucia Moro, Manager Investment Dept.	Corso di Porta Romana, 16 20122 Milano 02-85-18-241
FONDIGEST	Dott. Ranuzzi Francesco Volino Coppola	Via F. Wittgens, 4 20123 Milano 02-72148-1
CIR	Alberto Klausner, Direttore Finanza Italia	Via Ciovassino 1 20121 Milano 02-8873-232/233
Banca Brignone	Enrico Brignone, Direttore di Sede Mr. Castelli Mrs. Pezalli	Via Verdi, 4/6 20121 Milano 02-88351 Fax: 02-866473
Gesticredit	Mr. Guido Cassela, Vice Direttore Ufficio Analisi ed Investimenti	Viale Eginardo, 29 20149 Milano 02-4819-5312



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367
Document Date 03/04/1991	Document Type Letter	
Correspondents / Participants From: Gian D. Spota, LEGAF To: Mr. Jamshid Ehsani, FODG1		
Subject / Title Italy Tax Treatment		
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	

The World Bank

NEST STERN
Senior Vice President
Finance

11/7

Mr. Picciotto

Roberto -

Here are the last pages. I can't say I enjoyed this much or that I think the substance is much strengthened. There is a lot of muddle under a lot of words.

I have left out the transitional arrangements primarily because I don't know when you think this could start (FY93 budget) and because I don't think it necessary to spell this out to the Board. We can talk about this further.

Also please look at the criteria on p. 22. They are, I believe, in line with what you had.

Let me have a clean copy when it is ready and set up a time if there are remaining issues to discuss.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

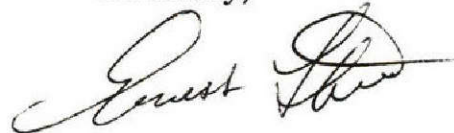
November 8, 1991

Mr. Tony Eggleston
Secretary General
CARE International Secretariat
Boulevard du Regent 58
1000 Brussels, Belgium

Dear Mr. Eggleston:

I attach, as promised, the description of our Capacity Building Initiative in Africa. On your next visit, my colleagues will be pleased to fill you in on the current status of this work.

Sincerely,

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

**The
A
C
B
I
AFRICAN
CAPACITY
BUILDING
INITIATIVE**

**Toward Improved Policy Analysis
and Development Management**

The World Bank

LL - I N - 1 N O T E

DATE: 11-Nov-1991 07:05pm

TO: Fred Kilby

(FRED KILBY)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Yugoslavia

Thanks for your note on Yugoslavia.

Are the overdue numbers right? You say \$37.8 million is overdue from October 1 payments. But the November 7 Overdue Payments report shows no overdues in the 30-44 day category as of November 6. Could you let me know ASAP which is right?

CC: FRSCR Files

(PAPER MAIL)

CC: Robert Laslett

(ROBERT LASLETT)

CC: Barbara Oppen

(BARBARA OPPEN)

CC: D. Joseph Wood

(JOE WOOD)

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

DATE: 11-Nov-1991 03:23pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Fred Kilby, FRSCR

(FRED KILBY)

EXT.: 80554

SUBJECT: Yugoslavia

I have checked with the Region. Tom Hoopengardner, who is acting for Philippe Nouvel, tells me that there are as yet no plans to suspend disbursements to Yugoslavia. However, there have been "enquiries" from the UK and German EDs' offices about the Bank's posture. The Governor of the National Bank of Yugoslavia is meeting with Mr. Wapenhans at 2:30pm on Wednesday, November 13 (and also with Mr. Erb), presumably to follow up on the Annual Meeting request for Bank/IMF advice on how to manage its economic affairs.

The last supervision mission visited Yugoslavia on July 21. Currently \$37.8 million is overdue relating to October 1 payments. The suspension warning is technically still in effect, since Yugoslavia has not succeeded in clearing all of its arrears at any point since the warning was issued.

CC: D. Joseph Wood
CC: Barbara Oppen
CC: Robert Laslett
CC: FRSCR Files

(JOE WOOD)
(BARBARA OPPER)
(ROBERT LASLETT)
(PAPER MAIL)

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

Office of the
Senior Vice President
Finance

R.P.

11/11

Next time we must
fill me in on what
PBD does with
country norms!

(E)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: November 7, 1991
TO: Mr. S. Shahid Husain
FROM: Richard Lynn, PBDDR *RL*
EXT: 30114
SUBJECT: Country Norms

RECEIVED
91 NOV -8 PM 2:54
CPBVP FILE:

RP file
↓
Mr Stern
Shahid was concerned about mechanical use of country norms...
9

1. This responds to your memorandum to me on this subject on October 30th.
2. As you know, the use of country norms was discussed at some length in the recent Jaycox Task Force. Among its conclusions was that such norms would be used as only one input in addressing allocations and that there would no doubt be cases in which country considerations dictated either higher or lower allocations than the norm levels. The report stated that the norms "would serve a useful purpose in flagging those cases where an explicit justification is needed for substantial departures from the normative pattern."
3. Using the norms as a device for making mechanical entitlements unrelated to the strategic issues being addressed by the Bank would clearly be inappropriate. Please be assured that it is not PBD's intention to so use them.
4. Having said that, we believe that the country norms, if soundly based, can serve as one useful tool for identifying outliers for further analysis and to permit asking followup questions on major variances. The current approach is based on such relevant factors as population size, per capita income, lending commitments, country performance as determined by the Bank, and the supervision portfolio. The norms used by Operations in fact track reasonably well with past actual allocations of administration budget resources.
5. As a working tool, the country norm methodology transferred to us by Mr. Robless, as well as PBD's own work in this area, will be subject to further refinement and improvement over time. We plan to make this information available to you and the other Regional Vice Presidents periodically for your use.
6. I hope the above clarifies PBD's position. Please let me know if I can be of any further assistance on this subject.

cc: Messrs. Qureshi; Sandstrom; Picciotto; Bock; Robless; Bhatia
Regional Vice Presidents
Chief Administrative Officers

OFFICE MEMORANDUM

TO: Mr. Richard Lynn, PBDDR

November 11, 1991

FROM: Ernest Stern, FINSV *ES*

SUBJECT: Retrospective

I am puzzled by two references in para 1. First, why would anyone want to compare administrative expenses to net income? The latter is a volatile figure affected by provisions, exchange rate changes, interest rate movements, etc. The former is relatively stable. By definition, we will have a volatile ratio. Moreover, I have no idea what the ratio signified. If we want to have another measure of cost, we could show administrative expenses as a percent of gross income -- but I would not recommend it.

Second, how does an increase in provisions in June affect return on net earning assets for the same fiscal year?

In para 2, the fourth sentence implies that "new operational programs" are lending since the preceding two sentences deal with commitments. But that is not the case for the countries listed. We need to be more transparent in the use of jargon.

cc: M. Picciotto



Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367
Document Date 03/04/1991	Document Type Letter	
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Santiago		
Subject / Title Non-US Portfolio		
Exception(s) Corporate Administrative Matters		
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.
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Withdrawn by Salma Berrada El Azizi	Date July 31, 2025	

Personal

ERNEST STERN
Senior Vice President
Finance

DECLASSIFIED

November 11, 1991

AUG 04 2025

Mr. Bilsel Alisbah

WBG ARCHIVES

Bilsel -

I was surprised at Mr. Parel's polemic in the November "Bank's World" on affirmative action. Its very title is invidious.

His two basic complaints seem to be that the Bank does not use his terminology and that we do not talk about "it". The latter is gainsaid by the examples of the nationality and gender objectives. Neither was decided upon or implemented without discussion - obviously. The alleged reason why we do not talk about affirmative action is because it is in conflict with our emphasis on merit. That is an undeserved and unfortunate slur on anyone who was recruited through a special effort. The proposition also is nonsense. No one has ever suggested that we hire less qualified women, Africans, Japanese, Italians or other under-represented groups. He carries this nonsense into the conclusion: "successful candidates need not be the best, but must be from among the few best candidates."

Can anyone really believe that there is always one "best" person for the job? Or is it that choices get made among fully qualified candidates based on factors which have nothing to do with professional qualifications? And can anyone really believe that we have always identified and explored the availability of the "best" candidates.

All this is then wrapped up in the not so subtle comment that it is not unreasonable for staff to resist affirmative action as long as we do not have an adequate career development program. And the best way to deal with imbalances is to have a sound career development program. All the evidence shows that this is simply not the case.

The enunciated principles also show a real failure to understand the problems. Imbalances are to be redressed as quickly as possible. Quite. But can they? And how? The Bank is "ashamed" of its affirmative action program. I did not know that either Conable, you, or any of us were ashamed at establishing gender objectives or mid-career recruitment, etc. "Unqualified" candidates should not be selected. Obviously. Who ever suggested anything else? But this principle implies quite clearly that this is what we have been doing.

And "allegations" that gender, nationality or ethnicity are impediments in a work environment are not to be tolerated. Interesting thought for these in a work unit where these very factors are the basis of an uncomfortable environment.

I would hope that there is an opportunity for you to discuss these issues with Mr. Parel and the SA some time. They ought to have a better understanding of the problems and exercise some constructive leadership. His article may have been well-intentioned - but the direct and indirect message is not helpful.



OFFICE MEMORANDUM

TO: Mr. Kemal Dervis
FROM: Ernest Stern *ES* -
SUBJECT: CV of Nicholas Rey

November 11, 1991

I attach the CV of Nick Rey, who, as I suggested, will call you. He is pragmatic and knowledgeable about the operations of financial markets and is particularly interested in Eastern Europe/USSR. He is interested in a position, but might be equally interested in consultancy arrangements.

Since his skills and experience are scarce in the Bank, I would appreciate it if you would meet with him to see whether he can be useful to our work.

Attachment

OFFICE MEMORANDUM

TO: Mr. Millard Long

November 11, 1991

FROM: Ernest Stern 

SUBJECT: CV of Nicholas Rey

I attach the CV of Nick Rey, who, as I suggested, will call you. He is pragmatic and knowledgeable about the operations of financial markets and is particularly interested in Eastern Europe/USSR. He is interested in a position, but might be equally interested in consultancy arrangements.

Since his skills and experience are scarce in the Bank, I would appreciate it if you would meet with him to see whether he can be useful to our work.

Attachment

OFFICE MEMORANDUM

TO: Mr. Bilsel Alisbah
FROM: Ernest Stern *ES*
SUBJECT: CV of Nicholas Rey

November 11, 1991

I attach a CV from Mr. Rey, who is interested in joining the Bank. I pass it along because he has the kind of practical operating experience we claim to be short of in our financial work in Eastern Europe, the Soviet Union and elsewhere. I have sent copies to Russ and Kemal, but also think central awareness of this is useful.

Mr. Rey used to deal with the World Bank when he was with Merrill Lynch. He is a pragmatic and experienced practitioner.

Attachment



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/11/1991	Document Type Memorandum			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Kemal Davis				
Subject / Title CV of Nicholas Rey				
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			

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

DATE: 11-Nov-1991 10:52am

TO: Stephen Eccles

(STEPHEN ECCLES)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: PW and IAD Recommendations

Since there will be changes in procedures and documents distribution after December 1, let me note in this ad hoc fashion that I should like to continue to receive the "PW and IAD Recommendations" follow-up report.

The World Bank/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 11, 1991 12:25pm

TO: Joe Manickavasagam

(JOE MANICKAVASAGAM)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RE: The Women's Group

Certainly seems like a good and necessary idea. There are many complaints about male staff behavior toward women on missions.

I do not know the material you refer to, but it may be useful to have its scope and content reviewed to make sure it is adequate and relevant.

CC: Alberto de Capitani

(ALBERTO DE CAPITANI)

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

EM

DATE: November 8, 1991 04:44pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Joe Manickavasagam, POPTR

(JOE MANICKAVASAGAM)

EXT.: 30902

SUBJECT: The Women's Group

1. Module II of the Executive Development Program includes a session on managing diversity. This covers issues associated with ethnicity, race, nationality, age, career and gender. In addition, sexual harassment is dealt with in Module IV (b) on Performance Management.

2. The EDP is for Division Chiefs and above. Hence, we plan to include these issues also in the management training programs for other staff, e.g. Mission Leaders.

3. We will appreciate your views/reactions.

CC: Alberto de Capitani

(ALBERTO DE CAPITANI)

Certainly seems like a good and necessary idea. There are many complaints about male staff behavior toward women on missions.

¢ I ~~would~~ don't know the material you refer to but it may be useful to have its scope and content reviewed to make sure it is adequate and relevant.

ES.

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

DATE: 11-Nov-1991 10:36am

TO: Sven Sandstrom (SVEN SANDSTROM)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Quick Agenda Items

- o Yugoslavia: Suspension of Disbursements
- o Priorities Paper - Board 11/19
- o Processing of TA paper
- o Single currency loan
- o Status on process changes

You and Attila, do doubt, have others. If we can get an hour with LTP, we can run through the items.

CC: Attila Karaosmanoglu (ATTILA KARAOSMANOGLU)



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/11/1991	Document Type Memorandum			
Correspondents / Participants From: Ernest Stern, FINSV To: Mrs Eveline Herfkens, EDS19				
Subject / Title Possible contribution of NLG 5 Million to the Technical Assistance Trust Fund for the USSR				
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
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

November 11, 1991

D. C. Rao

D.C. -

The Debt Tables look in fine shape. It is a well-written and interesting document.

I have only a very few points which are noted on the attached 5 pages of text.

In the public presentation of the Debt Tables, I would expect that we can focus attention on the net resource flows, the progress made and the prospects, rather than refer to net transfers. It is in the text, and we need not shy away from comments. But we do not want to make it the centerpiece (which may happen anyway in the headlines) to the detriment of the relevant (in terms of what needs doing) material in the report.

A handwritten signature in dark ink, appearing to be 'D.C. Rao', is located at the bottom right of the page.

Summary

On the whole, the debt burden of developing countries is not projected to show much change in 1991, despite an unfavorable external environment. Debt stocks are projected to be static and debt indicators to show only small changes from their 1990 levels. Aggregate net resource flows are projected to rise somewhat in 1991 and to show a continuation of the trend toward a high share of official sources in debt financing, as well as a shift from debt-to-equity based flows in several countries. Virtually all of the estimated US\$81.6 billion of net flows to the developing countries in 1991 is accounted for by official nonconcessional loans, official development assistance, and foreign direct investment or other equity flows.

Underlying this aggregate picture are important differences across regions and country groups. In particular, the debt burdens of a large number of the poorer countries remain unsustainably high. Resolving problems on their (largely official) debt and restoring normal relations between them and their creditors will require further action on the part of creditors and donors. An important step in this regard was the call by the Group of Seven (G-7) summit in July 1991 for additional debt relief (beyond the Toronto terms) for the poorest countries. Implementation of the so-called Trinidad terms (granting two-thirds debt reduction) would result in a realistic prospect for many, but not all, of these countries to return to external viability. For the lower-middle-income countries, the most important development in 1991 was the decision by the Paris Club to offer exceptional debt relief, of up to 50 percent in present value terms, to two countries: Egypt and Poland. The July 1991 G-7 summit noted the Paris Club's continued examination of the special situation of other lower-middle-income countries with similar debt and economic circumstances.

The debt and creditworthiness problems of middle-income countries have undergone two important developments in 1990 and 1991. First, following the Brady Initiative, five countries have now completed debt reduction operations, which have resulted in a total effective reduction of about \$20 billion--or a quarter--of their commercial bank debt. In addition, in 1991, Nigeria (using its own resources) and the Philippines (undertaking phase II of its debt reduction program) reached preliminary agreement on similar deals with their commercial creditors. Brazil has negotiated a partial agreement covering arrears. Second, a small but important group of heavily indebted middle income countries have renewed their access to private capital markets in the wake of successful debt reduction operations. Their experience suggests that the principal benefit of debt reduction is to restore investor confidence, especially among domestic residents, and that a prerequisite for success is a sustained program of macroeconomic stabilization and structural reform.

"a major" ? would be better
The Vijlbergen
article suggests
very important
domestic consequences
too.
The Box also says
debt relief reinforce
investor confidence
deriving from domestic
measures.

positive
 Moreover, to the extent net transfers are the result of debt instruments, as distinguished from grants or DFI, the ~~result~~ add to it ~~the~~ ~~cost~~ ~~of~~ ~~servicing~~ ~~the~~ ~~debt~~ ~~and~~ ~~profit~~ ~~remittances~~ ~~on~~ ~~FDI~~ ~~that~~ ~~are~~ ~~not~~ ~~included~~ ~~in~~ ~~the~~ ~~net~~ ~~transfers~~ ~~figure~~ ~~because~~ ~~net~~ ~~transfers~~ ~~include~~ ~~the~~ ~~interest~~ ~~paid~~ ~~on~~ ~~debt~~ ~~but~~ ~~exclude~~ ~~the~~ ~~output~~ ~~generated~~ ~~by~~ ~~the~~ ~~corresponding~~ ~~investment~~ ~~they~~ ~~are~~ ~~an~~ ~~incomplete~~ ~~account~~ ~~of~~ ~~the~~ ~~benefits~~ ~~of~~ ~~a~~ ~~capital~~ ~~inflow~~ ~~and~~ ~~need~~ ~~to~~ ~~be~~ ~~interpreted~~ ~~with~~ ~~care~~ ~~(as~~ ~~discussed~~ ~~further~~ ~~in~~ ~~the~~ ~~box~~ ~~on~~ ~~Aggregate~~ ~~Net~~ ~~Flows~~ ~~and~~ ~~Net~~ ~~Transfers~~ ~~in~~ ~~chapter~~ ~~1).~~ ~~Aggregate~~ ~~net~~ ~~transfers~~ ~~are~~ ~~projected~~ ~~to~~ ~~increase~~ ~~to~~ ~~US\$13.2~~ ~~billion~~ ~~in~~ ~~1991~~ ~~from~~ ~~US\$11.5~~ ~~billion~~ ~~in~~ ~~1990~~ ~~,~~ ~~because~~ ~~significantly~~ ~~higher~~ ~~resource~~ ~~flows~~ ~~were~~ ~~offset~~ ~~by~~ ~~an~~ ~~increase~~ ~~of~~ ~~US\$4.3~~ ~~billion~~ ~~in~~ ~~actual~~ ~~interest~~ ~~payments~~ ~~made~~ ~~by~~ ~~Latin~~ ~~American~~ ~~countries~~ ~~in~~ ~~1991.~~ ~~(This~~ ~~in~~ ~~turn~~ ~~reflected~~ ~~in~~ ~~part~~ ~~the~~ ~~cash~~ ~~portion~~ ~~of~~ ~~Brazil's~~ ~~arrears~~ ~~settlement~~ ~~with~~ ~~its~~ ~~commercial~~ ~~banks~~ ~~,~~ ~~in~~ ~~August~~ ~~1991.)~~ ~~The~~ ~~change~~ ~~in~~ ~~aggregate~~ ~~net~~ ~~transfers~~ ~~in~~ ~~1991~~ ~~over~~ ~~1990~~ ~~represented~~ ~~a~~ ~~15~~ ~~percent~~ ~~increase~~ ~~in~~ ~~nominal~~ ~~terms~~ ~~and~~ ~~9~~ ~~percent~~ ~~in~~ ~~real~~ ~~terms.~~

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 i-debt comm

Aggregate net transfers equal aggregate net resource flows less the cost of servicing external liabilities, that is, less interest on debt and profit remittances on FDI. Thus, they are a measure of the cash flow supplied to a country by nonresidents. Because net transfers include the interest paid on debt but exclude the output generated by the corresponding investment, they are an incomplete account of the benefits of a capital inflow and need to be interpreted with care (as discussed further in the box on Aggregate Net Flows and Net Transfers in chapter 1). Aggregate net transfers are projected to increase to US\$13.2 billion in 1991 from US\$11.5 billion in 1990, because significantly higher resource flows were offset by an increase of US\$4.3 billion in actual interest payments made by Latin American countries in 1991. (This in turn reflected in part the cash portion of Brazil's arrears settlement with its commercial banks, in August 1991.) The change in aggregate net transfers in 1991 over 1990 represented a 15 percent increase in nominal terms and 9 percent in real terms.

The regional pattern of net transfers became more differentiated in 1991. In Latin America a net outflow of US\$4.6 billion in 1990 is projected to grow to a more negative US\$11.0 billion in 1991, reflecting higher interest payments because of cash payments toward the clearance of arrears. In North Africa and the Middle East, net transfers are projected to turn to a positive US\$4.9 billion in 1991, compared with a negative US\$2.4 billion in 1990, reflecting external financing (including grants) of reconstruction after the Gulf crisis. Net transfers are projected to continue to be strongly positive to East and South Asia (US\$6.7 billion and US\$5.6 billion, respectively, in 1991) and to Sub-Saharan Africa (US\$5.9 billion in 1991), reflecting strong official flows at concessional rates.

The negotiated settlement in 1991 of arrears owed by Brazil, Egypt, Nigeria, and Poland suggests that debtors and creditors alike have come to recognize the harm done by uncertainty, which undermines investor confidence and encourages capital flight.

exchange reserves are at an abnormally low level in terms of import cover, and the level of gold reserves is subject to conflicting reports.

Concerns have been expressed about the adequacy of the Soviet Union's liquidity to meet short-term needs. These concerns are based on both the great political uncertainties affecting the Soviet Union and its debt-servicing requirements in relation to its external financial position. The debt-servicing data do indeed suggest that the short-term liquidity position is tight. Nevertheless, it remains true that the Soviet Union's debt ratio indicators are moderate.

x ~~Eastern Europe~~ e

For Eastern European countries, the external financing picture in 1990 and 1991 has been one of strong official commitments (contrasted with a virtual absence of private source financing), but modest disbursements. In 1990, net disbursements from the official sector amounted to US\$800 million. The World Bank and IMF accounted for three quarters of this total. (These data exclude negative net official disbursements to Yugoslavia of \$300 million.) In 1991 (again excluding Yugoslavia) net disbursements are projected to be about US\$ 8 - 8.5 billion (of which the World Bank and IMF are projected to account for about US\$4.5 - 5 billion).

~~Nevertheless~~, prospects for short-term cash flows grew brighter in 1991, in large part because of strong financial commitments from the World Bank and IMF, which alone are projected to total some US\$6.5 - 7.5 billion, the bulk of which will be in fast disbursing loans, plus a further US\$2.6 billion in finance under the IMF's Compensatory and Contingency Financing Facility. Other official commitments in 1991 could raise this figure substantially, including commitments from the European Community (EC), the Group of 24 OECD countries and, partly through cofinancing with the World Bank, the Export-Import Bank of Japan and the European Bank for Reconstruction and Development. Some of these commitments are expected to be fast disbursing.

Some concerns have been raised that official support for Eastern Europe could divert financial resources from developing countries that are currently receiving such support. In addressing this concern, it is important to distinguish between ODA and other official flows (comprising multilateral lending, export credit agency support, and bilateral non-concessional lending), because the two categories are subject to different constraints.

The second category, other official flows, is generally less constrained, and hence the danger of diversion is much less serious. Multilateral financial support (from the World Bank and other institutions) for Eastern Europe, in particular, has not been diverted from other countries because it has drawn on spare lending capacity. Similarly, support by export credit agencies (for example, through guarantees), has not been diverted from elsewhere because the effective constraint on these agencies in recent years has been self-imposed country-specific limits based on creditworthiness considerations. The situation with regards to bilateral non-concessional lending which adds directly to creditor country public sector borrowing

requirements, is less clear, although there does not seem to be any significant evidence in 1990 and 1991 of diversion.

ODA flows, by contrast, are more susceptible to diversion because they are constrained by national aid budgets. ODA net disbursements to Eastern Europe in 1990 were small, at US\$1.5 billion, ~~While~~ net ODA disbursements to all developing countries rose from US\$46.7 billion in 1989 to US\$54.4 billion in 1990. But ODA commitments to Eastern Europe have been significant, particularly to Hungary and Poland. Therefore, the potential for diversion of ODA is a valid concern for the future. Unless aid budgets are increased to cover grant financing and concessional loans (other than food aid) to Eastern Europe, ~~there is not danger that~~ other ODA recipients will be adversely affected.

(this is not
hypothetic
the way it
put)

Global "Capital Shortage" and Real Interest Rates over the Medium-Term

Discussion of the availability of external finance to developing countries has recently tended to center on the issue of whether there is a global "capital shortage." The needs of socialist economies in transition, including the Soviet Union, and reconstruction in the Middle East following the Gulf crisis have raised fears that developing countries may be crowded out of capital markets. Some of this demand has already become effective, for instance in Kuwait; elsewhere the phasing is uncertain.

The impact on developing countries is likely to be mainly through a continued high real interest cost over the medium term,⁷ rather than an abrupt rationing of capital, partly because they account for only about one-fifth of the global economy and less of net capital flows and partly because market access in the early 1990s already reflects a crowding out in the 1980s when real interest rates were persistently high. Countries on the margins of creditworthiness, however, could be constrained by a lower credit ceiling. Nevertheless, high real interest rates are far from inevitable. If some major OECD countries were to concentrate on reducing fiscal deficits (that is, public dissaving) and increasing private saving, any increase in real interest rates could be avoided.

⁷ Averaging over business cycles, the phasing of which has produced low real U.S. dollar interest rates in 1991.

prices, and better market access. Coupled with strong implementation of sound economic policies in these countries, debt reduction has led to a surge of FDI, portfolio investment flows, repatriated flight capital, and increased domestic private sector investment, as well as renewed market access, as discussed in the next section.

In voluntary market-based deals, the benefits for the debtor country are likely to come from efficiency gains, since banks would not willingly give up their claims for anything less than their pre-deal value. This point carries two implications. First, debt reduction may cost creditors very little when measured in terms of expected (rather than contracted) payments. Second, the debtor country is more likely to capture the benefit if the deal is concerted such that banks that do not grant debt reduction do provide new money. Otherwise, banks that free ride (that is, provide neither debt reduction, nor new money) would capture benefits through a rise in the value of their claims. One such benefit is removal of the disincentive effect of a debt overhang on investment and adjustment (the "implicit tax"). Although cross-country studies suggest that the implicit tax rate is small, the uncertainty stemming from a debt overhang does appear to be an important disincentive to investors and the implicit tax may constitute a much greater burden on the government's budget.

Thus, the main benefit of removing a debt overhang may be to reduce uncertainty about future developments in, for example, exchange rates, domestic interest rates, and tax. The removal of uncertainty can in turn lead to a lowering of the risk perceptions of potential investors and an improved capacity of the debtor country authorities to continue with adjustment; and a freeing of management resources that had been devoted to protracted negotiations. Hence, debt reduction may be a necessary, but not a sufficient, condition for renewed market access, acting as a catalyst in a package of measures to restore investor confidence. Renewed external flows and domestic private sector confidence may then feed upon each other in a virtuous circle. Practical examples of this phenomenon are furnished by the experiences of Chile, Mexico, and Venezuela, as described in the next section.

Emerging Countries Gain Renewed Market Access

After several years in which there was virtually no new voluntary financing, a few Latin American borrowers--mainly in Chile, Mexico, and Venezuela--have been able to renew their access to the international capital markets. A notable aspect of this renewed access has been the wide variety of financing sources and instruments used. Investors have included not only commercial banks, but also corporate treasuries and pension funds, financial institutions, corporations, retail investors, and residents holding capital abroad. The range of instruments has included bank lending, bonds, equity portfolio flows, FDI, and debt-equity swaps.

Despite commercial banks' great reluctance to engage in cross-border lending because of domestic loan portfolio problems and capital constraints, there has been a modest revival of lending to the three countries under consideration. For example, in March 1991, the Republic of Chile raised US\$200 million through a five-year private placement,² and a Mexican private sector copper company, Mexicana de Cobre, raised US\$165 million through a five-year loan secured by copper export receivables and hedged by copper swaps.

² This loan was the first tranche of the new money agreed by Chile in its 1990 restructuring agreement; the second tranche of US\$120 million falls due in March 1992. Arguably, this new money should be considered quasi-concerted.

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The World Bank

ERNEST STERN
Senior Vice President
Finance

November 12, 1991

Mr. Sandstrom

Sven -

Has Raj decided yet where to locate poverty monitoring? I do not think that we should let the dispute over the additional positions (now resolved) delay the assignment of responsibility. Displaced staff are now being reassigned and if any of them are particularly suitable to poverty monitoring, they cannot be hired if no manager has yet been assigned responsibility.

A handwritten signature in dark ink, appearing to be "Sven", located at the bottom right of the letter.

The World Bank

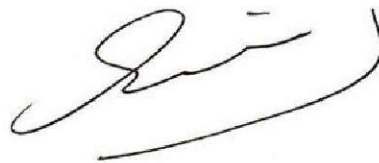
ERNEST STERN
Senior Vice President
Finance

November 12, 1991

Mr. Preston

Lew -

It would be useful if, in one of your conversations with Messrs. Shihata and Thahane, you mention that it is desirable for them to be at the Board even if the President is not in the chair. Past practice has varied, but there is a clear pattern of delegating to their deputy when the President is not in the chair. To continue this would send a poor message under the post-December 1 arrangements.

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

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

DATE: 12-Nov-1991 04:41pm

TO: Yves Rovani

(YVES ROVANI)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: I was not sure whether

you had anything special in mind with your comments at the end on the issue of translation into French other than that we will translate the report into French. If so, would you give me a call?

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

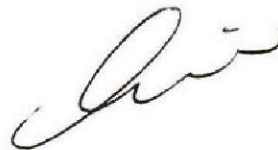
November 12, 1991

Mr. Preston

Lew -

Per my earlier note, I have now talked to Gerry Corrigan about resumption of relationships with Salomon. He understands and accepts our position. As the next step, you wanted to call Warren Buffet. You can do that anytime in the next two weeks. You should tell him that (a) we are prepared to restore relationships effective December 1 and (b) we do not want them to publicize this at all before then (what they want to announce on December 2 is their business, but we also have the Japanese to worry about. They, too, have been told that we will resume relations on December 1, but have been very curious about what we are doing with Salomon.) You may also want to re-emphasize to Warren that if the investigations and/or lawsuits lead to adverse rating actions or to any other factors relevant to our normal credit criteria, we would, of course, suspend again.

Please let me know when you have spoken to Buffet, so that I can inform Treasurer.

A handwritten signature in dark ink, appearing to be 'Ait', is located in the lower right quadrant of the page.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 12, 1991

Mr. Shakow

Alex -

At the behest of Mr. Cosgrove, I met last week with Mr. Fraser, President of CARE International. He was accompanied by Mr. T. Eggleton, the Secretary General.

Mr. Fraser was interested in exploring the prospects for greater collaboration with the Bank on projects. He recognized that there was some joint activity with CARE-U.S., but thought this could be expanded and involve the other CARE units. They have a strong interest in Africa, Bangladesh, Indo-China and capacity-building. On the latter, I have since sent them our ACBI paper. They were not aware of our interests in this area and are at work on a proposal, and its funding, of their own.

We agreed that Mr. Eggleton would return here on a more extensive get-acquainted visit during which he could meet with your staff and OPS' staff in Africa and Asia. This could then be followed by discussions on project-specific collaboration with CARE's operating groups.

I suggested to Mr. Eggleton that he get in touch with you directly. Should I hear from him, I will let you know.



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

DATE: 11-Nov-1991 09:19pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Robert Picciotto, CPBVP

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Technical Assistance

Ernie:

I have gone over the document once again and it looks as okay as it will ever be.

Thank you for all the help.

Unless I hear from you (or another MD) by Tuesday noon, I will send the document forward to Mr Baijal.

OK

What about the transmittal note to Rajagopalan ? I presume this should not go out till December 1 but that you do agree that his VicePresidency should be asked to put together an action program.

yes. I agree.
I have reworked it a bit and will clear it up here.

Bob

CC: Sven Sandstrom

(SVEN SANDSTROM)


11/12

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

DATE: November 12, 1991 02:04pm

TO: Walter Peyerl (WALTER PEYERL)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: RE: IAD REPORT ON AUDIT OF THE CASH MANAGEMENT DEPARTMENT

Thanks for sending me a copy of your response to the IAD report.

In general, I think it is desirable to consult on the responses with TRE. That avoids the undesirable kind of comment as in #6. It is not useful to have a Department tell IAD that they will do something if only their boss will agree. It is easier for the Department than for IAD to find out whether the supervisor agrees.

CC: Donald C. Roth (DONALD ROTH)
CC: Caio Koch-Weser (CAIO KOCH-WESER)
CC: Jessica P. Einhorn (JESSICA EINHORN)

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

DATE: November 12, 1991 09:51am

TO: Allan Legg (ALLAN LEGG)

FROM: Walter Peyerl, CSHDR (WALTER PEYERL)

EXT.: 81832

SUBJECT: IAD REPORT ON AUDIT OF THE CASH MANAGEMENT DEPARTMENT

Below please find our comments on the

REPORT ON AN AUDIT OF THE CASH MANAGEMENT DEPARTMENT
July 31, 1991

Rec. Cash Management Department Comment
No

- #1 SHORT TERM FORECASTING
We are already implementing.
Expected: February 1992
- #2 LONG TERM FORECASTING
This has already been agreed with INV. We will share our
forecast data with them when we have developed and
automated them.
Expected: June 1992
- #3 ENHANCE ACCURACY OF FORECASTING
This too will be done as a fine-tuning of the forecasting
methodology and data-collection process but only after we
have our first forecasts.
Expected: June 30, 1992.
- #4 INCLUDE MORE THAN THE MAJOR POOL CURRENCIES IN FORECASTING
Once our inputs have been automated we will consider
whether it is necessary and worthwhile to produce and look
at forecasts for the non-major currencies.
Expected: July/ August 1992.
- #5 REDUCE UNINVESTED BALANCES TARGETS
'...balances held in these accounts earn on average 2-3
percentage points below market rates..... represents
approximately \$2 million lost interest....' Below please
find the negotiated interest rates and minimum balances on
the 7 major currencies:

	<u>Interest Rate</u>	<u>Min. Balance</u>
USD	fed funds less 120 bp	0
DEM	u.f.n.	500,000
CHF	monitored and invested daily	0
NLG	call rate	0
JPY	call rate less 12.5 bp	50,000,000 - now
		0 - soon
GBP	Treasury Bill less 50 bp	200,000
CAD	Treasury Bill less 10 bp	30,000

Unless FED funds, call and T-Bill rates are 2-3% below market, the assessment of \$2 M loss is a bit exaggerated.

IDA target balances were adjusted down as of July 1991.

For IBRD we intend to establish separate benchmarks for each of the currencies in which we are active.
Expected: January 1, 1992.

- #6 CSH DEPOSITING NON-MAJOR CURRENCIES
We have made an initial contact with INV by informing them of this particular recommendation. We will pursue this more vigorously with them in the coming weeks. This would require VPTRE support.
- #7 CTPS/LMS INTERFACE
CSHSS and OCM staff have already initiated discussions with FOD staff with the objective of implementing an electronic interface between the CTPS and LMS systems.
Expected: February 29, 1992
- #8 COMMUNICATION CSH/FOD
OCM staff have already established an administrative procedure where designated staff will call the corresponding FOD staff if the FOD memoranda is not received on time.
Expected: Done
- #9 EXCHANGE RATES
Several enhancements to the rates capture application have been implemented. A warning message is generated (and must be acknowledged by the staff entering the rates information) if the percentage change of a newly entered rate over the previous rate is 2% or more for FRF, NLG, GBP, JPY, DEM, CHF or 10% or more for all other currencies.

Prior to report printing and file transfer, the application displays all the mandatory currencies that have been updated and the rates entered for the 14 CFA currencies (this will be automated in the near future) so that staff can check consistency among rates. The application does not allow transfer of file if the file contains future value rates.

Expected: Done

- #10 ELECTRONIC TRANSFER OF RATES FROM IMF TO CSH
In FY92, CSHSS submitted a project that will implement electronic capture of rate information for FSDF funding. The project was not allocated funding in FY92 due to other competing priorities in FINCOM. As part of the quarterly FSDF progress reporting mechanism, CSH has requested FINCOM to reconsider funding the project in FY92.
Expected:

- #11 DATA TRANSFER FAILURES
Disagree. The NJE file transfer facility is not as robust as FINCOM's RAFT messaging facility and file transfer failures can occur. CSHSS believes that making changes to the file transfer software is not the right approach as it will entail changes to an already complex environment. Instead CSHSS will implement an automated file transfer monitoring facility that will alert CSH staff when a requested file transfer did not succeed. The facility will continue to alert CSH staff on a daily basis until the file transfer process successfully completes.
Expected: December 1, 1991

- #12 CAA TO CONFIRM RECEIPT OF FILES
Disagree. CSHSS and CTCU believe that the incidence of failures related to CAA file transfer is relatively infrequent to merit the design and implementation of a feature that confirms the receipt of files. It is estimated that a considerable amount of effort will be spent by all parties concerned for this feature to work effectively. It is unlikely that the new feature will be cost-effective since the CAA application is supposed to be re-written soon, possibly within the 12 to 24 month time-frame.
Expected: n/a

- #13 ENSURE BANK CHARGES ARE LEGITIMATE
Task under way as part of NOSTRO implementation.
Expected: December 1, 1991.
Bank Liaison Unit procedures will be established after they have seen NOSTRO outputs.
Expected: February 28, 1992

- #14 NEGOTIATIONS WITH CORRESPONDENT BANKS
Bank Liaison always follows the procedures of
 Request for proposal from approved banks
 Review proposals
 Prepare spreadsheets for analysis
 Visits to short-listed banks
 Negotiate pricing
 Rejection/acceptance letters
The Signatory Authorities are clearly defined and
documented in the Administrative Manual and Certificates
for the Secretary.
- #15 EVALUATION OF CORRESPONDENT BANKS
Agree. Will be done together with #13 above
Expected: February 28, 1992
- #16 DOCUMENTATION OF POLICIES AND PROCEDURES
We will check on the completeness and staff familiarity
with CSH Instructions and Procedures
Expected: JUNE 30, 1992

CC: Ernest Stern	(ERNEST STERN)
CC: Donald C. Roth	(DONALD ROTH)
CC: Robert Picciotto	(ROBERT PICCIOTTO)
CC: Sunder Subramanian	(SUNDER SUBRAMANIAN)
CC: Emmitt S. Summers	(EMMITT SUMMERS)
CC: Bruno Vollmer	(BRUNO VOLLMER)
CC: Malcolm Johnson	(MALCOLM JOHNSON)
CC: Ahmad Sartip	(AHMAD SARTIP)

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

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Foxel

CONFIDENTIAL

November 12, 1991

Mr. Wapenhaus

Willi -

I understand that you will be meeting with the Governor of the Bank of Yugoslavia on Wednesday. In order to avoid any embarrassment afterwards, I think it important that we review our position on Yugoslavia and decide on any action in advance of the meeting.

As I understand it, no supervision mission has visited Yugoslavia since July. There is a major war going on with no settlement in sight. That this is a general view is evidenced by the proposals to invoke sanctions. At best, only a select few projects can be supervised safely. The political solution is unclear and may involve difficult issues of allocating liabilities, which may be exacerbated by continuing disbursements. The debt servicing capacity of Yugoslavia is being reduced dramatically by the fighting and its likely aftermath.

In view of our inability to supervise, there would seem to be ample project grounds for suspending disbursements. These reasons are strengthened by the political uncertainty of the borrowers and the deteriorating financial capacity.

In my view, a suspension of disbursements is amply justified. Could you give me a call on this today so that we can discuss it and consult legal and the President, if necessary, before the Wednesday meeting.

lin

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

ERNEST STERN
Senior Vice President
Finance

FAXED EARLIER TODAY

November 13, 1991

Mr. Kemmochi

Thanks for sending the Nippon Keizai Shimbun article. I assume that the Nomura/Nikko story merely reflects their corporate public relations at work. While we have agreed to lift the suspension at the end of this month, that only means that the two firms are eligible to be considered for syndicate participation. We never said or implied that their inclusion is automatic or that they would necessarily return to lead manager status. Also, our decision to restore relations was not, as you know, driven by any concern that we would not be able to fund ourselves without their participation. Rather, it was our view, to which you contributed substantially, that steps had been taken by all concerned to avoid a recurrence of operations which undermine confidence in the operations of the bond market.

Best regards,



cc: Mr. Lay
Mr. Roth O/R

1/3

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 : 1199

NUMBER OF PAGES : 3
(including this page)

DATE : November 13, 1991
TO : Mr. Donald Roth, TREVP
COPY TO : ☒ Mr. Ernest Stern, FINSV
Mr. Kenneth Lay, FODDR
FROM : Nobuaki Kemmochi, TOKDR
SUBJECT : Nomura/Nikko

MESSAGE:

Attached are the article of The Nippon Keizai Shimbun on the
Nomura and Nikko and its translation just for your reference.

Regards
Nobuaki Kemmochi

2/3

The Nihon Keizai Shimbun, November 13, 1991

WORLD BANK TO LIFT SANCTIONS AGAINST NOMURA AND NIKKO NEXT MONTH
Syndicate to be Reinstated

The World Bank has decided to lift its sanctions against The Nomura Securities Co., Ltd. and The Nikko Securities Co., Ltd., under which both companies were excluded from the Bank's underwriting group due to a scandal arising from their dealings with gangster organizations, to take effect after the end of November. This decision reflects the judgment that both companies have begun to undertake structural reforms and other measures to improve their business methods. This move toward the lifting of sanctions by the World Bank is expected to have an effect on the companies' other clients in Japan and overseas which have also adopted similar sanctions.

The Bank reportedly conveyed the message that Nomura and Nikko could "rejoin the syndicate as before from December" to executives of both companies through its Tokyo Office. In view of its high demand for funds and the fact that large-scale fund raising will be necessary in the future also, the Bank appears to have concluded that it would be difficult to issue bonds in the long term without using the services of the two leading securities companies.

The Bank decided to exclude Nomura and Nikko from its syndicate to issue dollar-dominated bonds scheduled for September. Its sanctions against both companies have continued since that time including their exclusion from a syndicate to issue Euroyen bonds.

The World Bank's enforcement of sanctions also influenced other international financial institutions, as well as public bodies and business enterprises both in Japan and overseas. In fact, even in the market for ordinary corporate bonds and debentures, the two companies have been recently experiencing a continuing lack of business as lead manager. Consequently, such entities are expected to change their attitude toward the two as a result of the lifting of sanctions by the World Bank.

3/3

The Nihon Keizai Shimbun

November 13, 1991 Page 7

野村・日興への「制裁」措置

世銀、来月に解除

シ国復帰へ

【東京十三日】世界銀行（世銀）は、先般（十一日）発表した、野村證券と日興証券の両社に対する「制裁」措置を、来月（十二月）に解除する意向を示している。野村と日興は、先般（十一日）発表した、野村證券と日興証券の両社に対する「制裁」措置を、来月（十二月）に解除する意向を示している。

野村と日興は、先般（十一日）発表した、野村證券と日興証券の両社に対する「制裁」措置を、来月（十二月）に解除する意向を示している。野村と日興は、先般（十一日）発表した、野村證券と日興証券の両社に対する「制裁」措置を、来月（十二月）に解除する意向を示している。

The World Bank
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ERNEST STERN
Senior Vice President
Finance

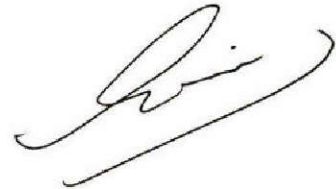
November 13, 1991

Mr. Kavalsky

Basil -

Quarterly Status Report on Reimbursable Programs - Puzzlements

- (1) Last sentence of para 2. Which development? It is not obvious that because someone reimburses us, disbursements will rise.
- (2) Last para. This simply cannot be true. Can it? It certainly cannot be continued. I can set up a \$100 Trust Fund and no matter how many billions I commit in subsequent years, the commitment always is recorded at \$100? Somewhere one would expect an imbalance between commitments and disbursements to appear. Please let me know when this will be corrected.

A handwritten signature in black ink, appearing to be 'Basil', with a long horizontal stroke extending to the right.

OFFICE MEMORANDUM

DATE: November 13, 1991

TO: Mr. Ernest Stern, FINSV

THRU: Mr. Basil Kavalsky, FRMDR

FROM: Kah Hie Lau, Trust Fund Administrator *Kah Hie Lau*

EXTENSION: 8-0530

SUBJECT: Quarterly Status Report on Reimbursable Programs
For Period Ending September 30, 1991

This report presents the first quarter status of the Reimbursable Programs (RPs). ¹ Tables 1, 2, and 3 summarize trust fund, including UNDP, commitments and disbursements by sector, by donor, and by work program. Figures for EDI, IFAD, RTA programs and fee income are not yet available.

Disbursements

Disbursements for Bank-executed Activities

Total disbursements for Bank-executed trust fund activities totalled \$36 million which represents an increase of 40% over the \$25.7 million achieved in the same period in FY91. This is about 21% of the planned FY92 disbursement of \$170 million. The first quarter reimbursement to the Bank for costs incurred under GEF and Ozone TF of about \$3.5 million is not included in the total. Nor is the expected \$8 million in reimbursements from the IFAD, EDI, RTA and fee income programs. In view of this development, we could expect another large increase of RP disbursements in FY92.

As shown in Figure 2, about 39% of these resources are used in global or inter-regional activities. About half of the global or inter-regional resources are used to support the Bank's lending activities. Shares of resources expended in Africa, Asia, EMENA, and LAC are 21.7%, 21.4%, 11.7% and 6.6% respectively.

¹ RPs consist of UNDP and trust funds-financed activities implemented by the Bank, other reimbursable arrangements such as IFAD supervision, Reimbursable Technical Assistance to Gulf States, EDI training courses, and Fee income received from UNDP, trust fund donors, and cofinanciers. Activities financed under cofinancing trust funds and freestanding trust funds and implemented by borrowers or other international organizations are not considered RPs. The Bank's role in these cases are limited to that of oversight and fiscal agent.

As for the funding sources, disbursements from UNDP and Japanese trust funds accounted for over two-thirds of the total. Over 60% of the disbursements are for pre-investment and technical assistance activities.

Disbursements for Borrower-executed Activities

Disbursements for borrower-executed activities were much higher than planned in the first quarter. The increase is attributable in large part to a number of trust funds established for the clearance of the Nicaragua's arrears to the Bank and IDB.

PHRD Fund

Disbursement of Japan's PHRD Fund for both Bank and borrower-executed activities is increasing. First quarter disbursement totalled \$11 million as compared with \$37 million for all of FY91.

Commitments

New commitments are generally on target at about \$26 million for Bank-executed and \$137 million for borrower-executed activities. Additional commitments to existing trust funds are not counted as new commitments, therefore, actual new commitments are generally understated. For example, the second tranche of the PHRD Fund contribution of \$110 million is not recorded as a new commitment. The same is true for the GET.

Attachments:

cc: Messrs. Wood, Kashiwaya, Picciotto, Eccles, Roth, Linn, Koch-Weser, Bock, Lynn,
Raghavan, Ruddy, Chaffey, Shalizi, West, Raphaeli, Robless, Muhsin, Fox,
Gregory, Lowther, Doultinos
Mesdames Scherr, Jones-Carroll, Carr, Martin, Bonney, Pinto
Regional Technical Assistance Officers

TABLE 1 - Trust Fund Disbursements by Sector

Sector	[1] FY91 Full- year Actual Disbursement	[2] FY92 Full- year Planned Disbursement	[3] FY91 Actual Disbursement as of 9/91 (Amounts are in US\$ thousand)	[4] FY92 Actual Disbursement as of 9/91	[5] [4] as Percentage of [2]	[6] FY92 New Commitments as of 9/91
PART A -- (Bank-executed Activities)						
Agriculture & Rural Development	24,224	30,270	3,286	6,708	22.2	11,159
Education	2,464	8,090	995	1,467	18.1	221
Energy	28,888	24,659	6,038	5,988	24.3	619
Industrial Dev/Finance	8,511	15,473	1,538	1,673	10.8	2,998
Non-sector Specific (including TA)	39,187	48,465	6,186	11,239	23.2	8,207
Population	12,988	12,584	1,751	1,353	10.8	923
Transportation	8,573	5,673	1,193	1,005	17.7	300
Urban	7,152	6,091	983	1,942	31.9	247
Water Supply and Sanitation	17,721	17,510	3,683	4,383	25.0	1,029
Tourism	308	1,370	36	298	21.8	
Total Part A	150,016	170,185	25,689	36,056	21.2	25,703
PART B -- (Borrower-executed Activities)						
Agriculture & Rural Development	160,281	73,390	42,015	56,994	77.7	1,266
Education	3,683	11,002	1,985	1,194	10.9	
Energy	7,969	26,490	2,959	2,838	10.7	
Industrial Dev/Finance	14,439	24,935	7,957	1,794	7.2	1,442
Population	59,155	83,958	5,632	12,002	14.3	
Non-sector specific (including TA)	264,558	184,447	38,970	157,464	85.4	132,791
Transportation	4,976	34,018	(2,450)	1,619	4.8	
Urban	1,620	7,810	202	1,422	18.2	
Water Supply and Sanitation	2,588	8,183	1,032	344	4.2	1,523
Telecommunications		800		429	53.6	
Tourism	195			91		
Total Part B	519,464	455,033	98,302	236,191	51.9	137,022
Total Trust Funds	669,480	625,218	123,991	272,247	43.5	162,725

Notes: Commitments in currencies other than US\$ are converted to US\$ using current exchange rates. Disbursements are converted to US\$ at the exchange rates prevailing at the time of disbursement. Borrower-executed activities include research activities carried out by other international research organizations, such as, WHO, CGIAR Research Centers, etc. The figures shown in Column 2 are extracted from the original planning figures provided by the Task Managers in connection with the FY92 budgets.

TABLE 2 - Disbursements Donor by Operational Work Program

Donor	Aid Coordination	Economic Studies	Lending	Pre- Investment	Research	Technical Assistance	Training	Total	Actual as % of planned
PART A. Actual FY92 disbursements (at 9/91) for Bank-executed Activities.									
UNDP	18	45		5,453	2,399	10,293	462	18,670	24
Japan			426	3,197		905	1,131	5,659	12
Norway		2	910	13	400	402	24	1,751	20
Sweden		26	1,170	147	21	54		1,418	34
Netherlands		1	630	465		119	52	1,267	25
Denmark		4	1,095		6	24		1,129	61
Australia			78	735		26	271	1,110	30
Italy		472	79			167	161	879	24
France			601		14	27		642	24
Switzerland			256	142		55		453	62
Canada		6	286	29	22	106		449	14
Others	7	54	1,435	88	387	534	124	2,629	21
Total	25	610	6,966	10,269	3,249	12,712	2,225	36,056	21
PART B. Planned FY92 full-year disbursements for Bank-executed activities.									
UNDP		100		18,469	10,509	46,484	1,771	77,333	
Japan			5,060	19,448		15,172	6,761	46,441	
Norway	16		3,153	700	2,123	2,881		8,873	
Sweden		107	2,510	10	117	1,487		4,231	
Netherlands	14	7	3,120	100	446	555	756	4,998	
Denmark			1,700		25	131		1,856	
Australia			900	2,300		150	356	3,706	
Italy		2,500	240			402	586	3,728	
France			2,600			55		2,655	
Switzerland			460	161		112		733	
Canada			1,560	1,050	60	654		3,324	
Others	40	20	4,945	652	2,104	2,267	2,279	12,307	
Total	70	2,734	26,248	42,890	15,384	70,350	12,509	170,185	

Notes: Ranked by total disbursement for Bank-executed activities. Amounts are in US\$ thousand.

Disbursements in currencies other than US\$ are converted into US\$ using the exchange rates prevailing at the time of disbursement.

TABLE 3 - New Trust Fund Commitments

Donor	Aid Coordination	Economic Studies	Lending Support	Pre- Investment	Research	Technical Assistance	Training	Other	Total
(All amounts are in US\$ thousand)									
PART A - FY92 New Trust Fund Commitments (at 9/91) for Bank-executed Activities.									
UNDP	100				11,375	396			11,871
Japan				1,543		6,147			7,690
Canada			1,770				1,770		3,540
United States				247		900	300		1,447
Finland					838				838
Other Donors						318			318
TOTAL	100		1,770	1,790	12,213	7,761	2,070		25,704

PART B - FY92 New Trust Fund Commitments (at 9/91) for borrower-executed Activities.

United States							75,000	75,000
Sweden							14,713	14,713
Switzerland							10,935	10,935
Netherlands							10,929	10,929
Japan				3,285		2,304		5,589
Canada							5,310	5,310
Denmark							5,000	5,000
France							5,000	5,000
Norway							4,545	4,545
TOTAL				3,285		2,304	131,433	137,022

Notes: Commitments in currencies other than US\$ are converted into US\$ using current exchange rates.

The unallocated balance of the Japan's PHRD Fund is not included in the total. It will be reported when the grant agreement for each sub-activity funded from the PHRD Fund is signed.

Disbursements by Managing Unit
For Bank-executed Activities

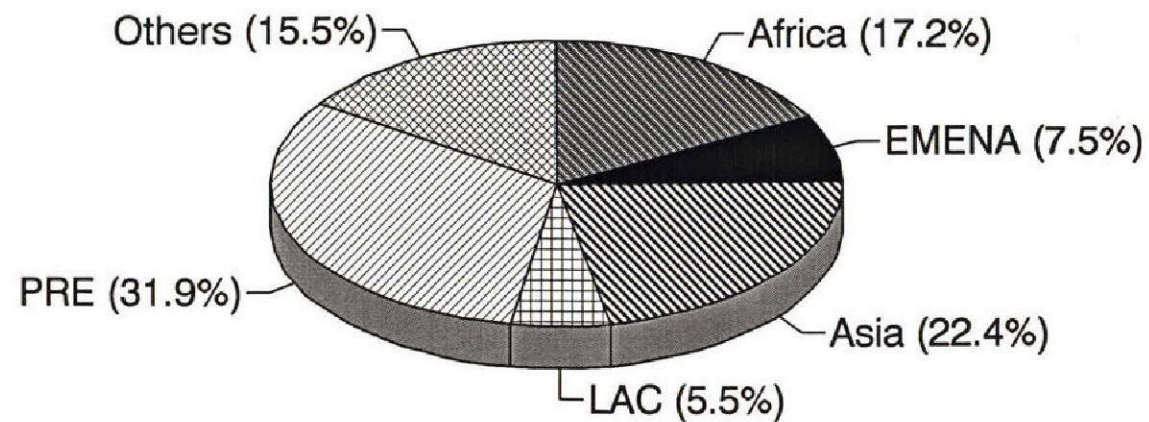


Figure 1

Disbursements by Benefitting Region
For Bank-executed Activities

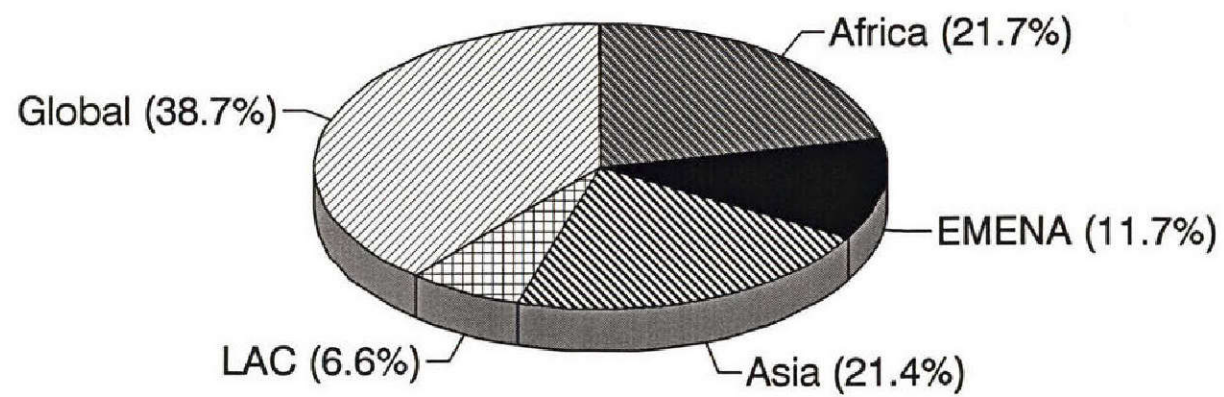


Figure 2

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

DATE: 12-Nov-1991 09:56pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Stephen Eccles, CTRVP

(STEPHEN ECCLES)

EXT.: 81674

SUBJECT: MFR for October

For you to see my comments, in case you disagree with any of them.

As per my opening sentence, could you let me know what you want to do after December 1? Clearly, we would continue to clear with Roth and Linn, and the cc listing.

CC: Michael Ruddy

(MICHAEL RUDDY)

Après le déluge - I don't need to see this unless you are proposing significant changes. For the rest I will only treat myself to post facto comments.

On the current comments I do hope we are not going to say every month what our income would have been without the commitment fee or spread waiver.

I understand the pedagogical temptation but think the result a little tacky,



11/13

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

DATE: 12-Nov-1991 09:53pm EST

TO: Joelle Le Vourc'h

(JOELLE LE VOURCH)

FROM: Stephen Eccles, CTRVP

(STEPHEN ECCLES)

EXT.: 81674

SUBJECT: Monthly Financial Report

Joelle,

Remind me to ask Ernie what part he wants to play in the clearance process for MFR from December 1st onwards!

Here are my comments on the October edition:

1. Disbursements (IBRD, page 6 and IDA, page 18). I'm surprised I haven't noticed this before, but the opening paragraph doesn't tell us anything at all that isn't in the following tables or charts. Introductory paragraphs for other sections tell us something about what has happened in the month of October itself. So I suggest you replace with something like: "In the month of October, IBRD (IDA) disbursed the equivalent of USD million, for investment lending and for adjustment lending."

2. IBRD Net Income (page 14). Does the figure of USD 762 million reflect the waiver? If so, fine, but let us add a sentence saying that "if it wasn't for the waiver, the income would have been USD 45? million higher". If not, let's reflect it. (In the 3rd line, correct spelling of "overdue".)

3. IBRD Capital Subscription (page 14). The last sentence of the introductory paragraph seems to be redundant. Please drop it.

4. Externally Funded Activities (page 24). Why does the sum of the detail under No. of Operations (756) differ from the total (741)? Similarly for disbursements (52 vs 54)?

Thanks.

CC: Michael Ruddy

(MICHAEL RUDDY)

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

Office of the
Senior Vice President
Finance

11/13/91

Lew -

This is on its way to a
Final version of a Board
paper. It's a new proposal
and you ought to take a
look at it. FRS and Legal
have cleared although the
latter is still checking on
some technical issues with
outside counsel.

Would you let me know
when we can discuss. *Levi*

IBRD DEBT REPURCHASES

1. Since FY87, the Bank has been active in exercising prepayment rights and calls incorporated in its publicly-issued debt and syndicated borrowings. These actions have been taken, however, only where financial benefits could be realized without jeopardizing the Bank's standing in, and future access to, the market concerned. While most of its existing financings no longer incorporate these provisions, the Bank can still capture financial advantages through the early retirement of publicly-held debt by repurchasing outstanding bonds in the market. Except for limited volumes of sinking fund bonds, the Bank has never engaged in these market repurchases.¹

2. This memorandum describes the advantages to the Bank and the related financial consequences of the repurchase and retirement of outstanding debt and proposes that the Executive Directors grant management general authority to engage in such transactions. In addition, assuming this authority is granted, the general terms of a proposal to repurchase U.S. dollar bonds is described.

Past IBRD Debt Retirement Strategies

3. During fiscal year 1987, under the influence of a substantial decline in interest rates, the Bank considered the issues involved in the early retirement and refinancing of its outstanding debt. The first actions in this area were the prepayment and refinancing over a period of 21 months of USD 3.3 billion equivalent of a number of JPY-denominated syndicated loans and one private placement. The prepayments were accompanied by a simultaneous refinancing through the same institutions.²

4. In the course of its presentation of the initial FY87 prepayments, management articulated the two-part test which would be used to decide whether to exercise early debt retirement options: (1) that the transaction be financially beneficial to the Bank and, by extension, to its borrowers, and (2) that the Bank's standing in, and future access to, the market concerned not be jeopardized as a result of this action.³

5. Initially, reservations were expressed by management about the potential adverse market reactions to extending the loan prepayment precedent to publicly-held bond issues. In further examining these concerns, management concluded that public issues could be called without harm

¹ Since 1954, the Bank has repurchased sinking fund bonds in market-based transactions ("Authorization to Purchase or Redeem Bonds by the Bank", R-821, dated August 20, 1954). Under the terms of most sinking fund issues, as an alternative to making cash sinking fund payments, the Bank is given the option of purchasing an equivalent amount of the bonds in the market and redeeming them at par. If these bonds can be purchased at a discount, the Bank saves the amount of the discount upon redemption.

² See "Prepayment and Refinancing of Yen-Denominated Liabilities," R87-21 (February 5, 1987).

³ See Statement to the Board, SecM87-142 (February 13, 1987).

to the Bank because of (a) the sophistication of the holders of Bank bonds in the relevant markets and their knowledge of the risk of calls, (b) the fact that calling public bond issues had become commonplace among premier issues in those markets, (c) the opinions of the Bank's underwriters that calls would not adversely affect the Bank's reputation and (d) the potential market efficiency gains of removing an oversupply of IBRD paper from the Swiss franc market. The Bank, during the remainder of FY87, refinanced a total of nine Swiss franc public issues and one Luxembourg franc public issue with a value of USD 624 million equivalent.

6. Since FY87, loan prepayments and calls of public issues meeting the two-fold test have continued. By June 30, 1991, borrowings totalling USD 11.4 billion equivalent had been prepaid or called, producing estimated savings having a present value of USD 1.1 billion equivalent.

Opportunities for Market-Based Debt Repurchases

7. As a result of past calls and prepayments, there remain relatively few loans and bond issues incorporating early retirement options. In recent years the Bank has generally not included call provisions in its new bond issues, reflecting the increased yield required by institutional investors as compensation for such terms. As a consequence, at the end of FY91, only 6% of the Bank's outstanding borrowings incorporated prepayment options, in comparison to 25% prior to the first prepayments.

8. The scarcity of prepayment and call options limits the Bank's ability to take advantage of general decreases in market interest rates through the exercise of these rights. However, as noted below, the Bank can still capture financial savings in the difference between the yield spread at which existing debt trades in the market and the spread at which new, refinancing debt can be issued. Importantly, because these savings are realized through market-based debt repurchases, they are not dependant either on absolute interest rate levels or explicit contractual prepayment provisions.

9. The financial benefits of early debt retirement are identical, whether accomplished through individual market repurchases or the call of an entire bond issue. For the Bank, which has ongoing lending operations resulting in an expanding loan portfolio and a growing need for funding, debt which is retired prematurely will be replaced, or refinanced. The benefits of premature debt retirement thus arise from the ability to refinance at an all-in cost below the yield at which a bond can be retired. In this way, the present value, and thus the cost, of the Bank's outstanding debt can be reduced.

10. The main difference between these two methods of early debt retirement is that prepayment options are exercisable at a fixed price (generally either at par or at a premium which declines through time), while market repurchases must be made at prevailing market prices, which change in relation to changes in interest rate levels and IBRD yield spreads from time to time. The exercise price of a prepayment option thus defines the yield at which bonds can be redeemed in this way. Because this yield is independent of market yield levels, calls and prepayment options become financially advantageous to exercise whenever market yields (and thus refinancing costs) fall to a level below the fixed yield at which the bonds can be redeemed.

11. The considerations which can make market-based repurchases financially attractive are quite different. Since there is no fixed yield at which an individual bond can be purchased in the market, a decline in market interest rates does not necessarily make debt repurchases financially attractive. When interest rates fall, the yield on outstanding issues and the cost of replacement funding will both decline together.

12. Early redemption through market-based repurchases does, however, become financially attractive whenever outstanding issues trade at yields significantly above the yields investors would require from a new issue. The factors that may cause this are not always related to the level of market interest rates:

- Over time there may occur changes in the form of issuance reflecting investor preferences. A case in point is the global bond in U.S. dollars where size, liquidity and simplified cross-market trading have created a security preferred by investors. Pre-global U.S. dollar bonds issued by the Bank trade at prices reflecting yields ranging from five to twenty basis points higher than comparable global bonds.
- The liquidity of outstanding bond issues often declines over time, as bonds are acquired by "buy and hold" investors, reducing the issue's float. Smaller issues are particularly prone to becoming illiquid in this way. An investor wishing to sell such an illiquid issue would be forced to do so at a relatively unattractive price (representing a high yield).
- Older issues with coupons above or below current interest rates tend to trade at significant premiums or discounts. Many institutional investors prefer current coupon securities and seek to avoid the capital gains and losses produced by prices below and above par. In particular, high coupon, high premium issues often trade at significantly higher yields than similar maturity issues with current coupons.

13. While legally permitted to do so under the terms of all outstanding issues, the Bank has not previously repurchased outstanding bonds in the market for the following reasons:

- Refinancing involves the payment of costs and commissions associated with new issuance. To make refinancing financially attractive, the price at which bonds can be purchased must be sufficiently attractive to outweigh these costs. This up-front cost hurdle usually eliminates the financial advantage of repurchasing debt in most markets, where the gap between the perceived value of outstanding IBRD debt and new IBRD debt is not very large.
- Until fairly recently, a principal concern of the Bank was establishing sufficient market access to support a rapidly expanding need for funding. Given the historically limited capacity of the markets to absorb Bank debt, it was felt that repurchases might exacerbate this access problem.

14. Over the past several years, a number of developments in the markets generally and in the Bank's own funding strategy have made market-based debt repurchases more feasible. New fixed income products, such as the global bond in U.S. dollars, have reduced the yield spreads the Bank has to pay. This has widened the gap between the market value of the Bank's outstanding debt and the cost of the instruments the Bank would use for refinancing. In addition, our use of liability management strategies, such as deferred and anticipatory rate setting, which sever the traditional link between the time of borrowing and the point of cost fixing, have made it possible for the first

time to hedge even small volume repurchases against movements in absolute yield levels efficiently.⁴ Moreover, the general expansion and liberalization of markets and widespread acceptance of the Bank's credit have eased access concerns.

15. In many markets, the perception of investors and intermediaries has also evolved in recent years towards acceptance of a wide variety of liability management strategies, including debt repurchases. In fact, the current shift in the Bank's funding strategy in markets such as the U.S. dollar towards fewer, larger and more liquid issues, has left some investors receptive to the opportunity to dispose of their older Bank holdings and switch into the more liquid issues. The limited liquidity of these earlier issues had made this difficult to do without incurring a substantial penalty in the form of wide bid/offer spreads.

16. This memorandum proposes that the Board grant management authority to repurchase outstanding IBRD bonds in market-based transactions, where management determines that financial and related advantages may thereby be captured. It is proposed that the initial efforts in this area be directed to the repurchase of U.S. dollar bonds, for the reasons and under the procedures and limitations summarized in paragraphs 40-47 below. All such repurchases will be reported to the Board regularly in the Quarterly Funding Operations Reports and summarized annually in the Fourth Quarter Funding Operations Report.

Identifying the Financial Advantages of Debt Repurchases

17. As described above (paras 9 - 12), the financial gain to the Bank of market-based debt repurchases results from the replacement of one asset already in the market with another asset which is preferred by investors and for which they are willing to pay a higher price. This difference in price provides the basis for the Bank's financial advantage.

18. To identify and measure this financial advantage, the Bank establishes a notional refinancing cost in the same currency and at the same maturity, so a comparison can be made with the cost at which the outstanding bonds can be repurchased. Importantly, it is the *all-in cost* of refinancing that must be compared with the yield at which outstanding bonds can be purchased. The all-in refinancing cost includes commissions and expenses, which, for example, amount to approximately seven basis points at a five-year maturity in the U.S. dollar market. Thus, the yield differential needed to justify a repurchase in that market at that maturity would be at least seven basis points.

19. While the appropriate financial test relates to the cost of refinancing at the same maturity, the decision on the refinancing maturity *actually used* is a separate one. It does not make sense, either from a theoretical or practical standpoint, to refinance each repurchased bond with a new bond having a maturity identical to the remaining life of the repurchased security. From a theoretical perspective, there is no reason to isolate the maturity decision on refinancings from the broader decision-making on the overall maturity of the borrowing program, taking into account the maturity structure of outstanding debt, the yield curve and the Bank's borrowing opportunities. As a practical matter, to match the remaining life of each repurchased bond with a refinancing counterpart would require a large number of small, highly-tailored and thus uneconomical issues, a strategy which would forfeit much, if not all, of the advantage the Bank has realized through the use of high volume funding tools such as the global bond.

⁴ See "Global U.S. Dollar Bond and Deferred Rate Setting Authority" (R89-154), dated July 14, 1989.

20. In a positive yield curve environment, replacing longer maturity debt with shorter maturity debt will initially reduce the Bank's cost, even without market efficiency gains. This benefit is limited, however, to the maturity of the shorter, replacement debt. When that debt matures, it will have to be refinanced at some future rate, which may or may not be advantageous in comparison to the cost of the original, repurchased debt. Conversely, replacing repurchased debt with funding of a longer term is likely to increase the Bank's funding cost, initially, with a positively sloped yield curve, although the increase may be judged an inexpensive price to pay for the additional maturity. We would, therefore, propose to report savings from debt repurchased on the basis of the estimated cost of refinancing at the same maturity -- the same procedure adopted for calls of public issues.

The Financial Effects of Debt Repurchases on the Bank

21. The financial effects on the Bank of the early retirement and refinancing of outstanding debt occur in three main areas: the Bank's net income, its borrowing cost (and thus its lending rate) and the size of the Bank's annual borrowing program.

1. Net Income Effect

22. Outstanding bonds which bear a coupon above current market yields for that maturity will generally trade at a premium to par; conversely, those bonds bearing below-market coupons trade at a discount to par.⁵ When the Bank purchases an outstanding bond, generally accepted accounting principles (GAAP) require the Bank to recognize the premium or discount in its net income. Thus, the purchase and retirement of high coupon bonds will reduce net income by the amount of the premium and the purchase of low coupon bonds will increase net income by the amount of the discount.

23. An additional factor which will affect the Bank's net income is the financial terms on which the repurchased debt was originally issued and is being carried on the Bank's books. GAAP requires the Bank to amortize issuance costs, discounts and premiums at which bonds are originally issued over the life of the issue. If any debt associated with these costs, discounts or premiums is retired prematurely, the portion of the costs and discounts not yet amortized must be deducted from the current period's net income and the amount of any unamortized premiums must be added to net income.

24. In accordance with GAAP, original issue discounts and premiums, as well as issuance costs, which apply to the new debt being issued in the refinancing operation are not reflected in net income. They are considered a part of the cost of the new debt and, under Bank procedures, are passed directly into the variable lending rates, where they affect net income in future periods, as a result of their impact on the lending rates.

⁵ The major exception to this general rule is callable bonds, which will rarely trade at prices in excess of the call price.

2. Borrowing Cost and Lending Rate

25. The Bank has discretion to establish its own reasonable principles governing the effect of debt retirement on the two variable lending rates.⁶ As is the case with net income, the treatment of premiums and discounts at which the existing debt is repurchased, as well as unamortized issuance costs, discounts and premiums, will also have an effect on the Bank's lending rates. In the case of past prepayments, the decision was made to adopt an approach similar to that of GAAP and pass the full effect of these items into the lending rate immediately. This has meant that some prepayments have had the effect of raising the lending rate for one six-month period (through the recognition of costs and discounts) before the associated refinancing at a lower all-in cost produced a later decline.

26. The volatility this earlier approach injected into the lending rates was limited because the premiums at which bond issues can be prepaid are specified and modest (usually less than 2%). Debt repurchased in the market, however, can bear a much greater premium or discount, depending on market conditions. In order to eliminate the potential for instability in the lending rates from market repurchases, it is proposed that repurchase premiums and discounts not be passed on to the lending rates at all, but rather that they be absorbed by the Bank's net income. Similarly, unamortized costs, as well as issuance premiums and discounts associated with the debt being retired will be excluded from the lending rates and absorbed by the Bank's net income in the accounting period during which the repurchase occurs.

27. Under this approach, the net effect of a specific pair of repurchase and refinancing transactions on the lending rates will usually be a straightforward reflection of the difference between the all-in cost of the old debt and the all-in cost of the replacement debt.⁷ Buying back debt with higher than current market coupons would generally reduce the lending rate, while buying back debt with lower than market coupons would have the effect of increasing the lending rate. Ordinarily, we would anticipate implementing market repurchase operations, on average, to replace higher coupon with lower coupon debt, with the net effect of reducing the lending rates. We would inform the Board if we encounter situations which justify another approach.

3. Borrowing Program Volume

28. Depending on the approach taken to the timing of refinancings, the initial effect of debt repurchase may either be on borrowing program volume or on the Bank's liquid holdings and liquidity ratio. The alternative approaches that may be taken are illustrated by the Bank's experience with prepayments and calls.

⁶ See "Review of IBRD Currency Management" (R88-259), dated December 12, 1988.

⁷ If the debt being retired, however, is not included in one or both of the variable lending rates (that is, debt issued prior to July 1, 1982), the cost effect will depend on the difference between the all-in cost of the new debt and the average cost of debt in the existing lending rate pools.

29. The Bank's approach to the timing of refinancing prepaid and called debt has varied in the past, depending on the volume of the prepayments and how predictable they have been. The largest volume of prepayments and calls has occurred in JPY public issues and syndicated loans.⁸ For JPY public issues, the past JPY borrowing programs were increased by the amount of the issues called. However, the actual refinancing transactions have not been simultaneous with the calls and, indeed, no subsequent JPY issues have been explicitly identified as refinancings.

30. The prepayment of JPY syndicated loans has been tied much more explicitly to a refinancing, largely because the same lenders have participated in both the original and the refinancing loan. Thus the refinancing transaction occurs simultaneously with the prepayment and, for this reason, is considered to be outside the Bank's borrowing program.

31. For currencies other than JPY, where the volume of calls has been smaller, calls are undertaken without any explicit refinancing. There is a determination made, however, of a *hypothetical* refinancing cost, to determine whether or not the call is financially justified. The effect on the borrowing program is taken into account at the next annual or mid-year revision to the borrowing plan, when standard adjustments are made in light of these and other changes in projected cash flows.

32. For market-based debt repurchases, where savings are expected to be of a smaller magnitude than in the case of contractual calls, we might wish to hedge against movements in market yields during the period until these debt repurchases were refinanced. The anticipatory and deferred rate setting arrangements we have developed⁹ and the use of interest rate swaps provide efficient mechanisms for hedging market yields in relatively small tranches for this purpose. We would also propose that the authorized range for the current year's borrowing program would automatically be increased by the amount of any market-based debt repurchases. This would permit refinancing within the same fiscal year. However, debt repurchases taking place at the end of one fiscal year might be refinanced in the following fiscal year, to avoid carrying out inefficient borrowing transactions simply to refinance debt repurchases within the same fiscal year.

The Market Effect of Debt Repurchases

33. The Bank's long-standing policy not to engage in prepayments or calls which jeopardize the institution's standing in or access to the market applies equally to market-based debt repurchases. While there are pitfalls to be avoided in the management of debt repurchases, a well-executed series of repurchases is not likely to harm the Bank and, indeed, is likely to be perceived as a positive development by investors. In recent years, a substantial number of issuers, including some sovereign and supranational issuers with credit standing comparable to that of the Bank, have been involved in various types of repurchase programs.

34. Managing investor perceptions in this area depends, in part, on the structure of the repurchase effort. A number of different mechanisms exist for market-based debt repurchases. Where the issuer is interested in retiring a large volume of outstanding debt without refinancing --

⁸ See "Funding Operations Report, Fourth Quarter FY91, Attachment II, Liability Management Retrospective", SecM91-918 (July 15, 1991).

⁹ See "Global U.S. Dollar Bond and Deferred Rate Setting Authority" (R89-154), dated July 14, 1989.

such as in the redeployment of excess cash -- a public tender offer for specified issues at a single price is the preferred approach. If the issuer is interested in refinancing outstanding debt, an exchange offer can be used. In an exchange offer, the issuer launches a new bond issue, announcing publicly that it will accept outstanding bonds, at a specified price, in lieu of cash payment for the new securities.

35. Tender and exchange offers are designed to attract large volumes of outstanding bonds. They are expensive for the issuer because the price offered must be attractive enough to persuade even reluctant holders to part with their bonds. Where large volume repurchases are not essential, issuers are more likely to use individual, opportunistic market repurchases. With this approach, the issuer can set very specific targets for the financial advantages it is seeking from the transaction. At the same time, opportunistic repurchase programs are rarely disclosed publicly, except in the most general terms. If investors learn that an issuer is in the market for its own debt, prices tend to rise and spreads to narrow, as investors hold out for better terms. Dealers, as well, can be encouraged by this news to purchase and position the issuer's bonds, in the hope of realizing a trading profit when they are offered to the issuer.

36. Tender and exchange offers which are publicized and which target any and all bonds of a specific issue, for a price perceived as fair, provide investors with a valuable means of liquidating their investments efficiently. Problems tend to be limited to those situations where the investor feels the offered price is inadequate, yet feels an implied threat of being left holding a part of a much smaller issue if the investor does not participate. The loss of liquidity in such a case can be seen as decreasing the value of the investor's holding.

37. Market-based debt repurchases, even those implemented in a non-public manner, can be viewed as adding liquidity to the market, particularly if they extend over a significant period. If prices increase in response to the added buying pressure of the issuer, this provides increased value for the investor. The Bank's market partners agree that professionally executed market repurchases would not be expected to jeopardize the reputation of an issuer in the market.

38. The Bank will not implement any new market-based debt repurchases before satisfying itself that (1) the holders of the Bank's bonds in that market can be assumed to be familiar with issuer repurchase programs, (2) such repurchases are an accepted feature of the market concerned, and (3) management is convinced that the program will not jeopardize the reputation of the Bank in that market or affect the Bank's access to that market in the future.

Proposed U.S. Dollar Debt Repurchases

39. If the Executive Directors approve the debt repurchase authority proposed in this memorandum, the first new market-based debt repurchases will be targeted to the U.S. dollar market. A number of factors make this market particularly attractive for such an effort:

- The introduction of the U.S. dollar global bond has created a financing instrument viewed as significantly more attractive in the market than the older U.S. dollar issues. Compared to those older issues, global bonds trade at a yield advantage of from 5-20 basis points. This makes it much easier for the Bank to identify repurchase and refinancing opportunities with sufficient cost differentials to make the replacement financially advantageous.

- The implementation of anticipatory and deferred rate setting mechanisms in connection with the Bank's U.S. dollar global bond issues gives the Bank the ability to match more precisely repurchases with rate fixings.
- With USD 16 billion in over 75 outstanding U.S. dollar bond issues in all three major capital markets, in addition to over USD 3.0 billion in outstanding COLTS in the U.S. market, the opportunities to identify bonds trading at unusually low prices (wide yield spreads) are maximized for the Bank. In addition, the Bank's ability to capitalize on these opportunities is enhanced by the exceptional liquidity of the U.S. dollar market.
- Market-based debt repurchases have become commonplace in the U.S. dollar market. Our underwriters in the domestic U.S. market estimate that as many as 150 market-based repurchase programs are implemented in a given year. Investors are thus familiar with and accustomed to the possibility that an issuer such as the Bank might from time to time repurchase its debt. The possibility of any adverse effect on the Bank's access to this market is thereby minimized.

The following general principles will apply to the proposed USD repurchases.

40. *Net Income Effect.* Over the past year, yield levels in the U.S. dollar market have declined to a point significantly below 9.3%, the average cost of the outstanding U.S. dollar borrowing portfolio. This increases the number of outstanding U.S. dollar bonds trading at a premium to par. As a result, most U.S. dollar repurchases will produce a charge against the Bank's net income equal to the premium paid. In addition, unamortized issuance costs and discounts will have to be recognized as deductions to net income when the repurchased debt is retired. We would set a ceiling on repurchases so that the aggregate reduction in net income from all repurchases will not exceed USD 50 million. Should we reach this ceiling, Management will consult with the Board if, in its view, additional repurchases in the fiscal year seem justified.

41. *Disclosure.* Because the primary goal of the repurchases is to capture the maximum financial advantages from the market, it is unlikely that a public tender offer or an exchange offer would be effective. For the reasons summarized above at paragraphs 35-36, we would plan to use an opportunistic repurchase strategy. The Bank would disclose its intentions only in general terms, subject to the requirements of applicable U.S. securities laws and the laws of any other country in which repurchases take place. We would issue an initial press release, announcing the repurchase authority, with no further disclosure of the details of specific repurchases.

42. Generic disclosure of the amount of securities repurchased may be required in the Bank's published financial statements, depending on the volume of repurchases. In addition, one or more stock exchanges, where the Bank's bonds are listed, may also require public disclosure after a specified percentage of an issue has been repurchased.

43. *Treatment of Repurchased Bonds.* The Bank does not plan to resell any of the bonds repurchased in the future. Since GAAP requires the Bank to account for the repurchased bonds as if they had been canceled, this will be done for all repurchased bonds, with one exception. To the extent the Bank purchases bonds of a sinking fund issue, those bonds will be held for possible future surrender in satisfaction of sinking fund requirements.

44. *Volume.* We do not have any target volume for debt repurchase activity, since the actual volume of debt repurchased would depend on the volume of trades that could be carried out meeting the financial criteria referred to above. It is very difficult to estimate what volume of repurchases will satisfy these requirements, although it might be limited as the process of debt repurchases may tighten spreads, removing the potential gain from further repurchases. The resulting improvement in the secondary market spreads on the Bank's outstanding issues would itself be a positive outcome, even if the volume of repurchases is very small.

45. *Refinancing.* The additional volume of USD borrowings to refinance the repurchases would take place principally through an increased volume of global bond issuance. We would expect no negative effect on spreads or market reception from such an increased volume. Indeed, the consensus view of our major underwriters at the present time is that a somewhat larger volume of global bond issuance would further enhance the acceptance and liquidity of these issues.

46. While there would generally be some delay between debt repurchase and actual refinancing through the following global bond issue, we would generally fix either a refinancing cost or Treasury yield level for the refinancing close to the time of repurchase. This rate fixing would take place through the deferred and anticipatory rate setting mechanisms associated with global bond issues. The precise timing of this fixing will depend on the minimum fixing amount the Bank can negotiate with the deferred/anticipatory rate setting provider without unacceptable additional cost.

47. *Blackout Periods.* We would avoid repurchases in the period immediately preceding a new public USD bond issue, to avoid the appearance of market manipulation.

Recommendations

48. It is recommended:

- (a) that the Board adopt the resolution in Attachment I, authorizing the Bank to repurchase its outstanding bonds;
- (b) that, for the purpose of determining the Bank's Cost of Qualified Borrowings in the variable lending rates, the treatment of repurchase premiums and discounts and unamortized issuance premiums, discounts and expenses described in Paragraph 27 be approved; and
- (c) that the Board approve the resolution in Attachment II, providing for a modification of the FY92 borrowing program to increase the maximum amount of borrowings authorized by the amount of any debt repurchased by the Bank in the market and any other debt called or prepaid by the Bank.

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

Office of the
Senior Vice President
Finance

11/13

Caro -

I've signed this even
though a recent
submission claimed we
cannot run an option
book for lack of staff.

I should think that is
the first thing to fix.

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

11-38
11/13/91
The World Bank/International Finance Corporation

Office Memorandum

Date: November 12, 1991
To: Mr. Ernest Stern, FINSV
From: Calo K. Koch-Weser, TREVP 
Subject: Amendment to Investment Guidelines

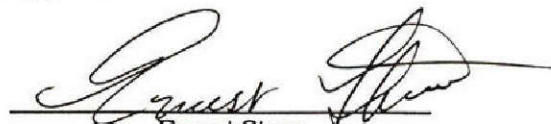
On October 31, 1991, the Credit Committee endorsed a proposal to alter the limits applying to the contribution of exchange-traded futures and options to the duration of the investment portfolio. The limit on the contribution of such futures and option contracts would be increased from six to 12 months and an individual exchange limit not exceeding six months would be established. The rationale for the proposal is provided in the memorandum of October 25, 1991, attached. Accordingly, it is proposed the following amendment to Section 4.7.3 of the Guidelines be made:

"The contribution of all exchange-traded futures and option contracts to the average duration of the Portfolio shall not exceed 12 months, provided that the contribution to duration of such contracts on any single exchange shall not exceed six months. The limits for each individual exchange will be set forth as part of Approved List 11."

Under Section 1.3 of the Guidelines, the Amendment requires your approval.

If you concur, kindly so indicate below.

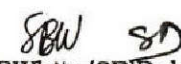
Approved:


Ernest Stern

11/13/91

Attachment

cc: Messrs. Roth (o/r)
Rischard


SBWhite/SEIDaher: mr

The World Bank/International Finance Corporation
Office Memorandum

Date: October 25, 1991

To: Mr. Caio Koch-Weser, TREVP

From: Samir El Daher, TRECC 

Subject: Credit Risk on Futures and Options Traded on Exchanges

1. The Bank's Investment Guidelines (Section 4.7.3) restrict to six months the maximum contribution of futures and options contracts to the average duration of the portfolio. The Investment Department has sought a relaxation of this limit on the basis that it restricts futures trading positions excessively. On September 10, 1991, the SVP Finance granted a temporary increase of that limit from 6 to 12 months for a specific type of arbitrage trade which had to be entered into before September 30, 1991. This memorandum puts forth a proposal to recommend the amendment of Section 4.7.3 of the Investment Guidelines while seeking better control of Bank exposure to futures exchanges.
2. Currently, the Bank controls the credit risk on futures and options traded on exchanges by (a) assessing the regulatory framework and financial strength of the exchanges where the Bank is engaged in trading, (b) imposing exposure limits to the brokers through which exchange transactions are carried out, and (c) restricting Bank positions in futures and option contracts to maximum 10% of the average open interest of any contract (Section 4.7.1 of the Investment Guidelines) (in addition to the six months limitation on the contribution of futures and options to the total duration of the portfolio). Moreover, futures and options positions are restricted by the general limitation imposed by the Investment Guidelines under which the average duration of the portfolio should be maintained within a range of zero to 24 months (Section 2.1.2), and the difference between the total duration of all long positions in the portfolio and the total duration of the portfolio should not exceed 24 months. Also, the U.S. exchanges have maximum position limits for each contract, although exemptions from the limits may be granted for hedging purposes.
3. Within these restrictions, the Bank could, at the limit, and provided that open interest in the contracts is large enough, hold a 30-month long futures position in one exchange, say on the 10-year Japanese Government Bond contract in the Tokyo Stock Exchange, and at the same time a 24-month short position in another exchange, say on the 10-year German bund contract in LIFFE. The contribution to duration of such combined futures position of only 6 months would therefore be allowed under the Investment Guidelines. But the Bank exposure to each of the exchanges is naturally greater as it relates to the position in each exchange and not to the combined net position of the two exchanges. Moreover, none of the two positions would be allowed by itself without the other; if one of the positions is closed, the other would have to be reduced to a maximum of six months duration.
4. A more effective way of controlling the Bank exposure to the futures exchanges would be to limit the contribution to duration of futures and option positions in each exchange. The limit could vary from three to six months depending on the exchange. The current limit on the net contribution to duration of futures and options positions on all exchanges may then be increased from the current 6 months to 12 months. The potential Bank exposure to any of the futures exchanges under the proposed new limits would be lower than the maximum potential exposure that could be reached under the current overall limit of six months net duration.

5. The potential exposure to a futures exchange comprises the initial margin plus one day variation margin. Given the size of the Bank portfolio of about US\$ 20 billion equivalent, the initial margin required by an outright position with a six months contribution to duration would be between US\$ 15 and 45 million equivalent depending on the exchange and on the contract (the lowest for the 10-year contract on MATIF and the highest for the 10-year contract on the Tokyo Stock Exchange). One day variation margin on this position is unlikely to exceed US\$ 25 million equivalent (95% confidence level); in exceptional circumstances, such as the stock market crash of October 1987, the variation margin could reach three times that amount or US\$ 75 million. These levels of maximum exposure to a futures exchange do not appear unreasonable for the Bank. The total exposure to all futures exchanges under this new proposal could be marginally higher than under the current limits; however, it would be diversified among the exchanges.

6. Under the above limits, the Bank could still hold large futures positions on instruments of relatively short duration. For example, six months duration with contracts on 3-month instruments would be equivalent to investing twice the size of the portfolio, or US\$40 billion, in the three-month instruments. The market risk of this position, however, is only related to its six months contribution to duration. For contracts that require delivery of the instrument at expiration, as opposed to just cash settlement, there could be an additional risk if for some unforeseen circumstance the Bank was not able to close a position before expiration of the contract and had to deliver or take delivery of the instrument under a large position. Therefore, in such contracts, the Bank may restrict its futures positions, on a case by case basis, by a limit lower than the current 10% of open interest in the contract.

7. In summary, the recommendation is to approve the request of INV to increase the limit on the contribution of futures and options to the duration of the portfolio from 6 to 12 months, but at the same time introduce limits, up to six months, for the contribution to duration of contracts traded on any exchange.

/CBasterra

The World Bank

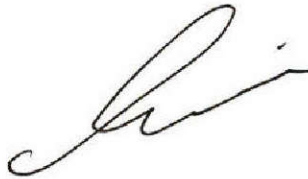
ERNEST STERN
Senior Vice President
Finance

November 13, 1991

Mr. Le Moigne -

Guy -

I very much appreciate your invitation to speak at the Annual Irrigation and Drainage Seminar. Unfortunately, I already have scheduled several talks in the next two months and I cannot realistically add to this. I hope, however, that there will be another opportunity to meet with you and your colleagues in the future.

A handwritten signature in black ink, appearing to be 'E. Stern', written in a cursive style.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

RE: November 12, 1991

VIA FAX 76658

TO: Mr. Ernest Stern, FINSV

FROM: Guy Le Moigne, ^{GLM} Senior Adviser, Water Resources, AGR

EXTENSION: 30342

SUBJECT: 8th Annual Irrigation and Drainage Seminar

I would be most grateful if you would agree to be a guest speaker (at dinner on December 10th, Tuesday) at our 8th Irrigation and Drainage Seminar. If this date is not convenient, it is possible to accomodate a change to suit your time.

As indicated in the attached provisional Agenda, the Seminar will be held on Dec. 10-12, 1991 at the Harbor Court Hotel in Baltimore. We expect about 80 participants including Bank staff, representatives from developing countries, donors, and international organizations.

I would be obliged if you would kindly give me an early reply so that we can finalize our Agenda.

Attachment

cc: Mr. M. Petit

GLM:hvv

EIGHTH ANNUAL IRRIGATION AND DRAINAGE SEMINAR**Harbor Court Hotel - Baltimore, Maryland****December 10-12, 1991****AGENDA****Tuesday - December 10, 1991**

8:30 a.m. Bus departs "F" Bldg. (19th & H St NW) for Harbor Court Hotel
- Baltimore, MD

9:45 a.m. C O F F E E

10:00 a.m. Introduction (*V. Rajagopalan, Vice President, Sector and Operation Policy*)

**THEME #1: Comprehensive Water Resource Management:
Implications for Irrigation and Drainage Projects.**

(Chairman: Guy Le Moigne, Senior Adviser, AGRDR)

10:15 a.m. Introduction of theme by the Chairman

10:30 a.m. Program to prepare National Water Resource Assessments (*Ulrich Kuffner, AGRPS*)

11:00 a.m. Brief reports from "Comprehensive Water Policy Issues"

- Intersectoral Water Allocation/Pricing (*W. Easter, Consultant*)
- Environment and Health Issues (*M. Koch-Weser, ENVAP*)
- Institutional Issues (*J. Delli Prisco, Consultant*)
- Shared International Waters (*R. Krishna, LEGOP*)
- Technological Issues (*U. Kuffner, AGRPS*)

12:00 noon Discussions

12:30 p.m. Lunch (*speaker to be announced*)

- 2 -

THEME #2: Lending Instruments for Irrigation and Drainage Sector**(Chairman: M. Petit, Director, AGRDR)**

- 2:00 p.m. Introduction of theme by the Chairman
- 2:15 p.m. Choice of instruments to use in irrigation and drainage sector lending (*M. Walton, DECVP*)
- 2:45 p.m. Why irrigation and drainage sector approach was selected:
- Indonesia (*S. Ganguly, AS5AG*)
 - Mexico (*Vahram Nercissianz, LAIAG*)
- 3:15 p.m. Lessons learned from sector approach in Morocco (*Jean-Pierre Villaret, EM2AG*)
- 3:45 p.m. C O F F E E
- 4:00 p.m. New strategies for irrigation and drainage in India's lending program (*Kelth Oblitas, AS4AG*)
- 4:30 p.m. Group Discussion
- 6:30 p.m. C O C K T A I L S
- 7:30 p.m. D I N N E R
(*speaker to be announced*)

Wednesday - December 11, 1991

- 7:30 a.m. Continental Breakfast

THEME #3: Institutional Development: Privatization of irrigation and drainage systems**(Chairman: Nicholas Wallis, Chief, EDIAR)**

- 9:00 a.m. Introduction of theme by the Chairman

- 3 -

- 9:15 a.m. How to disengage the public sector from irrigation services
- 10:15 a.m. C O F F E E
- 10:45 a.m. Transfer of management for large-scale irrigation and drainage projects to WUAs in Mexico (*J. Trava, CNA, Mexico*)
- 11:15 a.m. Discussion on the privatization theme
- 12:00 noon L U N C H
(*speaker to be announced*)
- 1:45 p.m. Four work group sessions for the preparing of recommendations on the three themes discussed:
- | | |
|---------------|--|
| AFRICA Group: | Facilitator:
Reporter: |
| ASIA Group: | Facilitator: Z. Meng, China
Reporter: W. Zou, AS3CH |
| EMENA Group: | Facilitator: K. Mohtadullah, IIMI
Reporter: |
| LAC Group: | Facilitator: G. Beekman, Brazil
Reporter: |
- 3:15 p.m. C O F F E E
- 3:45 p.m. Plenary Session to receive reports from the work groups
- 5:30 p.m. Main Lessons from China Study Tour (*D. Lallement, CODMO*)
- 6:30 p.m. C O C K T A I L S
- 7:30 p.m. D I N N E R
(*speaker to be announced*)

- 4 -

Thursday - December 12, 1991

7:30 a.m. Continental Breakfast & HOTEL CHECKOUT

THEME #5: Technology Improvement in Irrigation and Drainage**(Chairman: Shawki Barghouti, Chief, AGRPS)**

9:00 a.m. Introduction of Theme by Chairman

9:15 a.m. Technology research to improve irrigation and drainage systems in developing countries: IPTRID progress report

- Overview, Networking & Training (A. Subramanian, AGRPS)
- Modernization (H. Wolter, AGRPS)
- Sustainability (W. Ochs, AGRPS)
- Maintenance (T. Brabben, AGRPS)

10:30 a.m. C O F F E E

11:00 a.m. Discussion and question period for Theme #5

11:30 a.m. Rehabilitation & modernization of irrigation systems, as seen by a national implementing agency (A. Ali Mazan, Senior Undersecretary, Egypt Ministry of Public Works and Water Resources)

12:00 noon Discussion

12:15 p.m. L U N C H
(speaker to be announced)

2:00 p.m. Successful Irrigation Projects in the Sahel Region of Africa
(Ellen Brown and Robert Nooter, Consultants)

2:30 p.m. Discussion of irrigation in the Sahel

2:45 p.m. Wrap-up and evaluations (Shawki Barghouti and Guy Le Moigne)

3:30 p.m. Bus departs for Washington

[revision of 11/7/91]

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

DATE: 13-Nov-1991 12:09pm

TO: Spiros Voyadzis

(SPIROS VOYADZIS)

FROM: Fred Kilby, FRSCR

(FRED KILBY)

EXT.: 80554

SUBJECT: Syria -- Workout Proposals

CC: Ernest Stern

(ERNEST STERN)

CC: D. Joseph Wood

(JOE WOOD)

CC: Johannes Linn

(JOHANNES LINN)

CC: Robert McPheeters

(ROBERT MCPHEETERS)

FAX 11/13

Fred -

looks fine. Only point
Spiros needs to be aware
of is that there is a
link between starting any
project appraisal work
and the clearance period.
End FY93 is certainly OK.
But if the Syrians want
to stretch beyond that
it would make no sense
to start on projects (they go
State) and we should limit
ourselves to ESW.

(E)

11/13/91

Spiros,

I have consulted with Joe and would like to offer our advice on the position you should take regarding the various components of a possible non-accrual workout for Syria.

1. Freezing Arrears.

- a. This is a necessary first step. We would expect payments to begin as soon as possible, but no later than January 1, 1992 in order to allow adequate time for consideration of the workout in JAC and Board discussions of loan loss provisioning requirements for FY1993. Once begun, the Bank would expect payments to be made promptly thereafter.
- b. When payments begin, bills will include principal and interest falling due currently plus interest on overdue principal, so that it will be a true freeze. (The only variation in amounts overdue at the time of the freeze would thus result from changes in exchange rates.)
- c. Given the very small amount involved (\$3.1 million), the Bank would expect Syria to clear all arrears to IDA in a single payment at the beginning of the freeze period.

2. Resumption of Operations. The Bank can be flexible in this regard. Depending on the resources available to the Region, operations could be resumed at any time after a workout agreement is reached with the Syrian government. We need not wait until a specific date or until a specific share of the arrears had been cleared; the essential factor would be evidence of a genuine commitment on the part of the Syrian authorities to clear arrears to the IBRD. Operations would include the normal range of Bank activities, such as economic and sector work and project identification and appraisal.

3. Clearing IBRD Arrears.

- a. Arrears must be cleared within a reasonable period after the agreement goes into effect and current payments are resumed. We would expect that clearance would be completed as quickly as possible, but certainly by no later than the end of FY1993 (i.e., by June 30, 1993).
- b. If the Syrian government is unable to agree to this time frame for the clearance of arrears, we may, nevertheless, go ahead with the first confidence-building steps as proposed above. It should be understood, however, that the Bank could not commit itself to continue operational work after FY1993 if arrears are not cleared by that time.

- b. Payments to clear arrears could be made at any time within the time frame set out above at the discretion of the Syrian authorities. Note, however, that as spelled out below a substantial part of the arrears would have to be cleared before lending operations could proceed beyond the appraisal stage.
- 4. Board Approval of New Loans. Board presentation of projects prior to the clearance of arrears and in the absence of an agreed stabilization and adjustment program is contrary to current Bank policy. However, in order to facilitate a workout Bank management would be prepared to recommend to the Board an exception to current policy whenever the following conditions have been met:
 - a. Syria has established a satisfactory track record of prompt payment of current debt service falling due under the freeze arrangements of the workout agreement.
 - b. Syria has cleared at least two-thirds of outstanding arrears under the clearance agreement, and management would be in a position to assure the Bank's Board that the remaining outstanding balance would be repaid with minimum delay.
 - c. ESW has indicated that a viable financing plan for the final clearance of arrears is in place, and that a satisfactory macro framework for the project(s) involved has been established or can be expected to be in place by the time that arrears are cleared and the loan(s) can be signed and made effective.
- 5. Resumption of Disbursements. New loans may not be signed or made effective, nor could disbursements begin, until all arrears have been cleared.
- 6. Bank Support for Securing Additional Financing. The Bank could assist the Syrian government in securing additional financial support from third parties. To the extent that untied balance of payments support is made available to assist in clearing arrears to the IBRD, e.g., in the form of bridge financing or other support which the Bank helps to arrange, the Bank would expect that priority would be given to accelerating the clearance process. If an understanding of this sort is included in the workout agreement, there should be no reference to specific sources of such financing.

We would appreciate your continuing to keep us abreast of developments and would be happy to assist you further in this effort.

Fred

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 13, 1991

Mr. Karaosmanoglu and Mr. Sandstrom

Just to alert you that our IBRD disbursements are running well behind target. At end October, they had reached \$3.3 billion. That is only slightly less than the \$3.4 billion for the same period last year. But the FY91 total was \$11.4 billion compared to the current year estimate of \$13.4 billion. We are, therefore, at 25% of the total compared to 30% in FY91.

A review with the Regions in December to get a realistic, revised estimate for the Mid-Year Review is important.

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

cc: Mr. Preston

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 13, 1991

Ms. Oppen

Barbara -

Disbursements as of the end of October are running well behind last year - 25% of the total compared to 30%. In preparation for the mid-year revisions, I would like you to have the estimates done by Region and have each Region sign off on its number before we settle on a revised total.

cc: Mr. Wood
Mr. Linn

A handwritten signature in dark ink, appearing to be "Ernest Stern", is written over a large, sweeping horizontal line that extends from the right side of the signature towards the left.

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C., 20433
USA

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

November 14, 1991

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

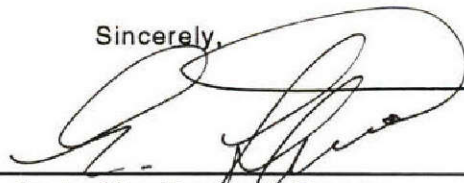
Dear Sirs:

We confirm, to the best of our knowledge and belief, the following representations made to you during your review of the interim financial statements of the International Bank for Reconstruction and Development (IBRD) as of September 30, 1991 and for the three-month period then ended.

1. We acknowledge management's responsibility for the fair presentation in our quarterly financial statements of the financial position as of September 30, 1991 and the results of operations and cash flows for the three-month period then ended of the IBRD in conformity with generally accepted accounting principles in the United States and International Accounting Standards. Such principles have been used to prepare the interim financial statements, have been consistently applied with relation to the comparative information for the applicable 1990 period, and are consistent with those used in the preparation of the financial statements for the year ended June 30, 1991.
2. All minutes of the Executive Directors and the Joint Audit Committee have been made available to you. We are not aware of any material accounts, transactions or agreements not fairly described and properly recorded in the interim financial statements.
3. We are not aware of a) any irregularities involving management or employees who have significant roles in the system of internal accounting control or any irregularities involving other employees which could have a material effect on the interim financial statements, or b) any material violations of laws or regulations applicable, in the judgment of the IBRD, to the operations of the IBRD whose effect should be disclosed in the interim financial statements or recorded as a loss contingency. The IBRD has complied in all material respects with contracts and other agreements that would have a material effect on the interim financial statements in the event of noncompliance.
4. Loans outstanding of \$94,130,575,000 and accrued income on loans of \$2,086,113,000 represent bona fide claims against borrowers as of September 30, 1991. As of November 7, 1991 all payments due to the IBRD required under loan agreements have been made or were fewer than 30 days overdue with the exception of those as indicated on the attached list. In our judgment, the accumulated provision for loan losses of \$2,080,000,000 and the special reserve of \$292,538,000 are sufficient to cover any probable losses on disbursed outstanding loans.

5. At September 30, 1991, all effective loan commitments arising on or before that date were recorded in the accounts. Loans approved but not effective at September 30, 1991 amounted to \$10,416,400,000.
6. a. The IBRD has not entered into any agreements or transactions not in the ordinary course of business, with related parties or otherwise, except those transactions identified in the interim financial statements.
- b. No matters or occurrences have come to our attention up to the date of this letter which would materially affect the financial statements and related disclosures for the three-month periods ended September 30, 1991 and 1990 or the year ended June 30, 1991. In addition, we know of no event since September 30, 1991 which, although not affecting such financial statements or disclosures, has caused or is likely to cause any material change, adverse or otherwise, in the financial position or results of operations of the IBRD.
- c. There are no proposals approved by the IBRD that may materially affect the carrying amount or classification of assets and liabilities.

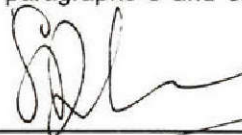
Sincerely,



Senior Vice President, Finance



Vice President and General Counsel
(as to paragraphs 3 and 6b only)



Vice President and Controller

Attachment

International Bank for Reconstruction and Development

Summary of Overdue Service Payments as of 11/07/91

(in Millions of U.S. Dollars)

	Days Overdue				Total
	30-44	45-59	60-180	Over 180	
Total	36.5	17.5	109.5	1609.4	1772.9
of which					
A : Countries with Overdue Service Payments	12.4	11.6	21.3	0.0	45.3
* Cameroon	6.3	9.0	0.9	0.0	16.2
Colombia	2.6	1.0	0.0	0.0	3.6
Costa Rica	3.2	0.0	0.0	0.0	3.2
* Zambia	0.3	1.6	20.4	0.0	22.3
B : Countries in IBRD Nonaccrual Status	24.1	5.9	88.2	1609.4	1727.6
* Congo (People's Rep. of the)	0.0	3.4	3.8	8.5	15.7
* Guatemala	0.8	0.0	24.3	65.5	90.6
* Iraq	0.0	0.0	3.8	12.8	16.6
* Liberia	1.9	0.4	9.6	109.5	121.4
* Panama	0.0	1.7	17.7	196.1	215.5
* Peru	14.1	0.4	0.0	880.8	895.3
* Sierra Leone	0.6	0.0	0.4	7.0	8.0
* Syrian Arab Republic	6.7	0.0	28.6	329.2	364.5

* Disbursements suspended

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/14/91

Low

Thought you might
like to see. A bit
intemperate.

(S)

Price Waterhouse



As mentioned.
SE
11/14

October 28, 1991

The Honorable John F. Kerry
United States Senate
Washington, D.C. 20510

Dear Senator Kerry:

I must register my strong objection to certain statements made in the recent proceedings of your Subcommittee on Terrorism, Narcotics and International Operations inquiring into the BCCI matter.

The Price Waterhouse firm in this country and the other 25 Price Waterhouse firms throughout the world have a well-deserved reputation for integrity and professional competence that has been developed over more than 140 years in public practice. By providing a forum at which former BCCI officials and others were allowed to make unchallenged and unsupported accusations against Price Waterhouse, your Subcommittee has violated standards of fair play and has potentially damaged the professional reputation of Price Waterhouse.

On behalf of my partners I strongly and emphatically object to a process which allows bank management officials who may themselves have been participants in this sordid affair to use the public stage of Congressional hearings to impugn Price Waterhouse's reputation in a blatant attempt to shift the blame from their own wrongdoing. And, I must state my considerable regret and disappointment that your personal statements -- perhaps unintentionally -- seem to have lent credence to these irresponsible accusations.

When Bank of England Governor Robin Leigh-Pemberton testified before the House of Commons' Treasury Select Committee, he stated unequivocally that "Price Waterhouse worked promptly and effectively throughout the whole of this matter.." Yet, you are quoted as saying that "...throughout this process, it appears that Price Waterhouse gets failing grades." Such a conclusion is both factually unsupported and at odds with the statements of the Governor of the Bank of England, who is in a much better position to know the true facts and circumstances of the BCCI situation. Moreover, I cannot understand how you would permit yourself to make such an observation when the Price

October 28, 1991
The Honorable John F. Kerry
Page 2

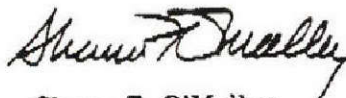
Waterhouse firm in the United Kingdom is credited with having exposed the fraud that led to the coordinated regulatory action which terminated BCCI's nefarious activities.

All would agree, the BCCI fraud was one of the most insidious, best concealed, and incredibly complicated frauds ever perpetrated. As reported in the press, it involved systematic deception at the highest levels within BCCI and collusion between management, some of BCCI's major customers and third-parties, and, may even have reached highly placed individuals within the governments of several countries. Most certainly it appears that many members of BCCI's management helped to construct this labyrinth of deception, including perhaps some of the very witnesses that have appeared before you. Getting to the true facts in these circumstances will be a daunting task for regulators, for the judiciary, and for legislative bodies. But, care must be taken that BCCI's management fraud and deception not be allowed to continue to be perpetrated through these proceedings and that protection of the reputation of innocent parties be accorded. Your earlier comments at these proceedings suggested a sensitivity to the need to protect reputation against innuendo and reckless accusation. Yet, last week's hearings appear to have failed to abide by this commitment to fair play.

Representatives of Price Waterhouse have met with your staff to explain our willingness to aid your inquiry consistent with legal and professional obligations. And, your staff is well aware of our efforts to meet with you personally to convey our desire to be cooperative and be helpful. We were told you were too busy to do that at the time.

We at Price Waterhouse recognize the validity of Congressional inquiry into the BCCI matter. We share a commitment to search for ways to strengthen the system of bank supervision to assure that a fraud of this nature may not be replicated in the future. Toward that end, we will cooperate to the best of our abilities with your Subcommittee and others in the Congress. But we must and will insist on a process of inquiry appropriate to those objectives, one that distinguishes allegation from fact and that protects all concerned from reckless accusations.

Sincerely yours,


Shaun F. O'Malley

cc: Honorable Hank Brown

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/14

Sven

This a slightly revised
draft from Piccinetti.
It should go out
December 2, - or
something very like it.

(E)

Draft

Mr. Rajagopalan

As you know, the Technical Assistance Review Task Force has completed its report. A copy of the final version is attached. The Report emphasizes that Technical Assistance has become a major business for the Bank and that we need to apply to it the same kind of analytical rigor and managerial attention which we devote to lending work.

The Task Force has made a number of recommendations to achieve this objective. We would like you to take responsibility for designing an action program to implement these recommendations in time for it to be taken into account in the budget formulation process.

Your Vice Presidency will have the oversight and monitoring role with respect to the internal management recommendations. In consultation with External Affairs and the Resource Mobilization Department, you should also take the lead in reviewing the principles of Bank/UNDP collaboration, jointly with the UNDP. This should lead to intensified cooperation with respect to the assessment of technical assistance needs and capacity building work, particularly in the low-income member countries.

The Task Force also has recommended that we establish an Institutional Development Fund to provide small technical assistance grants to low-income and middle-income member countries. You, together with CPBVP, should design effective modalities for the use of this Fund. While approval authority should be with the RVPs, based on proposals to be included in the annual business plans for review, it may be that a more central review process is desirable the first year both to establish a common interpretation of the criteria and because proposals can no longer be incorporated in FY93 business plans.

The Cost Effectiveness and Budget Practices Committee will be considering the Task Force report in December. We will take these deliberations into account, but I believe that there is sufficient agreement on the recommendations to improve Technical Assistance management

for work on the action plan to be started so that the recommendations of the Task Force report can be implemented promptly. Accordingly, a draft of the action program should be ready by the end of January.

Ernest Stern

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/14

Mr. Sandstrom

Sven -

1. Bob will correct the Pres. office number
 2. I've told him to go ahead with a revised version which
 - a) puts the EEurope field offices into the contingency till Thalwitz gets in place and we could review the totals.
 - b) Slim down the study in 9(b) to the other CVPs.
- OK. ~~en~~

OFFICE MEMORANDUM

DATE: November 14, 1991

TO: Mr. Ernest Stern

FROM: R. Piccioro, CPBVP

EXT: 84569

SUBJECT: Organizational Streamlining: Positions

1. Based on Mr. Alisbah's recent decisions following a variety of appeals, and subject to your endorsing ORG/PBD's recommendation that 1 SL from Fincom is to be redeployed, I recommend that the position budgets of receiving institutional Units be remapped as follows:

	Position Base ^a		Increment		Total	
	HL	SL	HL	SL	HL	SL
Presidency	5	5	1	2	6	7
Treasurer	140	65	21	10	161	75
Controller's	177	107	27	5	204	112
OSP ^b	188	81	44	22	232	103
DEC	274	129	9	3	283	132
PAA ^c	506	391	82	50	588	441
PBD	40	14	11	4	51	18

a. As of 10/31/91
b. Includes CGIAR
c. Excludes Administered Programs

2. We had originally expected redeployment of 60 HL positions to core operational work. The redeployment pool will actually be smaller (para 3). And it will be absorbed to a much greater extent than earlier estimated by the needs of front offices, field offices and management overhead resulting from the set up of a new Department in South Asia (paras 6 and 7). Given these and other claims, the allocation of positions to meet special operational emphases needs cannot be envisaged at this time.

3. Original estimates assumed that vacancies would be sterilized to facilitate redeployment to special operational emphases areas. In the event, senior management decided to transfer vacancies along with functions except where streamlining was expected to result in direct savings. For certain functions (notably personnel, budget and OT work), base allocations will have to be revisited afresh later in the fiscal year following the reviews currently underway (OPNIS, budget simplification, personnel work review, etc.).

4. At this juncture, excluding the OPNS Consulting Group (4 HL; 1 SL)—a cluster already dedicated to operational work—45 HL and 30 SL positions will be available for redeployment to operational requirements. Existing claims on these positions are given below.

5. The first claim relates to decisions made about the Baltics: 7 HL and 4 SL (your note to Mr. Cheetham dated October 7, 1991). ✓

6. The second claim arises out of the organizational decisions associated with the bifurcation of Asia and EMENA, as set forth in Mr. Alisbah's memorandum to Mr. Preston dated November 1, 1991: pending a review of front offices Bankwide, the bifurcation could not be position neutral. The needed increment is substantial:

- VP Front Offices: 11 HL and 13 SL ✓
- New South Asia Dept (CD3): 6 HL and 6 SL.

(These numbers exclude a fresh claim for 2 HL positions just received from Messrs. Kaji and Wood for the Asia TD to be considered together with other outstanding requests, para 9.)

7. The third claim arises out of the Region's recent decision to open up field offices in Romania, Bulgaria and Czechoslovakia. While redeployment of resources within the Region (especially out of the Poland mission) could be considered, the institutional provision of incremental positions for three Resident Representatives and their secretaries is probably justified, as follows:

- Europe CD 1: 2 HL and 2 SL
- Europe CD 2: 1 HL and 1 SL .

8. Assuming you confirm that these requirements have priority, position and dollar budget remapping will be carried out on the above basis.

9. This leaves a net surplus of 18 HL and 4 SL positions available for redeployment. I seek your agreement:

- to transfer this surplus to the President's Contingency. This would allow an orderly review of currently outstanding claims which appear to exceed availabilities. PBD is currently reviewing these claims. OK
- to initiate a joint ORG/PBD review of the position needs of front offices, budget, OT and personnel work with a view to releasing further positions for priority operational activities later in this fiscal year and/or in FY93. OK

cc: Messrs. B. Alisbah
R. Lynn
I. Scott
S. Bhatia
A. Gore

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

DATE: 14-Nov-1991 12:50pm

TO: Stephen Eccles (STEPHEN ECCLES)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Board Paper - Debt Repurchase

Re your comments on the Debt Repurchase paper:

(a) The approach to handling the borrowing costs was chosen consciously. It seemed simplest and most transparent.

(b) I am not surprised that you and Jessica finally split the difference on the approach to calculating notional savings. I think either approach can be argued soundly on its merits. I am comfortable with the statement in the paper, though I would have no objection to noting that one can also calculate savings differently. However philosophically sound, I would be troubled having to rely on so loose a concept as the estimated average maturity of expected future borrowings.

CC: Joelle Le Vourc'h	(JOELLE LE VOURCH)
CC: Barbara Oppen	(BARBARA OPPER)
CC: Scott B. White	(SCOTT B. WHITE)
CC: Donald C. Roth	(DONALD ROTH)
CC: Jessica P. Einhorn	(JESSICA EINHORN)
CC: Kenneth Lay	(KENNETH LAY)
CC: Caio Koch-Weser	(CAIO KOCH-WESER)
CC: Paul J. Siegelbaum	(PAUL SIEGELBAUM)

The World Bank

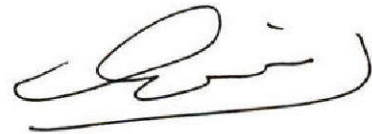
Washington, D.C. 20433
U.S.A.

Office of the
Senior Vice President
Finance

11/14

JFR

I have no problems
with this. Get Jack
(or whoever is acting) to
put this to the
FMRG in the usual
way.

A handwritten signature in black ink, appearing to be "John" or similar, with a horizontal line underneath.



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/13/1991	Document Type Memorandum			
Correspondents / Participants From: J. Rischard, INVDR To: Ernest Stern, FINSV				
Subject / Title Recommendations for promotion to Level 25				
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			

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

DATE: 15-Nov-1991 11:02am

TO: Yves Balcer

(YVES BALCER)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Briefing with Mr. Preston

The next two weeks are booked already, so I have arranged with Mr. Preston's office for the weekly briefings on market developments to start on Monday, December 2, at 2:30 p.m., in Mr. Preston's office. The presentation should be brief (10 minutes), leaving time for questions in a total schedule of 30 minutes. Ms. O'Hara will advise your offices if in any week the meeting needs to be rescheduled.

CC: Jean-Francois Rischard o/r
CC: Patricia O'Hara

(JEAN-FRANCOIS RISCHARD)
(PATRICIA OHARA)

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex
IMPORTANT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORMTypewritten
Character
Must Fall
Completely in
Box!PAGE
OF

1

1

OFFICIAL DEPT/DIV
ABBREVIATION

FINSV

MESSAGE NUMBER

TEST NUMBER
(FOR CASHIER'S USE ONLY)START
HERE

ALHAJI ABUBAKAR ALHAJI, HONORABLE MINISTER OF FINANCE AND
ECONOMIC DEVELOPMENT, FEDERAL GOVERNMENT OF NIGERIA, LAGOS,
NIGERIA

DEAR ALHAJI ABUBAKAR ALHAJI:

I WOULD LIKE TO CONVEY MY CONGRATULATIONS ON YOUR CROWNING AS THE
SARDAUNA OF SOKOTO. IT IS AN HONOR WELL-DESERVED. THE LEADERSHIP
AND VISION THAT YOU HAVE DEMONSTRATED AS NIGERIA'S REPRESENTATIVE
IN WORLD FORA HAS BEEN EXCEPTIONAL. I AM ALSO FULLY AWARE OF YOUR
CREATIVE LEADERSHIP ON THE DOMESTIC SCENE IN SHEPHERDING NIGERIA'S
COURAGEOUS STRUCTURAL ADJUSTMENT PROGRAM. AS YOU ASSUME THE NEW
LEADERSHIP ROLE AS SARDAUNA OF SOKOTO, I HOPE THAT YOU WILL CHOOSE
TO CONTINUE TO BE A MAJOR FORCE ON NIGERIA'S BEHALF IN WORLD FORA.
PLEASE ACCEPT MY BEST WISHES AND MY THANKS FOR INVITING ME TO THIS
MOMENTOUS OCCASION. SINCERELY, ERNEST STERN, SENIOR VICE PRESIDENT,
FINANCE, THE WORLD BANK

END
OF
TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE:

TELEX NO.: 961-21248

DATE: 11/15/91

SUBJECT:

DRAFTED BY:

EXTENSION:

82004

CLEARANCES AND COPY DISTRIBUTION:

AUTHORIZED BY (Name and Signature):

ERNEST STERN

DEPARTMENT:

FINSV

SECTION BELOW FOR USE OF CABLE SECTION

CHECKED FOR DISPATCH

L L - I N - 1 N O T E

DATE: 15-Nov-1991 10:09am

TO: Stephen Eccles

(STEPHEN ECCLES)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: There is no objection

to turning the material over to the authorities whenever you are ready.

L L - I N - 1 N O T E

DATE: 15-Nov-1991 10:07am

TO: D. Joseph Wood

(JOE WOOD)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Briefing with Mr. Preston

The briefing on the balance sheet is scheduled for Friday, November 22 at 9:30 a.m. Would you please invite whoever is necessary (which may be no one else or should not be more than a very few) and get a couple of tables/charts for attention holders. The focus is not on the numbers but on the policies which govern the major elements.

World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 15, 1991 11:54am

TO: Stephen Eccles

FROM: V.S. Raghavan, LOADR

EXT.: 84116

SUBJECT: Haiti Disbursements

(STEPHEN ECCLES)

(V.S. RAGHAVAN)

At yesterday's SFM, when Jessica raised the question of informal suspension of Haiti, I mentioned that to some extent this was academic, because we had no pending applications. This indeed was the position when the Region requested us to withhold disbursements in early October.

I am now told that during the last couple of weeks we received seven disbursement requests totalling \$95,000 and, the Region is formally suspending disbursements effective tonight. Mr. Sengamalay will discuss with the Region and Legal as to what to do with these seven applications. In the normal course, these ought to be exempt from the suspension, but both the Region and Legal would like us to hold them. I don't believe a total of less than \$100,000 makes a difference one way or the other.

CC: Ernest Stern
CC: Jessica P. Einhorn
CC: Senga Sengamalay

(ERNEST STERN)
(JESSICA EINHORN)
(SENGAMALAY)

Steve
This is the
problem with
informal
suspensions. We
ought not to
accept them
unless we get
them in writing,
cleared by
Legal. Meanwhile
we should
stick to the
rules on
the 95,000.
ES
11/17/91

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

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Ted Roosevelt
Shearson Lehman Brothers, Inc.
American Express Tower
World Financial Center
200 Vesey Street, 20th Floor
New York, N.Y. 10285-1800

Dear Ted,

I received Shearson Lehman's analysis of the impact of German Reunification and just wanted to let you know that I thought it an excellent and interesting piece of work.

Sincerely,

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

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Thalwitz

Wilfried -

The attached is a nice piece of work that I thought you
might be interested in.

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



International Economics
Giorgio Radaelli
Jane Edwards
Gerald Holtham
(44)-71-260 2389

German Reunification

Implications For Interest Rates And Debt

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Picciotto

Bob -

Attached, for your information, are Mr. Preston's
draft remarks on Development Priorities and FY93
Budget Policy Directions.

A handwritten signature in dark ink, appearing to be 'E. Stern', is located below the typed text.

DEVELOPMENT PRIORITIES AND FY93 BUDGET POLICY DIRECTIONS

Draft Remarks by Mr. Preston

Ladies and Gentlemen,

1. The opportunities for the Bank are vast and varied. There is strong demand for our financial and advisory services. From Mongolia to the Baltics, we must tool up to meet the needs of new members. Programs in currently inactive countries from Iran to Lebanon, and from Peru to Cambodia, are being revived. Our role in Eastern Europe has been central and the technical assistance program in the Soviet Union is proceeding. We have the financial capacity to broaden and diversify the geographical scope of our activities without neglecting the needs of our current membership.
2. The development agenda has not changed nor has our policy framework. But in assisting our members to implement their strategies and programs, priorities will have to be established.
3. The Bank's finances are strong. Considerable headroom is available to expand lending. Our expertise in investment lending is unequalled. Our policy role is well-established. Our assistance programs are grounded in extensive practical experience. We are increasingly sought after for capacity building assistance, for cofinancing and aid coordination services. I need your views on the following key questions. Are we using our assets effectively? Should we expand our lending and, if so, what are the impediments to doing so? Should we give greater emphasis to our non-lending services?
4. It goes without saying that expansion, whether of lending or technical assistance, should not take place at the expense of quality. We will not be able to meet all of the demands that are likely to be made upon us, but we will be able to achieve a great deal if we use our resources efficiently. Our discussions today should help strengthen our common understanding about the priorities we should pursue in implementing our agreed policies and the potential resource implications.
5. This will be my first experience in the Bank in a discussion of this kind. The same is true for some of you around this table. As I have already mentioned to you, the planning and budgeting processes in the Bank are more burdensome than they need to be, for both staff and the Executive Directors. I have asked Mr. Stern for a review of how the processes could be simplified without diluting the essentials. He will seek your advice as he pursues this task. For the balance of the fiscal year, we will proceed with our current procedures.
6. Let me now ask Mr. Lynn to introduce the paper, briefly.

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

DATE: 18-Nov-1991 10:59am

TO: Wilfried Kaffenberger

(WILFRIED KAFFENBERGER)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Women in IFC

Many thanks for sending the paper on Women in IFC. Report along. I think it is very good---not least because it is frank about past relative inattention to the issue. The recommendations seem well balanced and can, if pursued and monitored, make a difference over time.

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

DATE: November 18, 1991 10:42am

TO: W. A. Wapenhans

(W. A. WAPENHANS)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Yugoslavia

I am told that a \$1.2 million disbursement application has come in under Loan 2790-Yu (Energy Conservation) from Ljubljanska Banka. What understandings were reached with the Governor last Wednesday?

CC: Institutional ISC Files

(INSTITUTIONAL ISC FILES)

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

DATE: 18-Nov-1991 11:17am

TO: Basil Kavalsky

(BASIL KAVALSKY)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: India Savings

I have spoken with Peretz, Potter, Shiratori, Fischer and Wang. They all will support or will have no comments. Landau also is okay, per Joe. Coady does not yet know, but the only grumble is related to general U.S.-India relations, so I suppose it will not be a major problem. Where do you stand on your contacts?

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

DATE: 18-Nov-1991 11:22am

TO: Basil Kavalsky (BASIL KAVALSKY)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: IBRD Commitments

Can we discuss the "IBRD Commitments" work some time at your convenience? It would be useful to me to hear a bit about the hypotheses we want to explore with the Regions before we start.

I am not sure what the natural log charts are supposed to show; why we have not done 3 or 5 year averages; why Iran, Poland, Bulgaria, or Czechoslovakia are in the group (1 year); what the relevance of per capita data is for Bank lending; why we did not categorize the countries, e.g., Performance (Brazil, Argentina, Peru, Romania), Market Access (Korea); IDA shifts (India, Pakistan), etc.

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

DATE: 18-Nov-1991 11:27am

TO: Hans Rothenbuhler

(HANS ROTHENBUHLER)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Shearson Lehman Article

I received a Shearson Lehman analysis of German Reunification and its implications for interest rates, which is a very interesting piece of work. I assume you received copies too, so I am sending mine on to Mr. Thalwitz. In case you do not have it, it is out of their London Office (Radaelli: 71-260-2389).

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

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Picciotto

Bob -

Re your EM of November 14, you can circulate the First Quarter report as usual. Let us have a look at some VP memos to see what Mr. Preston might say. I am inclined to think that his reaction will be that this is your responsibility---but let us see.

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

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

DATE: 14-Nov-1991 10:05am

TO: Ernest Stern

(ERNEST STERN)

FROM: Robert Picciotto, CPBVP

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Miscellaneous

1. First Quarter : It is very important that the President give a feedback to the Units regarding the First Quarter Report. I could draft some notes for your review : the President should be seen to be tracking progress and raise implementation issues. The program is lagging and this is at variance with the ballooning contingency requests. I presume we can circulate the report more broadly ?

2. USSR: I have sent a draft memo to Thalwitz and the other Bank Russkies but I am afraid that we are facing a fait accompli. A note reflecting the dilemma will reach you tomorrow.

3. Remapping : I understand that you wish one SL position to be redeployed from your current office to the Presidency. But I am not sure I understand why the other SL should go to Controller's. Trying to find out from Cindy. Sorry to be so picayune. Once this issue is resolved I will send you a note setting forth the overall results.

4. EMENA : They are one week late on their business plans. I do not think we can do much about this.

5. Simplification : We had a good meeting with Eccles and Mike.

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/16

Sven

Any comments on the
R P memo I sent you
on Thursday evening?

Ernie



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/18/1991	Document Type Letter			
Correspondents / Participants From: Ernest Stern, FINSV To: Mr. Karaosmanoglu and Mr. Sandstrom				
Subject / Title Bank Work on Military Expenditure				
Exception(s) Corporate Administrative Matters				
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

November 18, 1991

Mr. Karaosmanoglu
Mr. Sandstrom

Processing of Loan Documents

Any comments on the attached as to substance and/or tonality are welcome. We should plan to issue this on November 29, so that there is no interruption in the process.

A handwritten signature in dark ink, appearing to be "Ernest Stern", is located in the lower right quadrant of the page.

DRAFT
December 2, 1991

To: Regional Vice Presidents

Processing of Loan Documents

Loan documents ready for Board distribution should be sent to Ms. Mary Lawrence, Office of the President, E-1202. Ms. Lawrence will forward the documents to the Secretary's Department and arrange for Board scheduling. If you have any special date requirements for Board consideration, please note that on the transmittal memo. Such preference will be accommodated to the extent feasible. If no special scheduling is requested, the loan will be scheduled with the normal lead time. We will assume that there will always be appropriate staff in Washington to handle the Board presentation and the Board date will not be changed subsequently to accommodate staff travel.

Should unforeseen problems arise with the schedule, please contact
Ms. Lawrence at extension 81099

cc: Mr. Thahane

Mr. Choi

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/17

Jessica -

You may not have seen this.

If this is what A/L Management is going to focus on I know we'll see an awful lot of interesting papers with, however, very marginal impact. It would seem to me to be something to go slow on and test any work proposals for potential results to make sure they are not just supply driven.

10 1000.
2 11

cc:CS✓

October 4, 1991

Note to Mr. Ernest Stern, FINSV

Asset-Liability Management

Ernie,

You had requested a note from us, in collaboration with TRE, on managing interest risk in U.S. dollars. This is attached.

It turns out that the continued large volume of outstanding VLR82 loans limits our capacity to be very effective. When that is no longer a problem, managing debt funding liquidity would be a good approach.

Another note, which Joe had commissioned earlier, also is attached. It shows that combining currency choice with increasing the rate sensitivity of debt funding liquidity is one way of managing interest rate risk without further discouraging conversions out of VLR82.


Barbara

Attachments

cc: Messrs. Wood (o/r), Roth, Stoutjesdijk, Lay, Rischard, Siegelbaum,
Balcer, Herlihy, Chandrasekhar, Oliveros, Jensen, Kunchai

BNO:cw

OFFICE MEMORANDUM

REVISED TABLES

DATE: October 4, 1991

TO: Mr. D. Joseph Wood, FPRVP

THROUGH: Mrs. Barbara N. Oppen, Chief Officer, FRSFP *BNO*FROM: Fred Jensen and Preecha Kunchai*, FRSFP *FHJ*

EXTENSION: 80593/80581

SUBJECT: Managing the Bank's Exposure to Changes in
U.S. Dollar Interest RatesIntroduction

1. The existing maturity structure of Bank assets and liabilities generates some sensitivity of Bank net income to interest rate movements. This risk has been reduced significantly by financial policy changes during the 1980s. Until 1982, Bank loans had fixed interest rates and, because of their very long maturities, these loans were not fully prefunded. This exposed the Bank to losses from rising refunding costs. In 1982, the Bank introduced a variable lending rate (VLR82), which is reset every six months on the basis of the average cost of all debt (qualified borrowings) issued and outstanding since 1982 (QB82). However, the Bank still has about \$30 billion of fixed rate loans outstanding, and remains exposed to a rise in borrowing costs, principally in medium to long term maturities. With regard to short-term rates, the Bank's investment portfolio is maintained at around a one-year average duration for liquidity reasons. The Bank has concentrated its borrowings, though, in securities of medium to long maturities and fixed interest rates in order to provide stability to the variable lending rate. This has meant that the Bank is exposed to losses from a decline in short-term interest rates.

2. To date, this remaining exposure has been largely unmanaged. For one thing, changing the rate sensitivity of bank borrowings would have had little effect on Bank interest risk. Because QB82 includes all borrowings issued and outstanding since 1982 (including swaps), changing the rate sensitivity of Bank borrowings directly changes the rate sensitivity of Bank loan income, producing little overall help in reducing the rate sensitivity of net income. Moreover, any increase in the rate sensitivity of Bank borrowings as an offset to the investment portfolio would have increased the volatility of the variable lending rate.

* This memorandum extends earlier work by Nirmal Paul. Comments were received from Ken Lay, Jean-Francois Rischard, Yves Balcer, Paul Siegelbaum, John Herlihy, Krishnan Chandrasekhar and Sudhir Krishnamurthi

3. This problem was addressed by the change in the variable lending rate formula introduced in 1989. Under this formula, the new variable lending rate (VLR89) is based only on those qualified borrowings which have been allocated to fund loans (QB89). The rate sensitivity of the remaining borrowings -- or "debt funding liquidity" (DFL) -- can now be modified to manage Bank interest risk without affecting the new rate. The situation is complicated, however, by the fact that this new formula applies only to loans made since 1989 or to VLR82 loans which have been voluntarily converted to the new system. Only as these loans are converted, or as the new loans grow sufficiently to dominate loan income, can the Bank take full advantage of the new system.

4. This note examines two alternatives for managing these risks, using U.S. dollar interest rate exposure as an example. The first alternative examined is that of increasing the rate sensitivity of DFL. The second reduces the rate sensitivity of the investment portfolio by lengthening its average duration. The simulations show that either option involves tradeoffs. The continued existence of VLR82 loans limits the benefits of increasing the rate sensitivity of DFL. Moreover, because of the steepness of the current U.S. yield curve, introducing this change in DFL now would reduce VLR82, further discouraging conversions. On the other hand, increasing the duration of the investment portfolio would tend to increase the rate sensitivity of net income, unless a portion of the portfolio was deemed to be an "investment portfolio" and effectively made less liquid.

USD Interest Risk in the Current Structure

5. Table 1 shows the simulated impact on the projected return on assets (ROA) of three U.S. dollar interest rate scenarios. The Base Case is that used for the FY92 Bank Budget. Scenario 1 shows the effect of a yield curve steepening, where short-term rates decline by 3 percentage points and long-term rates remain stable. In scenario 2, the yield curve inverts: long-term rates decline by 3 percentage points and short-term rates stay constant. Under scenario 3, the yield curve undergoes a parallel downward shift, and both long-term and short-term rates fall by 3 percentage points. The scenarios are designed to illustrate the principal remaining sources of risk. Scenario 1 shows the effects on projected ROA of falling investment returns that are not offset by declining borrowing costs. (Note that for simplicity, investment returns do not include mark-to-market effects.) Scenario 2 primarily indicates the positive effect of increased spreads on fixed-rate loans from falling medium- and long-term funding costs. And scenario 3 shows the combination of these effects. Note that these effects are symmetrical: the opposite interest rate scenarios will result in equal but opposite ROA effects. Moreover, roughly speaking, scenario (3) is the sum of scenarios (1) and (2); i.e., the effects are additive.

6. The Bank's largest exposure is to scenario 1; i.e., falling short-term interest rates. As indicated, a move of ± 3 percentage points in U.S. dollar interest rates generates net income volatility of approximately ± 20 basis points around projected (ROA).

Table 1

Existing Bank Projected ROA (Z)

	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
Base Case (Budget assumptions)	1.09	1.19	1.20	1.23
Change from base case				
1) ST USD Rates Fall	0.00	-0.16	-0.21	-0.25
2) LT USD Rates Fall	0.03	0.08	0.09	0.10
3) ST & LT USD Rates Fall	0.00	-0.07	-0.12	-0.14

Alternatives for reducing USD Interest Risk

7. We examined two alternatives for reducing the sensitivity of net income to short-term rates, using U.S. dollars as an example.

Alternative A: Add interest rate sensitivity to the Bank's liability side. For illustration, \$2½ billion of floating rate borrowings is added to debt funding liquidity (DFL). Two options are considered:

A 1: \$2½ billion of medium- to long-term debt previously allocated to DFL is swapped into floating rates.

A 2: All existing short-term Discount Notes (DNs) -- about \$2½ billion -- are reallocated from debt funding loans (QB89) to DFL.

Alternative B: Lengthen the duration of investments. For comparability to case A, we assumed that the duration of \$2½ billion of the investment portfolio is lengthened from 3 months to five years. Thus, the overall duration of the U.S. dollar investment portfolio is moved from 12 months to about 24 months.

Alternative A: Increasing Floating Rate Borrowings in DFL

8. A1: In option A1, we simulated the effect of swapping a portion of existing medium- to long-term fixed rate DFL into floating rates. This has the benefit of offsetting a portion of the short-term rate sensitivity of Bank net income without changing the overall maturities of Bank borrowings and refunding risks. Because short-term USD interest rates at present are well below longer-term fixed rates, it also happens to reduce total borrowing costs. However, because DFL continues to be included in VLR82, adding floating rate debt to DFL reduces VLR82 and loan income. VLR82 also becomes more volatile which adds some volatility to loan income. Hence, the net reduction in ROA volatility is somewhat less to the extent that VLR82 borrowers do not convert to the new system. Table 2 summarizes the results of the simulations.

Table 2Alternative A1: Swapping Existing DFL to Floating RatesImpact on Return on Assets (basis points)

	<u>After \$2½ billion swap</u>		
	<u>Existing Bank</u>	<u>All VLR82 loans convert</u>	<u>No VLR82 loans convert</u>
<u>Net Income Volatility</u> ^{a/}	ROA ±21	ROA ±15	ROA ±17
<u>Change in Level of Projected ROA</u> ^{b/}			
from reduced borrowing costs	n.a.	+5	+5
from VLR82 decrease	n.a.	0	-2

Impact on Lending Rates (basis points)

	<u>Existing Bank</u>		<u>After \$2½ billion swap</u>	
	<u>VLR82</u>	<u>VLR89</u>	<u>VLR82</u>	<u>VLR89</u>
<u>Lending Rate Volatility</u> ^{a/}	±13	±13	±21	±13
<u>Change in Level of Projected Lending Rate</u> ^{b/}	n.a.	n.a.	-6	0

a/ Sensitivity to ±3% change in USD short-term rates.

b/ Initial effect, given the current spread of long-term over short-term USD interest rates of about 2½%.

9. A2. A second way to add short-term rate sensitive borrowings to DFL is to reallocate, in a purely internal manner, all existing

Discounts Notes (DNs) -- about \$2½ billion -- from QB89 to DFL. This differs from option A1 in that it does not change the Bank's debt structure. It simply removes all short-term borrowings from the new lending rate (VLR89). This makes loan income less sensitive to short-term rate movements but leaves the rate sensitivity of total borrowing costs unchanged. Hence net income is stabilized. However, given the steepness of today's yield curve, it does increase the average cost of USD in QB89 and raise VLR89. Moreover, this reallocation has no effect on VLR82. Hence, the reduction in ROA volatility from stabilizing the new lending rate is limited by the extent to which VLR82 loans remain on the old system. Table 3 summarizes the results of the simulations.

Table 3

Alternative A2: Reallocating DN's from QB89 to DFL

Impact on Net Income (basis points)

	Existing Bank	<u>After \$2½ billion reallocation</u>	
		<u>All VLR82 loans convert</u>	<u>No VLR82 loans convert</u>
<u>Net Income Volatility</u> ^{a/}	ROA ±21	ROA ±16	ROA ±18
<u>Change in Level of Projected ROA</u> ^{b/} from VLR89 increase	n.a.	+4	+2

Impact on Lending Rates (basis points)

	<u>Existing Bank</u>		<u>After 2½ billion reallocation</u>	
	<u>VLR82</u>	<u>VLR89</u>	<u>VLR82</u>	<u>VLR89</u>
<u>Lending Rate Volatility</u> ^{a/}	ROA ±13	ROA ±13	ROA ±13	ROA ±6
<u>Change in Level of Projected Lending Rate</u> ^{b/}	n.a.	n.a.	0	+6

a/ Sensitivity to ±3% change in USD short-term rates.

b/ Initial effect, given the current spread of long-term over short-term USD interest rates of about 2½%.

Alternative B: Increasing the Duration of Investments

10 . The second broad alternative to managing U.S. dollar interest risk we examined was to lengthen the duration of the investment portfolio. For comparability to the earlier cases where \$2½ billion of debt with an average duration of 5 or 6 years was shifted to short-duration, we assumed a shift of \$2½ billion of USD investments from a 3-month duration to a duration of five years. In cash flow terms, this has similar match-funding effects to shortening the duration of DFL. However, because the Bank's portfolio is maintained for liquidity purposes (and is actively traded), the portfolio is marked to market. Under the first interest rate scenario, where short-term rates fall but long-term rates remain relatively stable, ROA sensitivity is improved even with mark-to-market. Under scenarios 2 and 3 where long rates fall, however, ROA volatility is made much worse with longer duration investments and mark-to-market. The worst case is scenario 2, where falling long-term rates boost net earnings on fixed rate loans at the same time substantial capital gains would be realized on the long-term investments. For a decline of 3 percentage points in long-term interest rates, capital gains on securities of five year duration would equal 15% of their value. For \$2½ billion, this amounts to an initial shock to ROA of +34 basis points, added to the +3 basis points in the first year from the improved spread on fixed rate loans. On the positive side, at today's rates, increasing the duration of the investment portfolio would increase the gross return on investments and boost ROA initially by about 5 basis points. There would be no direct effect on loans. Table 4 summarizes the results of the simulations.

Table 4Alternative B: Lengthening Duration of InvestmentsImpact on Net Income (basis points)

	<u>After \$2½ billion shift</u>		
	<u>Existing Bank</u>	<u>Cash Flow</u>	<u>Mark- to- Market</u>
<u>Net Income</u>			
<u>Volatility</u>	ROA ±21 ^{a/}	ROA ±14 ^{b/}	ROA ±37 ^{b/}
<u>Change in Level</u>			
<u>Projected ROA</u> ^{c/}			
from investments	n.a.	+5	+5

a/ Sensitivity to ±3% change in USD short-term rates.

b/ Sensitivity to ±3% change in USD long-term rates.

c/ Initial effect, given the current spread of long-term over short-term USD interest rates of about 2½%.

Conclusion

11. We can reduce USD interest risk but the obvious paths have important problems. Increasing the rate sensitivity of debt funding liquidity, which normally would be the first choice, is complicated by the continued existence of loans carrying the old lending rate. The remaining large volume of VLR82 loans limits our ability to manage interest risk by modifying DFL. Moreover, adding floating rate debt to DFL at this time would reduce VLR82 by 6 basis points. As VLR82 already is 2 basis points below VLR89 loans, this would bring the VLR89/VLR82 spread to 8 basis points, making it completely unlikely that additional borrowers would convert. Moreover, lowering VLR82 reduces Bank net income. As VLR89 is based on the actual cost of debt funding loans, this transfer of net income represents a direct subsidy of these loans.

12. The alternative of redefining QB89 by reallocating DNs to DFL stabilizes net income to about the same degree as option A1. Because it raises VLR89 without affecting VLR82, this option also discourages conversions. Moreover, redefining the cost base for VLR89 in a way that raises the lending rate without any real change in Bank borrowing costs would seem unacceptable under the policies governing currency management.

13. On the other hand, lengthening the duration of the investment portfolio would stabilize cash flow net income (provided the long maturity investments were not traded) but would add very significant volatility to net income under mark-to-market. This accounting policy was adopted July 1, 1990, with the approval of the Bank's auditors, as it most accurately reflects Bank policy of maintaining the investment portfolio for liquidity (meaning it might be liquidated) and actively trading it. The Bank could consider designating this portfolio as an "investment portfolio" and not marking it to market. This would require locking these securities up until they mature, however, effectively reducing their liquidity.

14. On balance, managing interest risk through changing the rate sensitivity of DFL is the better approach. The problems associated with changing the repricing characteristics of DFL are largely dependent on current conditions -- the continued high level of VLR82 loans and the shape of the USD yield curve. U.S. interest rates could change. But in addition, combining currency choice with managing the rate sensitivity of DFL would enable the Bank to manage interest risk while controlling the subsidy effects on VLR82. It is for this reason we recommend integrating these effects and controlling risk in the context of overall asset and liability management.

OFFICE MEMORANDUM

DATE: September 19, 1991

TO: Mr. D. Joseph Wood, FRPVP

THROUGH: Mrs. Barbara N. Oppen, FRSFP *BNO*FROM: *FHJ* Fred Jensen and James *JB* Barbieri, FRSFP

EXTENSION: 80593/80574

SUBJECT: Changing the Currency Composition of Investments

1. This note considers the effects on net income and the lending rates of shifting \$1 billion, equivalent, from Japanese yen (JPY) into U.S. dollar (USD) and Deutsche mark (DEM) investments. These effects differ somewhat from those of previous exercises as the assumed shift on the liability side is into a floating rate obligation, rather than an expansion of existing borrowing programs. As with previous exercises, though, the results depend significantly on whether or not the changes in funding affect the lending rates.

2. For estimation, we used James Barbieri's spread sheet model which is designed to project net income and the lending rates given borrowing costs and investment returns, the currency mix of investments and loans, the split of variable rate loans between the old and new variable lending rates, and the allocation of debt between debt funding liquidity and debt funding loans. Note that this is not the optimization model, but one designed for "comparative static" exercises such as this one. Information on swap rates, borrowings, and investment trading gains was provided by Gumersindo Oliveros, Krishnan Chandrasekhar, Håkan Lonæus, and John Herlihy in FOD and by Yves Balcer in INV (see the attachments).

The Base Exercise

3. The base exercise shifts \$1 billion, equivalent, from JPY investments into USD or DEM investments. The standard financing mode assumed was a swap from JPY medium-term fixed rate financing into USD or DEM floating rate financing linked to 6 month LIBOR. Three different cases are examined depending on the allocation of the swap and the resulting impact on the lending rates. The three cases are:

Case a The swap is conducted as an "asset swap" under INV's authority to use such instruments for managing the liquidity portfolio and therefore is not included in the cost base for either lending rate calculation.

Case b The Bank swaps out existing JPY borrowings already allocated to debt funding liquidity (DFL) and into a USD or DEM swap liability which also is allocated to DFL: the old variable

lending rate (VLR82) is affected but not the new variable lending rate (VLR89).

Case c New JPY borrowings are swapped into USD or DEM swap liabilities which are allocated to DFL; this affects VLR82. Because all new borrowings currently are being allocated to fund loans, swapping out of those borrowings also affects VLR89.

The table below shows the results.

Impact on Net Income of reducing
JPY and increasing USD or DEM investments
(USD million equivalent)

		<u>- \$1000 JPY sold from investments and reinvested in:</u>		
		<u>+\$1000 USD</u>	<u>+\$1000 DEM</u>	<u>+\$500 USD + \$500 DEM</u>
(i)	Investment income (all cases)	-\$10	+\$22	+\$ 6
(ii)	Net Swap "costs" (all cases)	-\$ 7	+\$27	+\$10
(iii)	Loan income			
	Case: a) no effect on loans	0	0	0
	b) old loans	-\$ 4	+\$12	+\$ 4
	c) total	-\$ 5	+\$11	+\$ 3
	old loans	-\$4	+\$12	+\$4
	new loans	-\$1	-\$ 1	-\$1
Net Income: (i)-(ii)+(iii)				
	Case: a)	-\$ 3	-\$ 5	-\$ 4
	b)	-\$ 7	+\$ 7	\$ 0
	c)	-\$ 8	+\$ 6	-\$ 1

Memo: Change in Lending

Rates	<u>VLR82</u>	<u>VLR89</u>	<u>VLR82</u>	<u>VLR89</u>	<u>VLR82</u>	<u>VLR89</u>
Case: a)	0	0	0	0	0	0
b)	-1 b.p.	0	+3 b.p.	0	+1 b.p.	0
c)	-1 b.p.	-½ b.p.	+3 b.p.	-½ b.p.	+1 b.p.	-½ b.p.

Effect on Net Income

4. Investment Income. Each case involves the same changes in the investment portfolio -- a sale of \$1 billion, equivalent, of JPY investments with the proceeds reinvested in USD or DEM -- and therefore the same change in investment income. The simulation is based on recent

actual returns in each currency in the investment portfolio. Hence, the impact on investment income is largely the result of differences between current nominal short-run interest rates across the three currencies, with nominal USD rates the lowest and DEM rates the highest.

5. Net Swap "Costs". Reducing yen investments and increasing USD or DEM investments requires offsetting transactions elsewhere on the Bank's balance sheet to prevent a conversion of reserves. One approach is to change the currency composition of direct borrowings, reducing JPY borrowings and increasing USD or DEM borrowings. A second method would be to offset the cash flows within the liquidity portfolio itself; i.e., the proceeds of selling one yen instrument could be reinvested in another yen instrument while the new USD or DEM investments are funded by liquidating other USD or DEM instruments. But the offset in each of these three cases simulated is assumed to be a swap transaction.

6. In the swap, the Bank would make a cash exchange of yen for USD or DEM and this exchange of "principal" would be reversed at the maturity of the swap. In the meantime, the Bank would agree to pay interest on the USD or DEM principal at a rate pegged to 6 month LIBOR. In turn, the Bank would receive a fixed interest rate on the yen principal. During the life of the swap, the net cost to the Bank would be the difference in value between the USD or DEM interest paid and the yen interest received.

7. The simulations for cases (b) and (c) were based on actual quotes on swaps that were constructed to match the cash flows of the liabilities being swapped. In case (b), the yen side of the swap was constructed to offset the cash flow associated with yen liabilities previously assigned to DFL. These liabilities had maturities of from 2 to 10 years and a variety of interest cost rates. In case (c), the yen side of the swap offset the cash flow of planned new borrowings of yen, using current yen borrowing cost rates.

8. As it turned out, the swap rates quoted for these two transactions resulted in swap spreads (the difference between the USD or DEM rate paid and the yen rate received) that were only slightly different: the spread for the swap of new borrowings was 2-3 basis points narrower. As a result, the net swap costs of the two simulations were virtually identical. In large part, this was due to the efficiency of the swap market: swaps tied to "off-market" rates cost virtually the same as those linked to current market rates. The tightness of spreads also reflects the relatively flat yen yield curve, which caused the difference in spreads across the multiple maturities in case (b) to be relatively narrow. Because the swap spreads for cases (b) and (c) were so close, the same spread as case (c) was used for case (a). Hence, case (a) shows the same impact on swap costs.

9. Loan Income. The effect on loan income depends on the assumed allocation of the swap. It is useful to recall that in each case, the swap transaction has created for the Bank a swap "liability" reflecting the Bank's obligation to pay interest and repay principle in USD or DEM and a swap "asset" reflecting the counterparty's obligation to pay the Bank yen interest and principle.

Case a

The swap is deemed to be an "asset swap" under INV's authority to use such instruments for managing the investment portfolio. As such, one can consider the transaction as equivalent to lengthening the duration of the yen investment portfolio. The short-term yen investments are liquidated and replaced with a medium-term fixed-rate yen swap asset while the new investments in USD or DEM assets are offset by the USD or DEM swap liability (a "negative asset"). Under the current Legal interpretation, such swaps are excluded from the cost base of either VLR82 or VLR89. Hence, there is no effect of this transaction on loan income.

Case b

In case b, the swap is used to modify existing yen debt allocated to fund liquidity. Hence, the swap is assumed to be allocated to DFL and only VLR82 is affected. To calculate the effect, the USD or DEM swap liabilities are added and the yen swap asset is subtracted from the pool of qualified borrowings (QB82) making up the cost base for VLR82. Because USD floating rates currently are below JPY fixed rates, adding a USD liability while subtracting the JPY lowers VLR82 and loan income. By contrast, DEM floating rates currently are higher than yen fixed rates so VLR82 and loan income go up if the switch is into DEM.

Case c

In case c, new JPY borrowings, all of which currently are being allocated to debt funding loans, are swapped into USD or DEM liabilities. Because the purpose of this swap is to transform debt to better manage the risk of funding liquidity, it is assumed the swaps are allocated to DFL. As the impact on net swap costs was the same as in case b, the impact on the old lending rate also was the same as in case b. The difference here is the elimination of new JPY borrowings which would otherwise be allocated to fund loans. Because new yen borrowings cost more than the historical average cost for JPY borrowings now included in VLR89, these borrowings raise the average cost of yen and VLR89. Eliminating these borrowings therefore reduces VLR89 relative to the base case and reduces income from new loans. Note that this effect is independent of whether the funds are reinvested in USD or DEM. Therefore, the change in net income in case c is lower than in case b by the same amount regardless of the currency reinvested.

10. Net Income. Abstracting from the differences in loan income, each of these transactions affects net income by the change in investment income less the change in net swap costs. Note that shifting JPY in investments into either USD or DEM reduces net income. This is because this transaction effectively replaces a short-term yen investment which is being funded with medium-term fixed rate debt with a USD or DEM

investment which is match funded. Because the yen yield curve has been slightly inverted recently, the Bank has been profiting from the mismatch in funding yen investments. The hypothetical transaction would eliminate a portion of this gain. Of course, during other periods with a more normal upward sloping yield curve, this transaction would increase net income. Over longer periods, this can be viewed as reducing net income volatility. Also over the longer-term, somewhat different results might be realized if we changed the pattern of direct borrowings to accommodate the switch instead of relying on currency swaps, or if the pattern of trading gains in investments were to change.

Changing the Borrowing Assumptions

11. One reason we structured the base exercise as a swap from yen borrowings into USD or DEM liabilities is the difficulty of changing planned direct borrowings in JPY in this year's borrowing program. The JPY funding program is a very carefully deliberated balance between long-term relations management and cost minimization. Changing the planned funding within a fiscal year can upset this balance. The problem is particularly acute this year as the small amount of scheduled JPY debt maturities has resulted in a relatively low level of new borrowings. Any change in previously agreed amounts to be provided by lenders would be particularly sensitive. The public bond issues, which are scheduled for the second half of the year, perhaps could be scaled back, but these are the cheapest source of JPY funding. Hence, any change in the program at this time is likely to cost us money.

12. Thus, increasing swaps out of JPY is the best approach to shifting funds into USD and DEM, if the shift were to take place this fiscal year. Under this year's Board swap authorization, FOD is permitted to engage in swaps for "liability management" purposes: this would appear to permit using swaps to fund shifts in the currency composition of investments. However, FOD believes that this new authorization clearly was grounded in the context of the proposed annual borrowing program and that if we decided to use swaps for changing investment currencies we first should get Board agreement. We also should give an indication to the Board of the proposed volumes. We concur with their conclusion on this. INV has its own authority to engage in "asset swaps" in a total amount up to \$500 million: this authority likewise would have to be increased if we were to go this route.

13. However, even with an increase in swap authority, we might still be constrained by current Bank exposure limits for individual counterparties. Because of the growth in the swap portfolio -- and downgradings of commercial banks which have reduced allowable swap exposures -- the Bank has reached its limits with some of our largest counterparties. As a result, it might be difficult to use swaps for the proposed transaction without exceeding these limits. In any event, the credit exposure resulting from medium-term currency swaps is significant -- as indicated by the required 30 basis points savings when using currency swaps to convert borrowings in vehicle currencies such as Italian lire into target currencies for lending. If a similar 30 b.p. notional charge were assigned to this transaction, its cost to the Bank would be another \$3 million.

14. If any reduction in JPY investments were postponed until the next fiscal year, the necessary change in funding could be accommodated in the new borrowing program. JPY maturities will be somewhat larger next year, so the shift could be funded by allowing more JPY funding to run off and increasing direct USD or DEM borrowings. If so, the intrinsic borrowing costs of this switch likely could be reduced. First, it is likely to be somewhat cheaper to borrow USD or DEM directly than borrowing JPY and swapping into these currencies. Second, the cross-currency swap generates a credit exposure for the Bank to the swap counterparty: this could be eliminated.

Floating rate notes.

15. If the Bank were to borrow USD or DEM directly, it could expand medium-term floating rate note (FRN) borrowings and avoid swaps altogether. The FRN program has been moribund for some time, however, and it is not clear whether additional FRN borrowings would be as cost effective as borrowing fixed rate USD or DEM and swapping into floating. At least in USD, FOD believes that it is likely less costly to issue global bonds and swap into floating. And the credit risk of an interest rate swap is lower than that of the cross currency swap. Even so, it might be worthwhile to re-examine the question of expanding the FRN program for this purpose. FOD also reports that the market for DEM FRNs has picked up recently.

16. Treasury-linked floating rates. The above exercise assumed funding through swaps into LIBOR-based floating rates. This is because the market for swaps linked to Treasury instruments is relatively illiquid and it is difficult to get competitive quotes on a consistent basis, particularly for the volumes considered here. Thus, match-funding our investments in Government securities with floating rate swaps linked to Treasury securities would reduce the basis risk inherent if we funded Treasuries with LIBOR-based swaps, but at a cost. The most likely structure for this transaction would involve swapping first into floating rate LIBOR, then adding a basis swap from LIBOR to T-bills. The addition of the basis swap would cost the Bank 8 to 10 basis points more, and might only be available for relatively small volumes.

Changes in Investment Assumptions

17. The above simulation was based on recent investment returns, costs of existing DFL, and of recent borrowings. The results would change significantly if these rates were changed. As noted above, recently the return on yen investments has exceeded its cost of funding while at other times yen has had a positive cost of carry. Shifting to match funding, whether in JPY, USD, or DEM, eliminates this volatility. Of course, overall net income volatility in each currency depends on many other factors -- fixed rate loans, pre-pool borrowings, etc. Hence, the appropriateness of any such shift of funding needs to be analyzed in the context of the total Bank balance sheet.

18. Using actual investment returns also means that the results of this exercise were dependent on recent differences in trading gains in JPY, USD and DEM. In the past, INV has been of the view that trading

gains in JPY were inherently less than were possible in USD or DEM. As you know, this issue is under active reconsideration, as evidenced by the proposed creation of "synthetic deposits" in JPY. Indeed, Yves Balcer has argued that there should be no difference in potential trading gains in these three currencies and that the "intrinsic" costs of carry of JPY, USD and DEM should be roughly comparable if measured on a match funded basis. If so, then decisions on shifting investment currencies or changing the duration of DFL should be driven largely by considerations of any distortions in loan pricing caused by this currency mix and overall risk management of the Bank's total balance sheet.

Attachments

cc: Messrs. Oliveros, Chandrasekhar, Lonæus, Herlihy, Balcer

C:\WP51\FJ\Currcom
FJ:cw

August 26, 1991

Mr. Fred Jensen

Changing the Currency Composition of Investments through Swaps

Fred,

The paragraphs below cover the swap issues mentioned in our request. Hakan Lonaeus will get back to you on changing the currency composition via changes in this year's borrowing program.

1. The liability management authorization that the Board approved in July, if read free-standing and independently from the FY92 borrowing plan to which it is attached, would in principle not seem to preclude doing swaps in order to change the currency composition of investments. However, it is clear from the Board paper that the authorization was approved with the sole objective of implementing the proposed borrowing program (see paragraph 33 in R91-156). Therefore, if we decided to change the currency composition of investments through swaps we would need to have the Board agree that we could make use of the liability management authorization in this context. Moreover, although the authorization was approved without specific annual program indicators, we would also need to provide an indication of the likely volume of operations expected since we could be exceeding (maybe substantially) the USD 3 billion indication for currency swaps mentioned in the borrowing plan.

2. The attached table gives an indication of the achievable sublibor level in USD that could have been obtained in the current rate environment by swapping the Yen in the debt funding liquidity (DFL). The swap rate is constant in the 2 to 10 year maturity reflecting a very flat yield curve at this time, so that differences in sublibor levels across maturities reflect differences in the average Yen cost of the DFL. The table only shows maturities up to 10 years--there is very little DFL with greater maturity than that. Some counterparts would not do swaps with maturity greater than 10 years, and those that provided quotations charged 5 to 10 basis points over the current the 10 year rate. There is also a 3 to 5 bp charge for volumes smaller than USD 15 million or greater than USD 100 million. Most potential counterparts would not have a problem with mismatched maturities (ie, they could do the full USD 106 million falling due in FY96 despite the fact that it is composed of several borrowings with maturities phased throughout the FY).

Please let me know if you have any questions. We would be very interested in following up with you the next steps on this, and in particular discuss the criteria that would determine going ahead with the operation.

Sindo Oliveros 

Attachment

cc: Messrs. Lay, Lonaeus, Chandrasekhar, White, van Opstal (o/r); Mrs. Wright.

Changing the Currency Composition of Investments:				
Swaps from Yen into Floating USD				
	Yen Redemptions	Achievable		
	(m USD equiv.)	USD SubLIBOR 1/		
FY92	22	-21		
FY93	61	-59		
FY94	83	-101		
FY95	53	-71		
FY96	106	-19		
FY97	130	-56		
FY98	103	-118		
FY99	86	-119		
FY2000	68	-42		
FY2001	62	-32		
FY2002	9	-108		
1/ On the basis of market indications as of 8/22/91.				

OFFICE MEMORANDUM

DATE August 27, 1991
TO Nirmal Paul and Fred Jensen
FROM Håkan Lönæus 
EXTENSION 80913
SUBJECT Changing the currency composition of investments.

1. You have asked us about the consequences of changing the FY92 borrowing program in JPY as a means of effecting a change in the currency composition of investments. The following is our analysis.
2. The change that you are seeking is to reduce the post-swap JPY borrowing program in FY92, which can be done 1) through a reduction of the volume of direct JPY capital market transactions, 2) through an increase of swaps out of JPY while leaving the original program intact or 3) through prepayments of outstanding loans or calls on bonds.
3. As you probably know, the JPY funding program is a very carefully deliberated balance between long-term relations management and cost minimization. At the beginning of any fiscal year, headquarters, the Tokyo office and the actors on the JPY capital markets negotiate a blended program. To make a change in the program within the fiscal year tends to upset the delicate balance of the plan. The effect would vary depending on which of the planned transactions had already been implemented. Last fiscal year such a midterm correction would have greatly upset our relations with the providers of loans, since a reduction of the JPY program would have to involve fewer loans than originally contemplated. In this fiscal year a midterm correction would lead to higher average JPY costs, since the cost effective public issues are planned for the second half of the year. For this reason, an intra fiscal year change in the program has considerable negative implications that would argue in favor of other solutions to reduce the JPY in liquidity.
4. Increasing the swaps out of JPY would avoid some of the difficulties in changing the year's program. However, the reason we have not increased our planned pre-swap JPY borrowings and instituted a swap program out of JPY in spite of considerable pressure from MOF (at least in earlier years) to increase our presence in the JPY markets, has been that it is only rarely that cost-efficient swaps are available out of JPY. Accordingly, if we did want to reduce the JPY in liquidity using increased swaps, it is likely that the relatively cost inefficient borrowings we now do in JPY would translate into relatively expensive funding for liquidity in the non-JPY currencies, thus reducing the potential benefit from switching currencies of the liquid portfolio.
5. Prepayment of outstanding debt may have some limited possibilities. Currently, our decision rule is to make a call or announce a prepayment whenever the current market conditions in JPY would allow us to replace the old debt with new at a lower cost. In this fiscal year, there are

few opportunities for prepayment unless new borrowing costs are considerably reduced. If we were to consider a refinancing in a different currency than JPY, the decision rule would be changed. The correct breakeven rate for making decisions on prepayments would be the JPY interest rate that we could achieve from a swap out of the non-JPY currency. Or, conversely, the JPY cost of the seasoned funding source should be converted through the swap quotes available into a cost measure in the desired currency for comparison with refinancing alternatives. If we can achieve a lower cost in the new currency through a new borrowing than the translated cost of the seasoned JPY borrowing, we should opt for prepayment. This is a slightly less onerous requirement than we use today. However, two factors limit the usefulness of prepayments as an instrument: 1) we are operating under an informal agreement with the Japanese that any prepayment or call would be replaced by a similar instrument at going market rates (which would have to be changed in this case), and 2) very few of the outstanding callable/prepayable liabilities are even close to the breakeven rates.

6. To conclude, we find that the best way of reducing the JPY in liquidity in an orderly fashion is to include such an assumption in the formulation of the FY93 borrowing program. In that year, JPY funding requirements are expected to grow due to increased refinancing of maturing debt. Therefore, it would be easier to retain borrowing relations with the Japanese intermediaries than in the current fiscal year. Should a change be strongly desired within FY92, we would opt for an increase of prepayments, assuming that we can reach a consensus with the Japanese authorities, or pursuing a larger swap out of JPY program, even if it is done at inefficient rates.

cc Horvath
Oliveros
Lay o/r

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

DATE: 10-Jul-1991 10:02am EST

TO: Jean-Francois Rischard (JEAN-FRANCOIS RISCHARD)

FROM: Yves Balcer, INVD3 (YVES BALCER)

EXT.: 80922

SUBJECT: revised cost of carry calculations based on estimated borrow

The true cost of carry for liquidity, assuming that there is no duration gap between liquidity and its funding.

1. INV's assets are invested 75% in bank credit
and 25% in government credit
2. Duration of bank deposits is say .5 month
Duration of government bonds is say 47 months
3. Holdings are 50% USD, 25% JPY and 25% DEM
4. Return on bank deposits is equal to LIBOR - 10
Return on Government securities is Government + 0

Under proper asset-liability match-up, we have the following:

1. Funding is 25 % fixed rate and 75 % Libor-based.
2. In USD, IBRD borrows at Government + 40.
at LIBOR - 30.

In DEM, IBRD borrows at Government + 10
at FIBOR - 25.
(WB get significantly better costs in SWF)

IN JPY, IBRD borrows at Government + 20
at TIBOR - 25
3. Gross cost is -14 basis points on total holdings
Gross return from passive management is -7 basis points
4. Administrative cost is 4 basis point (cost) * 2.5 = 10
5. Active management contributes 20 basis points
(this excludes the strategies for benchmark)
6. Net carry cost is - 14 + 7 + 10 - 20 = - 17 basis points

THE TRUE COST OF CARRY FOR LIQUIDITY IS NEGATIVE AT 17 BASIS
POINTS. LIQUIDITY IS A POSITIVE CONTRIBUTOR TO NET INCOME, NOT
COUNTING ALL OTHER BENEFITS.

CC: Veronique Lavorel	(VERONIQUE LAVOREL)
CC: Kyung Hee Kim	(KYUNG HEE KIM)
CC: Marc Babin	(MARC BABIN)
CC: Philippe Lespinard	(PHILIPPE LESPINARD)
CC: Paul-Andre Bloch	(PAUL-ANDRE BLOCH)
CC: Surjit Bhalla	(SURJIT BHALLA)
CC: Arita Gonzaga	(ARITA GONZAGA)
CC: Jennifer Johnson-Calari	(JENNIFER JOHNSON-CALARI)
CC: Caio Koch-Weser	(CAIO KOCH-WESER)
CC: Jon Hitchings	(JON HITCHINGS)
CC: Donald C. Roth	(DONALD ROTH

THY

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Santiago

Nestor -

If you are comfortable with this, put the attached draft in final. Please find out a) what costs, if any, are involved in an early exit and b) what SIP thinks. I would plan to deal with this in the Executive Session.

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

The World Bank

ERNEST STERN
Senior Vice President
Finance

DRAFT

CONFIDENTIAL

November 18, 1991

DECLASSIFIED

AUG 04 2025

Members of the PFC

The attached memorandum from our counsel describes a problem with regard to our limited partnership managed by M. Steinhardt. The memorandum from outside counsel, also attached, addresses various aspects in more detail.

Essentially, for the reasons set out on pages 8-9 of that paper, I recommend that we withdraw from the partnership by giving notice by December 1. We will have an opportunity to discuss this on November 22.

WBG ARCHIVES



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/14/1991	Document Type Letter			
Correspondents / Participants From: Scott B. White To: Nestor V. Santiago				
Subject / Title Institutional Partners L.P. - Legal Implications of Withdrawal				
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

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Sandstrom

Sven -

I think an acknowledgement along the lines of the attached draft should go out today. Meanwhile, I have asked Joe to get himself briefed by the regional staff as quickly as possible so that we can respond substantively.

A handwritten signature in dark ink, appearing to be 'E. Stern', is located below the typed text.

DRAFT

November 18, 1991

Mr. David Suratgar
Morgan Grenfell & Co.
London

Dear Mr. Suratgar:

I have received your letter regarding the Karuaphuli Proejct. I wanted to let you and your associates know that we will review the matter expeditiously and be in touch with you shortly.

Sincerely,

Lewis T. Preston

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Wood

Joe -

The attached letter has not yet arrived in Preston's office, but I got my copy by fax. As soon as you have gotten yourself briefed, may we discuss. On the face of it, it seems quite extraordinary that we should have an IDA credit override on ongoing contract, but perhaps there is more to it than the letter suggests. We should act expeditiously, since the delay will be expensive.

A handwritten signature in dark ink, appearing to be "L. Stern", is located below the typed text.

Facsimile transmission

Morgan Grenfell & Co. Limited

Member of The Securities and Futures Authority

23 Great Winchester Street
London EC2P 2AX

Telephone 071-588 4545

Direct line 071-826

Telex 8953511 MG LDN G

Fax 071-826 6133

**MORGAN
GRENFELL**

Total pages 16 (including this header)
Date 15 November 1991
To Mr. Ernest Stern
The World Bank
Washington D.C.
Fax No. 0101 202 477 6658
From David Suratgar
Extension 6069 - private fax no. 071-826 6535

If you do not receive all the pages, please telephone or telex immediately

Message

Re: Karnaphuli Fertiliser Company Limited

We attach herewith a letter with enclosures which is being couriered to you today.

Regards,

David Suratgar,
Group Director.

Authorised by

1

2

Cost Centre

Expenses A/C
Tel. Code



Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/15/1991	Document Type Letter			
Correspondents / Participants From: David Suratgar To: Ernest Stern				
Subject / Title Re: Karnaphuli Fertiliser Company Limited				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence Deliberative 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			

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 18, 1991

Mr. Preston

Lew -

Attached is a brief, prepared by EMENA staff, for your meeting with Mr. Nobili of IRI on Wednesday.

You might ask Mr. Nobili about IRI's experience with enterprise privatization and restructuring in the last decade and what lessons he draws from that which make for its success. It would also be interesting to ask about their current activities and future investment plans in Eastern Europe.

6. In the early 1980s, a major recovery program was launched, which included (between 1980 and 1985) the shedding of loss-making activities through asset sales and some plant closures (automobiles, steel), a massive injection of government capital, used for debt-restructuring and the reduction of cross-currency risks, and also an injection of cash from the private sector through sales of government equity. Macroeconomic recovery at the time aided the process. The recovery was successful. After 1986, IRI broke even and even made small profits for three years. In 1985-86, a large number of IRI companies were introduced on the Milan stock exchange. IRI issued convertible bonds and warrants, made new placements and sold large blocks of existing shares. However, the aim of the government then was clearly to retain control, and transfers of ownership were usually only permitted up to 49 percent. Complete divestiture of major enterprises was rare. In 1989 and 1990, IRI made losses again, at US\$0.7 and US\$0.4 billion respectively.

7. A new push from the government towards privatization began in 1990, prompted largely by concerns about the budget deficit. Privatization activity has recently accelerated and assumed major importance. In 1990, US\$0.9 billion worth of IRI assets were sold. A large part of this includes shares in banks. In the industrial sector, major sales have been planned, for example Cementir, with a sale of a majority (51.8 percent) of government shares.

8. IRI has had some success in restructuring and reorienting its loss-making firms. Many of its programs, though, would have been less successful without direct or indirect government assistance for assuming a part of the debts, or for aiding unemployed workers through appropriate legislative and financial support. However, direct government transfers to the 'endowment funds' of IRI (and the other SHCs) are drying up, and the draft budget for 1992 proposes the conversion of the SHCs into publicly quoted joint stock corporations.

World Bank Study of Holding Companies

9. In view of the large number of Bank client countries which have adopted, or plan to adopt, holding company structures for their public enterprises, a short study on SHCs is currently undertaken by Bank staff. The study aims to assess the extent to which state holding companies can introduce market forces in public enterprises and facilitate privatization. The study is jointly supported by EM2IE and EM3IE, since Algeria and Egypt have both experimented on a large scale with holding companies. The study comprises, in addition to case studies of the holding companies in these countries, a detailed examination of the Italian experience focussing on IRI. While the IRI case has valuable lessons for other countries, its experience cannot be easily replicated, in view of the considerable direct and indirect assistance it received from the government.

Cleared with and cc. Mr. E. Stern (FINSV)

Istituto per la Ricostruzione Industriale (IRI), of Italy

1. A large proportion of Italy's public enterprises are organized as joint stock corporations under private corporate law, in which the government holds the controlling interest through three principal state-owned holding companies (SHCs), IRI, ENI and EFIM^{1/}. IRI is the most important of the Italian SHCs, accounting for around 70 percent of their revenues and employment. Originally set up in the 1930s to bail out banks and enterprises in crisis, IRI switched its role in the post war years to reconstruction and expansion, particularly in areas where private investment was not easily forthcoming.
2. Some 38 percent of IRI group's value-added in 1989 was in manufacturing, 8 percent in infrastructure and 54 percent in services. Manufacturing activities range from heavy engineering, biotechnology and aerospace to food and cement. Its service activities include banking, telecommunications, toll highways, and sea transport. The largest single contributions to value added in 1989 came from telecommunications (37 percent) and steel (14 percent). The group structure continues to evolve and it has recently expanded into technology intensive areas such as biotechnology and communication networks, as well as new activities for financial services and overseas management training and consulting. Traditional manufacturing activities, such as cement, are being shed.
3. The IRI group today has majority shares in 540 companies and minority shares in around another 300. It holds its shares mostly through some twelve subsidiary sectoral holding companies. There are over 400,000 stockholders, who hold 44 percent (of which 35 percent by banks) of the group's consolidated net worth valued at US\$24.4 billion by end of 1989. This arrangement has sometimes been cited as an interesting way of introducing market forces in the operational environment of public enterprises and creating a 'mobile frontier' between public and private ownership.
4. The IRI Holding itself is constituted as an autonomous agency, and not as a joint stock corporation. It has a core staff of around 400 persons, compared to 417,000 persons in the group as a whole. Its principal roles are to manage the strategic planning of the group's activities, review their financial implications and requirements, and if necessary help arrange appropriate financing for investments and strengthening financial performance. It is subject to the review of a Ministry for State Participation, two inter-ministerial committees and a joint parliamentary committee. The Holding is the sole direct interface of the public enterprises in its group with the government.
5. The group made enormous losses ten years ago, due to a combination of unfavorable macroeconomic factors (the oil price crisis, high interest rates) as well as sectoral factors (concentration of activities in 'ageing' sectors such as automobiles, shipping and steel) and government-imposed burdens (acquiring further loss-making enterprises, price controls). IRI's losses peaked at US\$2.4 billion in 1980, or 9 percent of sales, while its negative cash flow stood at US\$1.1 billion and total debts at US\$26.1 billion, relative to consolidated net assets of US\$62.5 billion.

^{1/} Ente Nazionale Idrocarburi and Ente Partecipazioni e Finanziamento Industria Manifatturiera.

OFFICE MEMORANDUM

DATE: November 18, 1991

TO: Lewis Preston, President

FROM: Ernest Stern, Senior Vice President, Finance *ES*

EXTENSION: 82004

SUBJECT: FINCOM: FY93-95 Business Plans

1. I attach the FY93-95 Business Plans for the three Vice Presidencies (Financial Policy and Risk Management, Controller's and Treasurer's) and the Pension Department in the Finance Complex (FINCOM). The decision to transfer the Pension Department and the Tokyo Office to the Treasurer's Vice Presidency, effective December 1, 1991, was made too late to include these units in the Treasurer's Business Plan. The Business Plans include each Department's medium-term objectives, resource needs, personnel and information technology projections.

2. In order to ensure a complete picture, this memorandum provides budget, personnel and information technology plans at the FINCOM-wide level, and identifies several resource issues that will arise as a result of the restructuring.

3. The attached VP Business Plans show the need for additional resources in the non-Investment budget, totalling 6 HL and 3 SL positions, and \$2.0 million over the period. This excludes the savings that will result from the closing of FINCOM's UNISYS contract in FY95 since these savings will have to be used to fund a replacement platform. I have taken a more constrained outlook for additional resource needs in Attachments 1, and 2, which provide for less growth during the period. Attachment 1 shows FY93-95 budget plans under a zero growth scenario, as requested by PBD. Under this scenario, I have proposed several transfers between Departments (positions from Financial Operations to Loan and the V.P. Financial Policy and Risk Management), and between the Financial Systems Development Fund (FSDF) and the Accounting Department (to fund operation and maintenance costs).

4. Attachment 2 summarizes my approval of additional resource needs by Department. It shows a modest increment in non-Investment positions (1 HL and 3 SL) over the three years, and in dollar resources (\$1.3 million). The Investment Department, too, is requesting limited additional resources (2 SL positions, and \$96,000 between FY92 and FY95).

Financial Systems Development Fund

5. As discussed in the April 1991 Finance Information Strategy Plan (ISP), there will be an on-going need for an annual Financial Systems Development Fund (FSDF) budget of about \$4.0 million for the next five years. The work program to be supported during FY93-95 includes major projects in all three Finance Vice Presidencies. Examples include the Loan Administration Modernization Projects (LAMP) in Controller's (approximately \$4.0 million); FUNDTRAC Replacement (approximately \$2.5 million) and Pension Systems Integration (approximately \$0.5 million) in Treasurer's; and Financial Modeling and Projections in Financial Policy and Risk Management (approximately \$0.6 million).

6. Additionally, funding for development of other new systems or major enhancements of current systems will be needed in the Investment, Cash Management, Accounting, and Resource Mobilization Departments. The needs for software development for the budget and cost accounting systems will be better known after any revisions to the Bank's budget process have been determined, but funding needs in this area are anticipated.

7. I believe that the FSDF should continue to be managed in FY93 as a joint resource of the financial Vice Presidencies from the Controller's Vice Presidency, with the current Steering Committee, composed of the Vice Presidents concerned, making the resource allocation decisions and reviewing the utilization of the Fund.

Personnel and Information Technology Projections

8. Attachments 3 and 4 contain the FY93-95 information, requested by Personnel and ITF. This information was sent to them several weeks ago to assist in their planning, but is included here to provide a complete picture of FINCOM's Business Plan.

Finance DEC Utility (FDU)

9. Several years ago, FINCOM centralized its DEC functions under the management of the Cash

Management Department. Since five Departments use this DEC facility, my office has been paying the depreciation for FDU capital projects. While we will transfer the depreciation budget for a previous capital project to the FDU Unit, additional depreciation (\$120,000 in each of six years) will commence in FY94 for an FY92 project. We are currently reviewing whether the FDU function should remain in Cash Management or be transferred to ITF. But, irrespective of the final placement, the manager will have to request additional resources to fund this expense.

10. FINCOM is not able to absorb the depreciation costs since the capital project did not yield savings (i.e., this was neither a cost-reducing nor income-producing investment for the Departments). Many of FINCOM's capital investments fall into this category. New technology can result in better service standards, or savings for the Bank or our borrowers, but no time or dollar savings accrue to the sponsoring units. I have asked the FINCOM units to confer with PBD when cases such as this arise. If PBD cannot support the request for additional budget, and if the units cannot divert funds in their budget to cover the depreciation costs, the capital investment should not be pursued.

Attachments

cc: Messrs. Karaosmanoglu (FPRVP Business Plan),
Sandstrom (TREVP Business Plan)
FINCOM Managers (w/o Attachment 5)
FINCOM Budget Officers (w/o Attachment 5)
Messrs. Picciotto, Lynn, Bhatia, Pottker,
Pollner

LIST OF ATTACHMENTS

- 1 FINCOM: FY90-95 Actual Expenses and Projected Budgets -
Zero-Growth Scenario
- 2 FINCOM: FY90-95 Actual Expenses and Projected Budgets -
Growth Scenario
- 3 Projection of Overall Staff Needs
- 4 FY93-95 Information Technology Plan
- 5 FY93-95 Vice Presidents' Business Plans

L L - I N - 1 N O T E

DATE: 20-Nov-1991 07:54pm

TO: Stephen Eccles

(STEPHEN ECCLES)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Special Reserves

This "Special Reserve" dialogue is news to me. Any clue to its location?

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

DATE: 20-Nov-1991 06:20pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Stephen Eccles, CTRVP

(STEPHEN ECCLES)

EXT.: 81674

SUBJECT: Special Reserves

I found out by chance today that somewhere in FINCOM there is an active discussion going on with the Legal Department about the Special Reserve. No-one has consulted with CTR about this. It is not just a legal question! Not only are there 'accounting policy' matters involved; some of the proposals around would actually cause us a lot of unnecessary work. CTR also has the solutions to all the known problems, if anyone actually wants to clean the matter up (insofar as it can be cleaned up).

We would welcome the opportunity to contribute to the dialogue.

EM

This "Special Reserve"
dialogue is new
to me. Any clue to
its location?

Ernie

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

ERNEST STERN
Senior Vice President
Finance

November 20, 1991

Mr. Siegelbaum

Paul -

The Operational Guidelines are making progress.

I was disappointed at your response as to why we exclude global bonds. I understand, of course, that they are the benchmark and it would be an unusual set of circumstances which would make their repurchase worthwhile. But it is precisely for this reason that, contrary to the legal mind, I would not put in any restrictions. The structure of the program makes the event improbable, and I have sufficient faith in the staff that if such a circumstance were to occur, they would consult with their colleagues. Should our system be right and the purchase be justified, I see no reason why it should be excluded.

A handwritten signature in dark ink, appearing to be 'E. Stern', with a long, sweeping underline that extends to the right.

Office Memorandum

DATE: November 19, 1991

TO: Mr. Ernest Stern, FINSV

FROM: Paul J. Siegelbaum, FODG3

EXT.: 80752

SUBJECT: ***OPERATIONAL GUIDELINES - IBRD DEBT REPURCHASES***

Here is a redraft of the Operational Guidelines. I have thought about the comments you made as to the use of the term "Line Manager" and concluded that the best fix is to eliminate the term entirely, along with its illegitimate cousin, "Authorized Officers." By expanding the introductory language to include deputies, as well as acting officers, we can cover the case of the Deputy Treasurer. The elimination of the Senior Vice Presidents will eliminate the need to cover the case of Guideline decisions being made by anyone senior to the Vice President and Treasurer.

I have also suggested two substantive changes in the Guidelines: (1) only the Director, FOD and the Treasurer can decide not to cancel sinking fund bonds, but instead to hold them for future application against sinking fund requirements and (2) no officer at all is stated as the required source of the judgment that material, adverse information exists such that repurchases should be suspended. The first reflects my feeling that the warehousing of sinking fund bonds is a liability management strategy which should be approved at least at the FODDR level. The latter change reflects the notion that avoidance of insider trading is a generalized responsibility, not just that of the specified officers, much like the obligation to make full and fair disclosure in primary issues.

With these two changes, the concepts of the "Line Manager" and "Authorized Officers" are no longer necessary.

You have also asked why we exclude global bonds from consideration for repurchase, in the Guidelines. My own view on this is that we are implicitly assuming that all repurchases will be refinanced with global issues, to capture the savings in the difference between globals and older issues. Indeed, our primary test for effecting a repurchase is to compare the yield spread on the outstanding bond to the spread on a hypothetical global issue of the same maturity. If we find that an outstanding global issue meets this test, I would be concerned that some defect in our analysis will have produced an anomaly, and would tend to doubt that we have identified a bargain. Forcing us to get special permission to repurchase that global bond will force us to confront this issue and implicitly to defend our pricing strategy in the process. This would, I believe, make for a more sensible and disciplined program.

I have enclosed a marked copy of the draft guidelines, for your reading pleasure.

cc: Messrs. Roth, Koch-Weser, Lay, Herlihy, May
Mmes. Einhorn, Perque

MARKED
COPY

DRAFT
November 18, 1991

U.S. DOLLAR DEBT REPURCHASES

Operational Guidelines

These Operational Guidelines govern the implementation and administration of the market-based repurchases of outstanding U.S. dollar bonds. All references to required approvals, determinations and waivers by a specified Bank officer in these Guidelines shall be deemed to include approval, determination or waiver by any deputy of such officer and any other Bank officer officially acting for such officer. Any requirement contained in these Guidelines may be waived in writing, in an individual case or generally, by the Vice President and Treasurer.

Approval of Repurchases

Each individual repurchase shall be approved in writing by the Principal U.S. Dollar Financial Officer, the Chief Financial Operations Officer, FODG3, the Senior Manager, Financial Operations Department, ("FOD"), the Director, FOD, or the Vice President and Treasurer.

Pricing of Repurchases

Repurchases will be made only if the purchase price (including any costs and commissions) on the repurchased debt provides a yield that meets both of the following tests:

- (1) the yield is more than 20 basis points above the interpolated U.S. Treasury yield curve; and
- (2) the yield is greater than the estimated all-in-cost of a new Bank issue at a similar maturity. (For maturities of 10 years and less, the estimated all-in cost of Global Bond issues will be used for this purpose).

Settlement of Repurchases

Unless otherwise approved by the Director, FOD, or the Vice President and Treasurer, repurchase transactions shall be settled not later than five business days after the terms of the transaction have been agreed by both parties.

Counterparties

Repurchases may be made only from or through counterparties who (1) have served as a manager or otherwise participated in one or more previous U.S. dollar bond issues, (2) are, at the time of the repurchase, qualified to conduct business in U.S. dollar securities with INV, or (3) have been approved by the Director, FOD, or the Vice President and Treasurer.

Bonds Eligible for Repurchase

All outstanding bonds whose principal is denominated in U.S. dollars are eligible for repurchase except global bond issues.

Volume Limitations

Minimum transaction size shall be \$25,000 for COLTS, \$100,000 for any other security. Permission of the Director, FOD or the Vice President and Treasurer shall be required to exceed \$50,000,000 in aggregate market value of repurchases in any period since the most recent Weekly Borrowing Report. FODG3 shall consult with LEGAF as to any applicable disclosure requirements, prior to any purchase which would result in the retirement of more than 25% of any one bond issue.

Reporting Requirements

Each individual repurchase shall be reported to ACT and CSH, as necessary to meet operational accounting and cash management needs. All debt repurchases shall be included in the Weekly Borrowing Report.

Disposition of Repurchased Bonds

All repurchased bonds shall be canceled, except bonds which are part of a sinking fund issue, which may, in the discretion of the Director, FOD or the Vice President and Treasurer, be held for future application against mandatory or optional sinking fund payment requirements.

Blackout Periods

No repurchases shall be made (1) during the period after the date for the launch of any public U.S. dollar issue has been fixed or a mandate for such issue granted and the date of pricing such issue, or (2) at any time when there exists material undisclosed information about the Bank. For this purpose, "material" information shall consist of any information a reasonable investor would consider significant in the decision to buy, sell or hold an IBRD U.S. dollar bond.

Vice President and Treasurer

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

DATE: 20-Nov-1991 03:32pm

TO: Paul J. Siegelbaum

(PAUL SIEGELBAUM)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Debt Repurchase Board Paper -- Status

I agree. No ceiling is necessary. The cost limit plus the quarterly reports are enough.

CC: Kenneth Lay

(KENNETH LAY)

LL - I N - 1 N O T E

DATE: 20-Nov-1991 09:29am

TO: Ernest Stern

(ERNEST STERN)

FROM: Paul J. Siegelbaum, FODG3

(PAUL SIEGELBAUM)

EXT.: 80752

SUBJECT: Debt Repurchase Board Paper -- Status

All is in order on the draft paper, save only for a resolution we still need from the Legal Department and a few of Legal's comments still outstanding. Scott White and I spoke last night about Mr. Silard's concerns and I have gracefully acceded to as many of them as possible, except for two that were, in my view, beyond the pale (describing the Weekly Borrowing Report as "typically issued on a weekly basis" and proposing that FOD enter into a "Memorandum of Understanding" with LEG).

A third issue, that I understand Scott has mentioned to you is the question of volume limits. This is not, as we discussed in your office, an issue of building flexibility into the global borrowing authorization volume figure to accomodate the refinancing of repurchased (and prepaid) debt. That seems to be no problem. This point is whether the USD effort will have a face amount limit to it. I have no strong feeling about the limit -- the program can work either way. However, Steve S has also proposed that the legal resolution authorizing the repurchases incorporate that limit, which I feel would be a very unfortunate resultt, forcing us back to the Board repretedly to update the authorizing resolution as these programs take hold.

All Steve's concerns about control, etc. can be addressed, as we have, with reporting and guidelines. Legal limits are just not necessary.

I will keep you advised.

CC: Kenneth Lay

(KENNETH LAY)

EM
Siegelbaum
I agree.
No ceiling is
necessary. The
cost limit plus
the quarterly
reports are
enough

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

DATE: 20-Nov-1991 03:33pm

TO: Katharine Tyler

(KATHARINE TYLER)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Advisory Women - IFC piece

Okay---on both counts.

CC: Desiree Ponti

(DESIREE PONTI)

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

DATE: 20-Nov-1991 10:33am

TO: Ernest Stern

(ERNEST STERN)

FROM: Katharine Tyler, POPSD

(KATHARINE TYLER)

EXT.: 30377

SUBJECT: Advisory Women - IFC piece

Do you agree that I distribute the IFC paper to the group as it stands? Should I ask Kaffenberger first?

Katie

OK

OK

CC: Desiree Ponti

(DESIREE PONTI)

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 20, 1991

Mr. Preston

Lew -

Following up on your note to Mr. Naim on Board Procedures, attached is a note with specific suggestions. We ought to review this so that we can give it to him as soon as possible and to move the discussion along.

A handwritten signature in dark ink, appearing to be 'R' followed by a long horizontal stroke.

cc: Mr. Karaosmanoglu
Mr. Sandstrom

Board Procedures

Sector Policies (Paras 8 & 9)

We agree with the need to review our sector and other policies on a regular basis. However, to put all policies on an automatic 3-year cycle for review may be too mechanical and lead to unnecessary discussion in the Board and work for the staff. We, therefore, suggest instead that we prepare an inventory of existing policies by sector and submit a schedule of proposed reviews at the beginning of each fiscal year for consideration by the Steering Committee. We would include our recommendations as to whether the existing sector policy is still relevant or whether changed circumstances justify considering a different approach.

Other Policy Reviews (Paras 10 & 11)

These paragraphs cover three categories of papers.

We agree with the proposal for papers with no policy recommendations. However, we suggest that the Committee explicitly recommend the minimum number of Executive Directors required before a discussion is scheduled. The credibility of the process will be undermined if a request from a single director is sufficient to schedule the paper for discussion.

The distinction between the other two categories of papers, based on difficulty or contentiousness, is not workable. Moreover, management's responsibility to the Board is to set forth specific recommendations and proposals; not to list options for general debate.

However, there are many areas in which management and staff would benefit from an early exchange with the Executive Directors on sectoral and other policies under review. We suggest that when a policy paper is proposed to the Steering Committee to be added to the Long-Term Schedule, management should, at the same time, indicate whether an outline or approach paper will be prepared for an informal discussion in a seminar or the Committee of the Whole. This will provide adequate opportunity for the Executive Directors to participate in the early stage of policy review. There also are policy papers on which an issue or approach paper would not be appropriate, particularly in finance and personnel. Examples are papers on net income allocation, provisioning, borrowing or investment policies and compensation. However, for these subjects, opportunities for early participation are available through the discussions in the JAC or other committees.

External Environment

We understand the desire to cover the impact of the policies of OECD countries on Bank's borrowers and believe the subject can be handled without undue additional staff work. However, we recommend that the duplication in paras 17, 18 and 24 be eliminated. Management provides annual country briefs. Country Strategy discussions will be held in the Board regularly if the Committee's recommendations are adapted. These discussions will be linked to the promotion of structural adjustment or sectoral adjustment loans. Since the external environment is unlikely to change rapidly, and since we wish to avoid making the material routine, the coverage and discussion of the external environment should be limited to one of these occasions. We would suggest the most appropriate place is the country strategy. If you agree, paras 17 and 18 should be amended.

There is one other point we want to bring to your attention: We believe that para 28 goes too far in eliminating projects from normal scheduling for Board discussion. The Bank is a major investment lending institution, and we believe that we would be giving the wrong signals to our shareholders, the financial community and the public at large by deciding that our Executive Directors do not have the time to review a reasonable sample of the Bank's basic product. Although provision is made for loans to be scheduled for discussion at the request of an Executive Director, it is quite likely that, under pressure of time and peers, this will be exercised only in cases where there are objections to the approval of the operation. It will become an exceptional event and affected by political considerations, which we are familiar with today, when a postponement is requested. We, therefore, believe that it is desirable to consider, as an alternative, raising further the limits on "special procedures" so that we can retain, for automatic Board discussion, a reasonable selection of investment operations, diversified by sector and borrower.

While the Board of Directors clearly is the ultimate arbiter of the Bank's policies, these policies must be based on practical experience which the Bank gains through its lending operation. To let this experience become simply a matter of voluntary reading, unlikely to be done personally by most Executive Directors, will also reduce the Board's ability to be effective in its policy function.

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 20, 1991

Mr. Thahane

Tim -

FINCOM has no revisions to the attached Status
Report - Promises of Action for FY92 First Quarter.

A handwritten signature in dark ink, appearing to be "G. J. ...", is located in the lower right quadrant of the page.

OFFICE MEMORANDUM

CS

DATE: November 19, 1991

TO: Members of the President's Council

THROUGH: T. T. Thahane, Vice President and Secretary

FROM: Josie Bassinette, SEC

EXTENSION: 80240

SUBJECT: Status Report on Promises of Action for FY92 1st Quarter

The attached is the draft quarterly Status Report on Promises made by Management at Board meetings, Committees of the Whole and Seminars through September 30, 1991. The relevant departments have been consulted and statements cleared with the managers concerned where possible.

Any comments and suggestions on the draft status of promises will be appreciated by noon, Monday, November 25, 1991.

The final Report will be distributed to the Executive Directors on Monday, November 25, 1991 and reviewed by the Executive Directors' Steering Committee at its meeting on Monday, December 2, 1991.

Attachment

cc: Mr. Alisbah
Mr. Picciotto
Mr. Rovani

PART I – ITEMS COMPLETED
(through quarter ending September 30, 1991)

Section A: Bank/IDA

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
<u>1990</u>			
Jan. 30	IDA-9	IDA-9 Deputies Report: Annual Review	The FY91 Review of the IDA-9 Replenishment was discussed by the Board on Sept. 26/91 (R91-127).
July 3	Oral Report on Montreal Protocol Meeting	Executing Agency Agreement on a Financial Mechanism to Finance Incremental Costs of Phasing Out of Ozone-Depleting Substances	The Ozone Projects Agreement was issued on Sept. 9/91 (SecM91-1154).
Oct. 25	JAC Report	Proposal for JAC Review of IAD Report to the President	The JAC discussed this issue in September/91 and agreed to be briefed by the Auditor General in Executive Session in December/91.
<u>1991</u>			
Jan. 24	Assistance Strategies to Reduce Poverty	Circulation of the Bank's "Poverty Handbook"	The handbook was issued for information on Oct. 11/91 (Office Memorandum from Paul Crevier dated 10/11/91).
Feb. 26	16th ARIS, FY90	Review of Implementation of PCR Guidelines	The JAC completed its review in September and endorsed the recommendations contained within the Report (JAC/91-22).
June 18	Review of the World Bank Programs and FY92 Budgets	Data on the Impact of Delays in FY91 Commitments on FY92 Disbursements	An office memorandum, "IBRD Commitments and Disbursements in FY91" was issued on Sept. 5/91 (Office Memorandum from Mr. Thahane dated 9/5/91).

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
July 16 (CoW)	Managing Development - Governance Dimension	(a) Circulation of Statement by Mr. Shihata	"Mr. Shihata's Statement" was issued on July 23/91 (SecM91-945).
		(b) Circulation of Chairman's Summing-Up	The Chairman's Summing Up was issued on July 22/91 (SecM91-938).
July 18	Forest Policy Paper	Circulation of Staff Statement	The staff presentation was issued on July 22/91 (SecM91-939).
July 18	Oral Briefing on London Summit	Circulation of the Statements by Messrs. Conable and Peretz	The statement by Mr. Conable was issued on July 18/91 (SecM91-933) and the statement by Mr. Peretz was issued on July 23/91 (EDS91-10).
July 18 (also Aug. 27; Oct. 4 Briefing)	Briefing on London Economic Summit	Paper on the Establishment of USSR Trust Fund; Technical Cooperation Agreement and Work Program	The Board discussed a paper on Transfer from Surplus to Fund Technical Assistance to the USSR on Aug. 27 (R91-184). The Technical Cooperation Agreement (R91-226) and first quarter work program was discussed by the Board on Oct. 29/91.
July 23	Allocation of FY91 Net Income	Eligibility Criteria for Waiver of Commitment Fee	A supplementary note on the commitment fee waiver was considered by the JAC and subsequently approved by the Board (R91-167/1).
Aug. 1	Oral Report on Egypt CG	Circulation of Staff Statement	"Statement by Mr. Wapenhans" was issued on Aug. 5/91 (SecM91-1009).
Aug. 20	Charges for Annual Meeting's Special Guests	Further Review of Issue	This issue was discussed by the CEBP and the Committee's Report, "Annual Meetings Arrangements: Options for a System for Special Guests and Visitors", dated Aug. 20/91, was subsequently approved by the Board (R91-216).
Aug. 29	China: Tarim Basin	Circulation of Staff Presentation	The staff presentation was issued on Sept. 4/91 (SecM91-1133).
Sept. 5	Kenya: Education Sector	Circulation of Staff Presentation	The staff presentation was issued on Sept. 9/91 (SecM91-1169).

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
Sept. 5	Sri Lanka PFP	Note on Reduction of Civil Service	An office memorandum, "Net Reduction in Civil Service Size in 1990" was issued on Sept. 17/91 (Office Memorandum from Mr. Thahane, dated 9/17/91).
Sept. 10 CoW	Development Committee Bkgd. Papers	Table on Net Transfers	A table entitled "Net Long-term Aggregate Net Flows" was included in the final President's Report to the Development Committee (DC/91-16).
Sept. 11 Seminar	OD 4.01 Environmental Assessment	Circulation of Mr. Shihata's Statement on Consultation	"Statement by Mr. Shihata" was issued on Sept. 24/91 (SecM91-1256).
Sept. 24	Oral Briefings on Costa Rica CG and India Consortium	Circulation of Staff Presentations	The staff presentation for Costa Rica was issued on Sept. 26/91 (SecM91-1278) and for India on Sept. 25/91 (SecM91-1266).
Sept. 26	IDA's Policies, Operations and Finance, FY91	Revised Table on Regional Distribution Including Commitments Related to the Gulf Assistance Program	A revised table was issued on Sept. 30/91 (IDA/SecM91-348/1).

PART I – ITEMS COMPLETED
(through quarter ending September 30, 1991)

Section B: IFC

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
<u>1990</u>			
June 14	Proposed Transaction in Compania Telefonos de Chile S.A. (CTC)	B Loan Participation	The status was provided in the context of the President's Memorandum on a proposed investment in Compania Telefonas de Chile S.A. issued on Nov. 1/91 (IFC/R91-173).
<u>1991</u>			
July 25	IFC FY92 Business Plan and Budget	Additional Data on Forecast vs. Actual Annual Capital Gains	"IFC Capital Gains Budget vs. Actual Data" was issued on Aug. 1/91 (IFC/SecM91-104).
Sept. 12	EVP's Quarterly Report	Note on Part I/II Staffing	A note on this subject was issued to the Directors on Sept. 25/91 (IFC/SecM91-127).

PART II – ITEMS OUTSTANDING
(through quarter ending September 30, 1991)

Section A: Bank/IDA

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
<u>1987</u>			
June 30	Brazil: NE Rural Development Project	Provide Progress Report on Project	Progress will be provided in the context of a modification to the loan which will be presented to the Board by the end of January, 1992.
<u>1989</u>			
Jan. 17 (also Dec. 15/87, June 19/90)	EDs' Work Program	Review of the Reorganization	The JAC reviewed an approach paper for a review of the 1987 reorganization (JAC90-32) and agreed that the issue should be revisited by the Committee in FY92.
Sept. 7 CoW (also July 10, Nov. 8/90 IFC, Feb. 14/91)	Report of the Task Force on Financial Sector Operations	Circulation of the Operational Directive	The Operational Directive on Financial Sector Operations is expected to be finalized in December/91.
<u>1990</u>			
Jan. 18 (also March 29, April 17, Aug. 9, Sept. 6)	EDs' Work Program	Review of Board PFP Procedures	This issue is being considered by the Ad Hoc Committee on Board Procedures.

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
April 3	Cote d'Ivoire: Forestry Sector	Follow-up Report on the Loan	A follow-up note is being revised to take into account a recent supervision mission. It is expected to be circulated to the Board before the end of the calendar year.
April 17	Report on Adjustment Lending II	(a) Next Board Review of Adjustment Lending	The third report on adjustment lending is scheduled for Board discussion on April 14/92.
		(b) Circulation for Information of New Operational Directives on Investment and Adjustment Lending	The Operational Directive on Processing of Investment Lending (O.D. 9.00) was issued (dated June 28/91) and the Operational Directives on Adjustment Lending (OD 8.60; OD 9.10) are expected to be completed in December/91.
August 7	IBRD Negative Pledge Policy with Respect to Debt and Debt Service Reduction	Follow-up Review of the Negative Pledge Policy	Discussion of the waiver is to be included in the Debt and Debt Service Reduction Review scheduled for Board discussion in March, 1992.
July 12 Seminar	PRE Review of Activities	PRE Review Seminar as a Regular Feature	This seminar was delayed as a result of the reorganization and is now included in the long-term schedule for a date to be determined.
August 9	Progress Report on Bank/Fund Collaboration	Suggestion to Extend PFP-type Documents to Non-SAF Eligible Countries	PFPs and Country Assistance Strategy Discussions are being considered by the Ad Hoc Committee on Board Procedures.
Oct. 30	JAC Report on Bank Policies and Practices with Respect to Countries in Arrears	Review of Implementation of New Procedures	This review will be considered by the JAC as part of their FY92 work program.

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
<u>1991</u>			
Jan. 3 (CoW)	Vocational and Technical Education	Comprehensive Sector Report on Education	This report will follow a series of papers on individual aspects of education recently completed or currently under preparation.
Jan. 15 (also Jan. 22)	Annual Report on the Research Program	Review of Periodic Reports Received by the Board	This is being considered by the Ad Hoc Committee on Board Procedures.
Jan. 22	EDs' Work Program	Report on Land Management	A seminar on Land Resources Information Management was held on Nov. 13/91 (SecM91-1379). A revised paper will be prepared.
Jan. 24	Assistance Strategies to Reduce Poverty	(a) Review of Bank's Policy	A progress report will be prepared for Board consideration in late 1992 to take account of the first full fiscal year of policy implementation.
		(b) Informal Board Discussion of the Operational Directive	A seminar on the draft Operational Directive is scheduled for Board discussion on December 13/91.
Feb. 5	Review of Expanded Cofinancing Operations	(a) Early Notification of Cofinancing Projects	The Board will be briefed when projects enter the cofinancing pipeline.
		(b) Program Review	Another review of the cofinancing program will be held in 12 to 18 months from the Board date.
Feb. 19 Executive	Benefits Policy	Review of Expatriate Benefits	Benefits Policy Review - Phase III is scheduled for Board discussion on January 21/92.
March 19	Review of Progress Under the Program to Support Debt and Debt Service Reduction	Three-Year Evaluation of the Program	A Review of the program is scheduled for Board discussion in March/92.

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
March 26	Review of Capital Adequacy	Review of the Standard of Value	This will be undertaken in the latter half of 1992.
April 23 Executive Session	1991 Review of Staff Compensation	(a) Review of Recruitment and Retention	This will be undertaken in the context of the Compensation Review scheduled for April, 1992 and prior discussions with the PPIC.
		(b) Review of Pay Differentiation at Various Entry Level Positions	A review of this issue is underway and will be discussed with the PPIC.
May 2 Executive Session	Additional Support for Workout Program in Countries with Protracted Arrears	Review of the Approach	A review will be undertaken within two years from Board discussion.
June 18	Review of the World Bank Programs and FY92 Budgets	Seminar on the Agriculture Sector	A seminar is included in the Board's long-term schedule for a date to be determined.
June 18	Review of the World Bank Programs and FY92 Budgets	Status of the Work Program and Budget System	As announced in FYI/91/156, dated Oct. 3/91, changes in the budget function are being developed and are expected to be in place for the FY94 budget cycle. An update will be provided to the CEBP.
June 18	Review of World Bank Programs and FY92 Budgets	Seminar on Health Issues in Africa	This is included in the long-term work program for April, undated.
June 20	Private Sector Development	(a) Policy Paper on Privatization	A seminar on the outline for the policy paper was held on Nov. 5/91 (SecM91-1345). Discussion of the paper, "Privatization - Lessons of Experience for Bank Group Lending", is scheduled for March 31/92.

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
		(b) Analytical Paper on Changing the Articles of Agreement	An analytical paper is under preparation which reviews whether changing the Articles of Agreement should be considered to permit direct Bank lending to the private sector without Government guarantee.
		(c) Progress Report on Program Implementation	A full progress report on the PSD Action Plan is expected in the spring of 1993.
July 16 (CoW)	Managing Development - Governance Dimension	Review of Experience	A review is expected to be held in 2 years from the Board date.
July 18	Forest Policy Paper	Extension of Forest Policy to Include IFC and MIGA	IFC issued a memorandum dated September 4/91 entitled "IFC Forestry Projects" (IFC/SecM91-119). A statement on MIGA's forestry policy is currently under preparation.
July 30	EDs' Work Program	Report on Legal Framework to Promote FDI	A progress report will be included as a background paper to the Spring development Committee meetings and will be discussed in a CoW in March, 1992.
Aug. 29	Annual Report on the Environment	Report on Water Resources	A seminar on water resources management is included in the EDs' long-term work program for a date to be determined.
Aug. 29 CoW (IFC)	IFC Purchase of Office Building	Report on Space Requirements for the World Bank Group	A report is scheduled for Board discussion on December 10/91.

PART II – ITEMS OUTSTANDING
(through quarter ending June 30, 1991)

Section B: IFC

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
<u>1990</u>			
Feb. 15 (also March 8 and July 25/89)	Chile: Five Arrows Fund	Report on Negotiations with the Securities Exchange Commission (SEC)	Discussions on the terms for placing securities in the U.S. are ongoing with the SEC. When the negotiations are completed, proposed terms will be submitted to the Board for approval.
May 3	MLF Managed by ABN and Banque Indosuez	Review of the Multicountry Loan Facility (MLF)	A Board review is expected to take place in FY93.
May 31 CoW	Review of Operations in Europe and the Middle East	IFC Experience with BOT Operations	A note on this subject is expected to be issued to the Board for information by the end of December, 1991.
June 20	Investments in Five Zimbabwean Banks	Report on Implementation	Status of this project will be reported to the Board by the end of December, 1991.
Sept. 11 CoW	Development Impact of IFC Operations: 1990	Periodic Follow-Up Reports on Develop- mental Impact of IFC	A Report on the Developmental Impact of IFC Operations is scheduled for Board discussion on February 25/92.
Dec. 11 (also July 25/91)	Future Organization and Program of FIAS	FIAS Liaison with Bank; Organizational Structure of FIAS	A Report to the Board on FIAS is scheduled for Board discussion on January 9/92.

<u>Date</u>	<u>Agenda Item</u>	<u>Subject</u>	<u>Status</u>
March 5	FY92-94 Growth Strategies and FY92 Business Plan	Briefing on Capital Markets Activities in Africa	This will be included in the IFC's Capital Markets Activities briefing scheduled for CoW on January 23/92.
July 25	IFC FY92 Business Plan and Budget	Review of Loan Loss Policy	This will be included in the EDs' Long-term Work Program for calendar year 1992.
July 25	IFC FY92 Business Plan and Budget	Asset Liability Management	This will be included in the EDs' Long-Term Work Program for calendar year 1992.

he World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 21, 1991 08:33am

TO: Johannes Linn

FROM: Sven Sandstrom, EXC

EXT.: 81138

SUBJECT: RE: Lending Allocation and Monitoring

Johannes,

As we discussed last night, the responsibility for the lending allocation review process would be located in FPR. We are working on a "procedures note" which I would like to discuss with you.

Sven

CC: Institutional ISC Files
CC: Jim Dyck
CC: Lorene Yap
CC: Penny Chokechaitanasin
CC: D. Joseph Wood
CC: Fred Kilby
CC: Basil Kavalsky
CC: Ernest Stern
CC: Jack Mossop

(INSTITUTIONAL ISC FILES
(JIM DYCK)
(LORENE YAP)
(PENNY CHOKECHAITANASIN)
(JOE WOOD)
(FRED KILBY)
(BASIL KAVALSKY)
(ERNEST STERN)
(JACK MOSSOP)

Sven
See my note
to them of
last night,
(JOHANNES LINN) I've asked
(SVEN SANDSTROM) you several
times in the
last week
where you
stood on
the LAR
revision as
was told at
time that
you had us
yet had a
chance to
work on it
We need to do
better on
talking about
things to avoid
these problem
LAR it in FPR
is your unit;
but as an
budget
component it
is obvious - as is
the present loca

ne World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 21, 1991 09:43am

TO: Johannes Linn (JOHANNES LINN)
TO: Jack Mossop (JACK MOSSOP)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Lending Allocation and Monitoring

I am baffled by the EMs on the LAR, its staffing requirements, etc. Where did all this get started? And who would conceive of asking FRS to "defend" quarterly lending programs or disbursements? As far as I know, no decisions have been reached on the process; much less on how many positions it would take. Could we suspend this discussion until there is a chance we know what we are talking about?

CC: Jim Dyck (JIM DYCK)
CC: Lorene Yap (LORENE YAP)
CC: Penny Chokechaitanasin (PENNY CHOKECHAITANASIN)
CC: D. Joseph Wood (JOE WOOD)
CC: Fred Kilby (FRED KILBY)
CC: Basil Kavalsky (BASIL KAVALSKY)
CC: Sven Sandstrom (SVEN SANDSTROM)
CC: Institutional ISC Files (INSTITUTIONAL ISC FILES)

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

DATE: November 20, 1991 06:30pm

TO: Jack Mossop (JACK MOSSOP)

FROM: Johannes Linn, CECDR (JOHANNES LINN)

EXT.: 37458

SUBJECT: Lending Allocation and Monitoring

Following your and Jim Dyck's e.m.s earlier today regarding the above topic, I have consulted with my future colleagues in FPR. A concise summary statement of their response is attached.

Based on that assessment my response is as follows:

(i) it is critical for FPR that this function be clearly assigned to one unit, that it be effectively carried out, and that the necessary resources and qualified staff are deployed to carry out that task;

(ii) in principle I would be willing to take on the (narrow) function as defined in the second paragraph of Lorene Yap's e.m. together with the resources also indicated by her as necessary;

(iii) however, I am not in a position to argue that this is the only appropriate place in the Bank for it to be located, although that may well be the case;

(iv) finally, I think it would not be appropriate for FPR to take on the larger job of defending the Bank's lending program and disbursements every quarter to the Board or managing the Business Plan process.

I would appreciate it if you could let me know what is happening on this front as soon as possible, so we can take the necessary steps to evaluate issues and options further, in case we will be asked to take on this new function.

Thank you.

CC: Ernest Stern	(ERNEST STERN)
CC: Sven Sandstrom	(SVEN SANDSTROM)
CC: Basil Kavalsky	(BASIL KAVALSKY)
CC: Fred Kilby	(FRED KILBY)
CC: D. Joseph Wood	(JOE WOOD)
CC: Penny Chokechaitanasin	(PENNY CHOKECHAITANASIN)
CC: Lorene Yap	(LORENE YAP)
CC: Jim Dyck	(JIM DYCK)
CC: Institutional ISC Files	(INSTITUTIONAL ISC FILES)

the World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 20, 1991 06:06pm EST

TO: Johannes Linn (JOHANNES LINN)

FROM: Lorene Yap, FRM (LORENE YAP)

EXT.: 80525

SUBJECT: Lending Allocation and Monitoring

Johannes,

Basil and I think that the lending allocation and monitoring function should be in FPR. Like Fred, we would be happy to take this on. We are already heavily involved in the process on the IDA side, and an important aspect of the lending allocation involves distribution of IDA. Since the work is naturally split between FRM (on IDA) and FRS (on IBRD), the administrative home within FPR is less important than doing the work efficiently in a cooperative manner.

According to our calculations, the lending allocation work is quite intense for six months of the year (July-December), with monitoring and ad hoc analysis taking up part of the remaining six months. To do the job well--part of which is now done by Bob Liebenthal's division (the performance ratings and norms), and part by C. Robless's shop (the lending allocations and monitoring)--we estimate that we would need two additional people: a coordinator who would organize the work and interact with the regions, and an information specialist, who would handle the data needs and should be thoroughly familiar with the MIS system. Manuel Benedito would be excellent as coordinator (he has been doing this ably for a number of years). Charles McCaskill, who has been working with Manuel as the Management Systems Officer, would be superb as the latter. We recommend that you try to get both.

The discussions above, by the way, do not include the jobs of defending our lending and disbursements to the Board every quarter or managing the Business Plan process. It's a bigger job, obviously, if these tasks are included.

Lorene

CC: D. Joseph Wood	(JOE WOOD)
CC: Basil Kavalsky	(BASIL KAVALSKY)
CC: Fred Kilby	(FRED KILBY)
CC: Barbara Oppen	(BARBARA OPPER)
CC: Penny Chokechaitanasin	(PENNY CHOKECHAITANASIN)
CC: Jack Mossop	(JACK MOSSOP)

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

DATE: November 21, 1991 09:51am

TO: Ernest Stern (ERNEST STERN)

FROM: Johannes Linn, CECDR (JOHANNES LINN)

EXT.: 37458

SUBJECT: Lending Allocation etc.

The flurry originated with Jim Dyck's concern over placement of a staff member previously involved in the lending allocation exercise in OPN (see attached e.m.s).

As per Sven's note this morning, we are awaiting his procedures note. In the meantime, I hope the staff placement issue can be dealt with by Jim and Jack in a suitable manner.

CC: Jack Mossop (JACK MOSSOP)
CC: Penny Chokechaitanasin (PENNY CHOKECHAITANASIN)

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

DATE: November 20, 1991 01:54pm EST

TO: Johannes Linn (JOHANNES LINN)

FROM: Jack Mossop, FINPE (JACK MOSSOP)

EXT.: 82630

SUBJECT: Monitoring and Lending Allocation - M. Benedito

Please read attached EM.

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

DATE: November 19, 1991 04:49pm EST

TO: C.L. Robless (C.L. ROBLESS)

FROM: Jim Dyck, OPNSV (JIM DYCK)

EXT.: 82865

SUBJECT: Monitoring and Lending Allocation - M.Benedito

Robbie,

Just to remind you that it would be most helpfull if you could obtain clarification from ORG, CPB or perhaps the MDs on the allocation of this function. FPR seems one logical place (perhaps also CPB) in FRS. Clarification would seriously assist in the placement of Manuel Benedito who could transfer to the new VPU with his function. This needs to be done quickly. Thanks, Jim

CC: David R. Bock	(DAVID BOCK)
CC: Alberto de Capitani	(ALBERTO DE CAPITANI)
CC: Ian Scott	(IAN SCOTT)
CC: Hendrik G. Groen	(HENDRIK G. GROEN)
CC: Lorna Sibblies	(LORNA SIBBLIES)
CC: Jack Mossop	(JACK MOSSOP)

OFFICE MEMORANDUM

DATE: November 20, 1991

TO: Mr. Donald C. Roth

THROUGH: Mr. Kenneth G. Lay *Ken*

FROM: Hans M. Rothenbuhler *MR*

EXT: 80741/2

SUBJECT: ITALY: Proposed Changes in Bond Interest Taxation

Ken

Re 3(a) — I hope that we can make this point more clearly to avoid another situation like the recent Spanish one. While neither we, nor our paying agents, can accept a tax obligation

1. We were informed on Monday by our Italian lawyers (see attached this is not copy of their fax) that some fundamental changes concerning the taxation of interest income on bonds in Italy are being proposed in the draft of the Italian Finance Law for 1992 which is currently under debate in the Italian Parliament. A brief note also appeared in today's Wall Street Journal (copy attached). The changes which, if enacted, would seem most likely to affect the World Bank are: (a) a proposal to eliminate the tax exemption for interest income on Eurobonds of the Italian government (from which derives the tax exempt status of World Bank Eurobonds) for Italian residents; and (b) the proposed extension of the withholding tax generally applicable to interest payments on ITL Eurobonds (at a level reduced from 30% to 12.5%, i.e., the same as that generally applicable to domestic ITL bonds) to accrued interest in secondary market transactions involving such bonds (to prevent coupon washing).

to say that Bank bond income cannot be taxed or that there cannot be other collection channels.

11/21

2. Market operators in Italy already appear to be aware of the possibility of these changes. Of course, it is not certain if and in what form they would be enacted, and it is thus not yet clear what their precise impact would be, if the law is passed in its current version. Generally, the Italian legislative process is fairly unpredictable. However, I think in this case that some measure affecting us may well be the end result, given the apparently advanced stage of the proposed legislation in an environment that is marked by (i) a general perception of an urgent need to reform Italian public finances, and (ii) a litany of calls for fiscal restraint by Italy's EC partners, the IMF, the OECD, market commentators, etc.

3. At this time, I propose the following course of action: I would want to call Mr. Conforti at the Banca d'Italia (who, last week when we spoke with him, did not say anything about this matter) to find out what the

authorities' plans are at this stage. We do not even know, for example, whether these tax changes in the draft bill approved by the Italian Senate - but not yet the Chamber of Deputies - were proposed by the government or if they are the result of a Parliamentary initiative. In talking to Mr. Conforti, I would also stress, in a preliminary way, the following two general principles:

- (a) Of course, the Italian authorities are entirely free to provide for the taxation of interest income on World Bank bonds (as long as the tax regime is not discriminatory). However, the Articles prohibit the imposition of a tax withholding obligation on us (and, by extension, on our paying agents). If such withholding is envisaged in the new legislation, then we would have to resume our argument with the Italian authorities on this point, which we have left in abeyance during the last few years when we had excellent access to Italian lira borrowings through the Euro markets which avoided the withholding tax problem.
- (b) We should tell the authorities that we expect any new tax regime (whether it be the principle of taxation of interest, per se, on Italian government Eurobonds and those benefitting from the same status, or a withholding requirement to secure collection of such taxes) would be applicable only to bonds issued after the effective date of the new Finance Law. Otherwise, in the absence of such grandfathering, there could be a risk of substantial disruption and dislocation of the Italian lira capital markets, not just as far as our own bonds are concerned, but generally: numerous investors, both residents and non-residents, have been active in this market; their confidence could be badly shaken if they get the impression that the Italian authorities would feel free to change the tax regime governing such investments retroactively for bonds already issued. (A quick preliminary review indicates that on the quite frequent past occasions when the Italian authorities changed the tax regime on interest income on bonds, they generally seem to have applied the new fiscal rules only to bonds issued after the effective date of the tax law changes. However, I vaguely remember at least one instance where such a change was initially meant to cover also future interest payments on seasoned bonds; the change was only made non-retroactive after intense lobbying by us.)

4. After my call to Mr. Conforti and subject to whatever we learn about the situation in that connection, you should probably follow up with calls to Messrs. Draghi at the Treasury and Saccomanni at the Bank of Italy.

5. At this stage, I think we should not raise the subject of the proposed changes on our own initiative with underwriters. Some of the Italian intermediaries have alerted us in the meantime; our general line has been that we are looking into this matter, but that it is not yet clear what will be the outcome of the legislative process and the precise impact of the proposal currently on the table. The same reply should be given to any inquiries from other institutions. For the time being we do not plan to execute further MTN transactions.

6. I understand that a meeting among Italian banks, the Italian Treasury and the Bank of Italy to clarify the situation is scheduled for tomorrow.

Attachment

HMRothenbuhler:mc

cc: Messrs./Mmes. Stern, Koch-Weser, Einhorn, Wright, Baz, White, van Opstal
FOD Chiefs
FODG1 H/L

cc: KL
— JE PS
TP AM
JB

CHIOMENTI E ASSOCIATI
Studio Legale
Via Giulini n. 3
20123 MILANO

Tel. : 720.23.180

Fax: 87.81.92

FAXTRANSMISSION

Date: 18.11.1991 Total pages (including this page)

2

To : WORLD BANK - International Bank for
Reconstruction and Development

Attn. : Mr. Van Opstal

From : Renato PATERNOLLO

If you do not receive all the pages please telephone or
telex our Milan office immediately.

M E S S A G E

Dear Mr. Van Opstal,

Proposed amendments in Italian Tax laws

this is to inform you of certain proposed amendments of
Italian tax laws which could affect the treatment applicable
in Italy to bonds issued by World Bank. The Italian
Parliament is examining the "legge finanziaria 1992" (i.e.
the law which will define the budget for State financial
entries and expenses for the 1992). Such law will also
include certain amendments to the current treatment of bonds
issued by non Italian residents. In particular, it seems
that last saturday the Senate has already approved certain
provisions of the "legge finanziaria" whereby:

1. the withholding tax applicable to interest on foreign
bonds will be reduced from the present rate of 30% to a
lower rate of 12,5%;
2. the 12,5% withholding tax on foreign bonds should
somehow be levied also in the transfers of such bonds which
take place before the actual payment of the coupon;
3. interest on bonds issued abroad by the Republic of

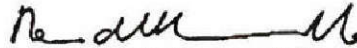
Italy will be exempted from Italian taxes provided that such interest are paid to non Italian residents.

The above mentioned provisions of law are aimed to stop the "coupon washing" practice, which currently takes place through "repos" transactions whereby the spot and forward transactions take place before the payment of the coupon on the underlying bonds. Moreover, these provisions of law will introduce for foreign bonds a régime similar to that applicable to Italian bonds (i.e. withholding tax equal to 12,5% and no practical room for "coupon washing" practices). In particular, the amendment to the tax régime applicable to Italian treasury bonds issued abroad could affect also the treatment of the bonds issued by supranational entities such as World Bank, which for Italian purposes qualify as bonds "equalized" to Italian treasury bonds and are subject to the same régime.

As the Senate has not yet approved in full the "legge finanziaria", the above mentioned provisions are not yet officially available, and the information I am giving you are for the time being only based upon articles appeared on Italian financial newspapers. I will revert to you as soon as possible once the Senate has approved in full the "legge finanziaria" and an official version of such bill of law will be available.

Please note that the "legge finanziaria" and related tax provisions will enter into force only after the approval by the Chamber of Deputies, i.e. the other branch of Italian Parliament. However, it is likely that after the complete approval of the Senate (which is expected for the next days), the Chamber of Deputies should approve the "legge finanziaria" shortly.

Best regards.


Renato Paternollo

ITALY MAY CHANGE A TAX RULE

A last-minute amendment in the Italian budget bill for 1992, approved late Monday by the Senate, could create major changes in the Eurobond market for Italian public borrowers, bankers said. The amendment calls for taxation of interest earnings by Italian residents on Eurobonds issued by the Italian Treasury and Treasury-guaranteed entities, such as the national railroads and an electric utility. Currently, such Eurobond issues are exempt from a 12.5% withholding tax. The 1992 budget law still needs to be approved by the Chamber of Deputies.

OFFICE MEMORANDUM

Mr. Moeen

TE: November 15, 1991

TO: Mr. Moeen A. Qureshi
Mr. Ibrahim F.I. Shihata

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: HAITI: Proposal to Suspend Disbursements

Sven
What happened
to this? Was it
approved? How is
this different
from Yugoslavia?

1. The recent change in Government in Haiti entailing considerable loss of life and resulting in considerable economic and political uncertainty has evoked a strong negative response from the international community, including multilateral and bilateral donors. This has led to the institution of a trade embargo, the freezing of Haitian assets abroad, the suspension of bilateral and multilateral aid program, and the widespread withdrawal of donor-financed consultants as explained in the attached memorandum of Mr. Abe.

2. We believe that under the current conditions, IDA-supported projects in Haiti can neither be properly implemented nor their objectives attained. We are, therefore, proposing to formally suspend all outstanding Credits and PPFs to Haiti effective November 19, 1991, until the conditions stipulated in the attached draft telex of suspension have been met.

Attachment - Memo and draft Telex of Suspension.

ENNjomo:po

en\suspl.men

(S)
11/21

L L - I N - 1 N O T E

DATE: 21-Nov-1991 09:35am

TO: Basil Kavalsky (BASIL KAVALSKY)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: RE: Discussions with EDs on the India Redeployment

I do not understand your question. We agreed on a list of assignments ten days ago by phone. Your picks included Le Boudier, Naim, Herfkens and Snoy. You accepted Bonavoglia for Wood. I would appreciate it if you would complete the list (and not by phone).



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/21/1991	Document Type Note			
Correspondents / Participants From: Ernest Stern To: Basil Kavalsky				
Subject / Title Re: Discussions with EDs on India Redeployment				
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

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

ERNEST STERN
Senior Vice President
Finance

November 22, 1991

Mr. Rajagopalan

Raj -

As you know, the Technical Assistance Review Task Force has completed its report. A copy of the final version is attached. The Report emphasizes that Technical Assistance has become a major business for the Bank and that we need to apply to it the same kind of analytical rigor and managerial attention which we devote to lending work.

The Task Force has made a number of recommendations to achieve this objective. We would like you to take responsibility for designing an action program to implement these recommendations in time for it to be taken into account in the budget formulation process. You should do so in close consultation with affected units.

Your Vice Presidency will have the oversight and monitoring role with respect to the internal management recommendations. In consultation with External Affairs and the Resource Mobilization Department, you should also take the lead in reviewing the principles of Bank/UNDP collaboration, jointly with the UNDP. This should lead to intensified cooperation with respect to the assessment of technical assistance needs and capacity building work, particularly in the low-income member countries.

The Task Force also has recommended that we establish an Institutional Development Fund to provide small technical assistance grants to low income and middle income member countries. You, together with CPBVP, should design effective modalities for the use of this Fund. While approval authority should be with the RVPs, based on proposals to be included in the annual business plans for review, it may be that a more central review process is desirable the first year both to establish a common interpretation of the criteria and because proposals can no longer be incorporated in FY93 business plans.

The Cost Effectiveness and Budget Practices Committee will be considering the Task Force report in December. We will take these deliberations into account, but I believe that there is sufficient agreement on the recommendations to improve Technical Assistance management for work on the action plan to be started so that the recommendations of the Task Force report can be implemented promptly. Accordingly, a draft of the action program should be ready by the end of January.



Cleared with and cc: Mr. Sandstrom

cc: Mr. Picciotto

International Bank for Reconstruction and Development

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AUG 04 2025

COMMITTEE ON COST EFFECTIVENESS AND BUDGET PRACTICES

WBG ARCHIVES

CEBP91-10

FROM: The Secretary, Committee on Cost
Effectiveness and Budget Practices

November 13, 1991

MANAGING TECHNICAL ASSISTANCE IN THE 1990s

Please find attached the report of the Technical Assistance Task Force entitled "Managing Technical Assistance in the 1990s." This paper will be considered at a forthcoming meeting of the Committee.

Distribution:

Committee

Mr. Baijal
Mr. Benhocine
Mr. Cosgrove
Mr. Fischer
Mr. Le Boudier
Mr. Magnussen
Mr. Shiratori
Mr. Wang

For Information

Other Executive Directors and
Alternates
President
Senior Vice Presidents
Vice President and General Counsel
Vice President, Corporate Planning
and Budgeting
Vice President, Personnel and
Administration
Director, Planning and Budgeting
Department



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/11/1991	Document Type Letter			
Correspondents / Participants From: Lewis T. Preston To: Jagdish S. Baijal				
Subject / Title [Bankwide Technical Assistance Review Task Force completed its work]				
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

November 22, 1991

Mr. Churchill

Tony -

Many thanks for your help with the seminar. It ended, as most things do these days, with a focus on the U.S.S.R. All the oil people are raring to go; the economists say there will be two years of chaos, so wait.

The BP pamphlets are attached.

A handwritten signature in dark ink, appearing to be 'E. Stern', is located to the right of the typed text.

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 22, 1991

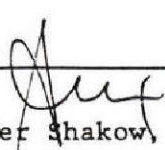
Mr. Sri-ram Aiyer

Katherine Burr from Hanseatic Group, Inc. in Albuquerque, N.M. (505-262-1981) called to discuss the structure of some of the Bank's loans to Latin America. Her company is trying to hedge the borrowers' risk and needs some background information on the loans.

I gave her your name and number and would appreciate if you would take a few minutes to discuss the issue with her.



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

ROUTING SLIP		DATE: November 14, 1991	
NAME		ROOM NO.	
Messrs. Ernest Stern, FINSVP		E-1227	
Larry Summers, DECVF		S-9035	
Sven Sandstrom, EXC		E-1227	
D.C. Rao, IECDR		S-8055	
Basil Kavalsky, FRM		D-7007	
Peter Mountfield, VPODC		A-12-100	
URGENT		PER YOUR REQUEST	
FOR COMMENT		PER OUR CONVERSATION	
FOR ACTION		SEE MY EMAIL	
FOR APPROVAL/CLEARANCE		FOR INFORMATION	
FOR SIGNATURE		LET'S DISCUSS	
NOTE AND CIRCULATE		NOTE AND RETURN	
RE: Secretary-General's Statement to the Gen. Assembly			
REMARKS:			
Yesterday I sent to you Wadi Haddad's report on the UN Secretary-General's statement to the General Assembly on the proposed international conference on financing of development. Attached is the Secretary-General's full statement. Our position, as enunciated in Mr. Preston's recent letter to the Secretary-General is to be cooperative if the General Assembly approves the proposal--now much watered-down and delayed.			
FROM:  Alexander Shakow, EXTDR		ROOM NO.: T-8011	EXTENSION: 31828

Alex -

Of course we should be "cooperative", as always, but I also think we ought to stay as far away from this as possible.

I don't think we are much helped by being included in a plan for funds with IFAD and UN agencies. Nor do I think the argument that a 1-2% in the interest rate is a global disaster will cut much ice. As to protection, the UN meeting cannot do what GATT has failed to. So, I hope we keep our statements brief, provide statistical data, stay out of the im-

and avoid ownership of gap

NOTE BY THE SECRETARY-GENERAL

Peace, Security, Growth and Development:
The Global Need for Capital

Under its Charter, the United Nations has been entrusted with the responsibility to promote social progress and better standards of living in larger freedom. The work of the United Nations in the economic and social fields, as envisioned in the Charter, cannot be separated from the tasks of the Organization in the domain of peace and security, as underscored in recent years by the emergence of a host of global problems. It has become clear that a viable system of collective security cannot be constructed without a sustained improvement in the human condition.

Recent intergovernmental deliberations have emphasized the need to revitalize growth and development and have noted that adequate levels of development finance --both concessional and non-concessional-- are crucial elements to achieve this. The Declaration of the General Assembly at its Eighteenth Special Session and the International Development Strategy for the Fourth United Nations Development Decade also emphasized this need.

Since the early 1970s, negative external shocks and inadequate domestic policies have produced an economic environment unconducive to capital formation and development in many countries. The deterioration in economic and human

conditions in many developing countries have led to war, poverty, health and ecological problems, and the number of refugees and displaced persons has reached overwhelming dimensions. Over one billion people now live in absolute poverty in the developing world. About thirty million Africans risk malnutrition and starvation from the famine spreading across Africa.^{1/} The needs of a significant number of countries have become larger, not smaller.

During the past two years the world has witnessed dramatic political and economic changes. The pressing need to modernize the economies of central and eastern Europe, the continuing large requirements of the developing countries, in particular of those dependent on multilateral lending institutions, and the imperative to ensure the survival of our habitat are generating a rapidly increasing demand for financial resources on a global scale. Countries that in the not too distant past were large creditors are now in need of capital. Germany, which before unification was a large capital exporter, is now also involved in financing the economic transformation in Eastern Europe. It has been estimated that the cost of modernizing eastern Germany alone could exceed \$300 billion and that the cost of rebuilding Eastern Europe could reach \$2 trillion over the next decade. Saudi

1/ Food and Agriculture Organization, "Food supply situation and crop prospects in Sub-Saharan Africa", Special report, No. 2 (June 1991).

Arabia and Kuwait, two large capital exporters before the Persian Gulf war, now have substantially increased financial requirements and are resorting to borrowing on the capital markets.

The new and expanded requirements for capital could affect the developing countries in a particularly acute manner since their relative position in the world economy has been deteriorating for some time. World trade has been growing faster than exports and imports of these countries. While foreign direct investment has quadrupled in the 1980s the share of the developing countries has decreased sharply. Private bank lending to the highly indebted countries practically stopped at the beginning of the debt crisis in 1982. For almost a decade now the indebted countries as a whole have been transformed into capital exporters. A net inflow of resources to the fifteen largest indebted countries amounting to \$20 billion in 1981 was converted into an outflow of \$24 billion in 1983 and followed by large outflows throughout the 1983-90 period. This has obviously imposed major adjustment in these countries. The accumulated effect has been an ex ante imbalance between savings and investment, that is, a large excess demand for capital.

As a result, the IMF has estimated that the additional demand for savings might well exceed \$100 billion in 1991 and thereafter. Unless far reaching measures are rapidly implemented, the imbalance will be corrected ex post by an

increase in the rate of interest. Higher interest rates would reduce investment and growth everywhere and have a devastating effect on the large number of indebted countries of Latin America, Africa and Eastern Europe.

The real challenge ahead is to agree on a strategy to correct the ex ante imbalance between savings and investment and thus allow all countries to carry out and attract the investment necessary to grow, improve the social wellbeing of their citizens and consolidate pluralistic political systems.

Experience indicates that both developed and developing countries have had limited success with supply side measures to increase their savings rate. Given that the supply of savings is rather inelastic, that commercial lending to developing countries is limited to a few countries, that this is also true for direct foreign investment, and that domestic investment and multilateral finance continue to be insufficient, there is a need to identify sources through which the necessary funds can be made available to finance the vastly larger growth and development needs of the world economy.

A positive transformation of the world economy requires a concomitant strengthening of multilateral financial institutions. A very significant increase in the financial resources of the IMF, the World Bank, IFAD, the regional development banks and the

development funds and agencies of the United Nations is crucial if these institutions are to effectively support structural adjustment, fight poverty, continue to provide concessional assistance to low-income countries, provide financial resources for physical and institutional infrastructure and for debt and debt-service reduction schemes in the developing and central and eastern European countries. Such a strengthening would also facilitate the renewal of private lending to and investment in developing countries and those in transition to market economies.

If growth and development are to be the first priority for the 1990's, and massive migratory movements are to be avoided, expenditures need to be reorganized in such a way that funds are made available to pursue these goals. Changes in ideology and economic thinking now provide further opportunities to reallocate expenditure from one use to another, thus ensuring that total demand for capital --and hence interest rates-- would not be affected.

There are two areas that lend themselves readily to freeing resources for more productive use. First, both developed and developing countries could reduce more significantly and more rapidly their military expenditures to release funds for civilian development purposes. It has been estimated that the confrontation between NATO and the Warsaw Pact led, in Europe alone, to annual outlays of \$500 to \$600 billion in armaments and

total expenditure on defense continues to exceed double that amount in developed countries. The developing countries themselves spend close to \$200 billion a year in arms and other military expenditures. Total military expenditures absorbed 5 per cent of world resources annually from 1972 to 1988. During this period military expenditure accounted for about 5.5 per cent of developing countries' combined GDP and 20 per cent of central government expenditure.^{2/} This amount is of a similar order of magnitude to that of their total expenditure for health and education. The military expenditure of these countries has quintupled in constant dollars between 1960 and 1988, increasing at a rate twice that of income per capita.^{3/}

Second, countries could decrease the amount they spend on protectionist measures. Both developed and developing countries spend an unwarranted amount of resources on account of protectionism and this --in addition to the fiscal expense-- creates distortions that lower the level of production, thus leaving less resources available for development purposes. The OECD annual report on agriculture states that the total cost of

^{2/} Hewitt, D.P., "Military expenditure: international comparison of trends", IMF Working Paper, WP/91/54 (May 1991).

^{3/} Ruth Leger Sivard, **World Military and Social Expenditures: 1989** (Washington D.C.: World Priorities, 1989). Cited in McNamara, R.S., "The post-cold war world and its implications for military expenditures in the developing countries", Address to the World Bank Annual Conference on Development Economics (Washington, D.C., 25 April 1991).

supporting agriculture in the OECD's 24 member countries has climbed by 12 per cent to \$300 billion in 1990. Consumers bear part of the cost by paying higher prices for agricultural products and also as taxpayers. If the burden of subsidies decreased, more resources would be available for investment and producers would be forced to become more efficient. In addition to the direct effect of reducing the fiscal burden of subsidies, a decrease in these payments would enable developing countries to increase their export earnings, eliminating distortions and promoting growth.

It was with these problems and ideas in mind - and the complexity of issues involved in analyzing them - that the Secretary-General of the United Nations proposed at the second regular session of the Economic and Social Council that the international community consider the convening of an international conference on the financing of development in order to develop a coherent and agreed strategy to do so. Such a conference could initiate its work in the fall of 1992, after the conclusion of UNCTAD VIII and UNCED. It is suggested that the World Bank and the International Monetary Fund be closely associated with its work.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

*Me
ECOSOC*

DATE: November 12, 1991

TO: Mr. Alexander Shakow, EXTDR

FROM: Wadi D. Haddad, Special Representative to the United Nations

EXTENSION: 72265

SUBJECT: Developments Regarding the International Conference on the Financing of Development

1. You recall that the Secretary-General of the UN made a proposal to ECOSOC on July 3, 1991 that consideration be given to the convening of an international conference on development financing - (ICDF). The Council, on July 26, 1991 decided to refer the matter to the General Assembly at its 46th Session this year.

2. Ever since, there has been wide debate on the subject. Two major countries opposed the ICDF. Japan considered that the subject is well covered by the Development Committee and ECOSOC and will be discussed at the upcoming UNCTAD VIII, where ways and means of improving the situation will be explored. Similarly the USA called upon delegations to reflect upon the ongoing work of the international financial institutions and their strategies and the deliberations of the Development Committee "before moving too hastily to approving another costly and possibly inappropriate conference."

3. The Group of 77 started having misgivings about the preparedness of the UN for the ICDF and the competition for resources it will generate with UNCED. Consequently, the G.77 introduced a draft resolution postponing the consideration of the ICDF to the 47th Session of the General Assembly next year. The draft resolution states:

"The General Assembly

Taking note with interest of the note of the Secretary-General on the convening of an international conference on development financing,

1. Decides to consider at its forty-seventh session further steps for the convening of such an International conference;

2. Decides to include in the provisional agenda of its forty-seventh session an item entitled "International conference on the financing of development".

4. The Secretary-General addressed the Second Committee yesterday, November 11, 1991 and after reiterating the need for the ICDF proposed a process to advance the dialogue on the subject. Specifically he suggested that "it would be useful if the United Nations could, together with the International Monetary Fund and the World Bank, prepare a draft annotated agenda for the conference, which could be submitted to the Economic and Social Council at its next regular session."

Mr. Alexander Shakow

November 12, 1991

5. The Secretary-General emphasized in his statement that he attaches the highest importance to working closely with the Bank and the IMF in this proposed endeavor. He went on to state: "I have shared my ideas on the subject with the President of the World Bank, Mr. L. Preston and the Managing Director of the IMF, Mr. M. Camdessus. Their positive and constructive response is most encouraging."

6. If the Secretary-General's above proposal is discussed in the Second Committee or informally, I propose to make a statement expressing the Bank's willingness to participate in the process, if the proposal is endorsed by the General Assembly. What do you think?

*/yes, as per
letter to
S-G indicated*

cc: Mr. Lateef (EXTIE)

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

DATE: November 13, 1991 08:12am

TO: Wadi Haddad (WADI HADDAD)

FROM: Alexander Shakow, EXTDR (ALEXANDER SHAKOW)

EXT.: 31828

SUBJECT: UN Sec Gen on the Int'l Financing of Development Conference

Re the inter'l conference on financing as noted in your memo of Nov. 12, I think your last para is correct, as long as it follows the tone and substance of the brief letter we sent the SecGen last month. Please keep in touch with the Fund as we want to be sure to continue to send the same signal. By the way, the person in Blanca's office I sat next to at the poverty seminar lunch Monday and who is working on this topic is Graciana del Castillo, Special Assistant to the Assistant Secretary-General.

CC: Julianne Turner (JULIANNE TURNER)
CC: Esia Blackman (ESIA BLACKMAN)
CC: Callie Boucher (CALLIE BOUCHER)
CC: Sarwar Lateef (SARWAR LATEEF)

11/54
11/20/91

11.20.91

~~TO~~

TO: Mr. Ernest Stern, FINSV

FROM: Nestor V. Santiago, PENAD

Nestor

SUBJECT: Reappointment of Bevis Longstreth to the PFC

The two-year appointment of Bevis expires this December. Would you want me to ask him if he would be prepared to serve for another two years?

how about 3.

*yes - OK.
But we will
not exceed
two
appointments.
[Signature]
11/23/91*

International Development Association
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DECLASSIFIED

AUG 04 2025

WBG ARCHIVES

FROM: Vice President and Secretary

→ SS
Did you get any
response to
your note?
IDB/SecM91-422
November 22, 1991
difference
with Yugo?
E
11/23

Suspension of Disbursements

Haiti

Pursuant to the provisions of Section 6.02 of the General Conditions and based on the breach of existing agreements, the Association has suspended, effective November 19, 1991, Haiti's rights to make withdrawals from all outstanding Development Credits to Haiti.

Distribution:

Executive Directors and Alternates

President

President's Council

Vice Presidents, Bank, IFC and MIGA

Directors and Department Heads, Bank, IFC and MIGA

The World Bank

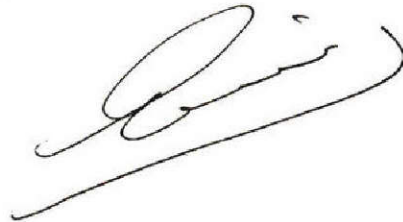
ERNEST STERN
Senior Vice President
Finance

November 25, 1991

Mr. Rischard

Jean-Francois -

You had asked some time ago that I revise the May 1991 PPR statement. I never fully understood what was troubling about it. However, after consulting with Jack, I have prepared a new section to replace the last para. I will be glad to discuss this further if you wish, or if you agree with it, have this substitute for the original.

A handwritten signature in black ink, appearing to be 'E. Stern', written in a cursive style with a long horizontal stroke at the bottom.



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/25/1991	Document Type Letter			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Rischard				
Subject / Title [Rischard 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			

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

DATE: November 25, 1991 06:02pm

TO: Bilsel Alisbah (BILSEL ALISBAH)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Task Force on Women

You will have seen the Madavo/Nishimizu note on salary for the Task Force on Women. I would appreciate it if we could get from PER a statement defining the existing 18-21 group, including:

- o Which career streams are included in the 18-21 group.,
- o Which career streams explicitly end at or below 21.,
- o Are there any career streams in the 18-21 group which actually top at 22? If so, which?,

This subject is generating a lot of confusion which, if I have it right, permeates the text. Of course, I may not have it right. But a common factual base on this issue for the Advisory Group would be most helpful.

Do you think somebody could put that together by December 3?

CC: Katharine Tyler (KATHARINE TYLER)

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/25,

Lew -

A bit of unfinished business and a bit silly at this stage. Still, an answer would be useful to calm the pressure on the budgeters. The attached can be put in final if you have no language changes.

Ernie

DRAFT

Mr. Qureshi

Moeen -

Thank you for your note of November 14 regarding contingency claims.

I agree that start-up activities in the Baltic States and intensification of our work in the Middle East will require supplemental allocations. The proposals for setting up field offices are under review.

The ^{\$}0.8 million still available in your contingency will be released to finance the start-up activities in the Baltics, based on the staffing agreed with the Region. The amounts involved for the Middle East are being reviewed by PBD and funds will be made available when a work program is fully costed with the new regional team.

The other claims you have listed cannot be validated by PBD as incremental to the budget proposals approved by the Board. They will be reviewed in the context of the midyear review.

Lewis T. Preston

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

DATE: 25-Nov-1991 06:05pm

TO: Nestor V. Santiago

(NESTOR V. SANTIAGO)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Your Third Quarter Note

I assume that the reference to underweighting USCS for the assets you manage (2.04) and overweighting the NUSCS (2.07) is done within the same Equity/Fixed Income framework as the SRP. Is that correct?

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 25, 1991

Mr. Naim

Moises -

Mr. Preston's note of November 14 on Board Procedures, after your meeting, indicated a few points of potential concern. We (Mr. Preston and the MDs) have discussed the proposed system further in order to provide some specific suggestions. These are set out in the attached note which Mr. Preston asked that I send to you as background for your meeting on Tuesday.

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

Board Procedures

Sector Policies (Paras 8 & 9)

We agree with the need to review our sector and other policies on a regular basis. However, to put all policies on an automatic 3-year cycle for review may be too mechanical and lead to unnecessary discussion in the Board and work for the staff. We, therefore, suggest instead that we prepare an inventory of existing policies by sector and submit a schedule of proposed reviews at the beginning of each fiscal year for consideration by the Steering Committee. We would include our recommendations as to whether the existing sector policy is still relevant or whether changed circumstances justify considering a different approach.

Other Policy Reviews (Paras 10 & 11)

These paragraphs cover three categories of papers.

We agree with the proposal for papers with no policy recommendations. However, we suggest that the Committee explicitly recommend the minimum number of Executive Directors required before a discussion is scheduled. The credibility of the process will be undermined if a request from a single director is sufficient to schedule the paper for discussion.

The distinction between the other two categories of papers, based on difficulty or contentiousness, is not workable. Moreover, management's responsibility to the Board is to set forth specific recommendations and proposals; not to list options for general debate.

However, there are many areas in which management and staff would benefit from an early exchange with the Executive Directors on sectoral and other policies under review. We suggest that when a policy paper is proposed to the Steering Committee to be added to the Long-Term Schedule, management should, at the same time, indicate whether an outline or approach paper will be prepared for an informal discussion in a seminar or the Committee of the Whole. This will provide adequate opportunity for the Executive Directors to participate in the early stage of policy review. There also are policy papers on which an issue or approach paper would not be appropriate, particularly in finance and personnel. Examples are papers on net income allocation, provisioning, borrowing or investment policies and compensation. However, for these subjects, opportunities for early participation are available through the discussions in the JAC or other committees.

External Environment

We understand the desire to cover the impact of the policies of OECD countries on Bank's borrowers and believe the subject can be handled without undue additional staff work. However, we recommend that the duplication in paras 17, 18, and 24 be eliminated. Management provides annual country briefs. Country Strategy discussions will be held in the Board regularly if the Committee's recommendations are adapted. These discussions often will be linked to the consideration of structural adjustment or sectoral adjustment loans. Since the external environment is unlikely to change rapidly, and since we wish to avoid making the material routine, the coverage and discussion of the external environment should be limited to one of these occasions. We would suggest the most appropriate place is the country strategy. If you agree, paras 17 and 18 should be amended.

There is one other point. We believe that para 28 goes too far in eliminating projects from normal scheduling for Board discussion. The Bank is a major investment lending institution, and we would be giving the wrong signals to our shareholders, the financial community and the public at large by deciding that our Executive Directors do not have the time to review a reasonable sample of the Bank's basic product. Moreover, the Board of Directors decides the Bank's policies. These policies must be based on the practical experience which the Bank gains through its lending operation. To let this experience become simply a matter of voluntary reading, unlikely to be done personally by most Executive Directors, may well reduce the Board's ability to be effective in its policy function. Although provision is made for loans to be scheduled for discussion at the request of an Executive Director, it is quite likely that, under pressure of time and peers, this will be exercised only in cases where there are objections to the operation. Requesting a postponement will become an exception event with the political overtones associated with requests for postponement today. We, therefore, believe that it is desirable to consider, as an alternative, raising further the "special procedures" limits so that we can retain, for automatic Board discussion, a reasonable selection of investment operations, diversified by sector and borrower.

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

DATE: 26-Nov-1991 11:48am

TO: D. Joseph Wood

(JOE WOOD)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Bank and IDA Lending Figures

May I take it that the Bank and IDA lending figures shown in Moeen's memo of September 27 are okay with you? If any country differences remained, would you have someone let me know?

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

DATE: 21-Nov-1991 08:57pm

Forced 11/22 630pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Robert Picciotto, CPBVP

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: CPBVP Business Planning

This is to seek your agreement regarding the processing of the IAD and PBD Business Plans.

IAD

Since my administrative oversight role vis a vis IAD will cease as of December 1, I propose to forward the draft business plan prepared by Allan Legg to Steve Eccles for appropriate disposition. *OK*

This will provide Steve with an excellent opportunity to address issues of IAD work programming and priority setting in the context of the new structure and in conjunction with the other activities of the Controller's Vice Presidency.

Allan suggests that formal review of the Business Plan by the President ought to be postponed to give IAD a chance to modify the draft in the light of the ORG study and to take account of IAD's review of Units' business plans. I agree that a postponement of the Presidential review to January would make good sense. *OK*

I have comments on the draft which I will forward to Steve.

PBD

I will also forward a draft of the PBD Business Plan to Steve. Here the situation is complicated by the ongoing review of budget simplification, the uncertainty surrounding OPNIS and the need to assess budget staffing and organization Bankwide. While it is good form to have PBD practice what it preaches, the "normal" processing of its business plan in this period of transition would probably be of limited value. Instead, I would suggest that we arrange, at a mutually convenient time, for detailed briefings which would expose Steve to PBD work program prospects and issues and to leave the formal Presidential review of PBD's business plan to the FY93 Budget construction stage, i.e. after we have a clear picture of PBD's future role in the streamlined structure. *OK*

Please confirm that you agree with this approach.

ES
11/26/91

CC: Stephen Eccles

(STEPHEN ECCLES)

The World Bank

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



11/66
11/26/91

With the compliments of
V. S. Raghavan
Director
Loan Department

November 26, 1991

Mr. E. Stern

426

Raghu -

Thanks. This is very
thorough and efficient
follow-up. Let me know
how we come out on
reversal. 

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 27, 1991

Mr. David Smick
Interim Editor
The International Economy
Suite 901
1133 Connecticut Ave., N.W.
Washington, D.C. 20036

Dear David,

As a member of your Editorial Advisory Board, I have not been unduly burdened with responsibilities nor have I bothered you much, either. However, there were two things in the November/December issue which attracted my attention, and on which I want to share my concerns with you.

First, the box "Kudos for International Economy" does not strike me as a very good idea. The impression it gives is the opposite of the one intended because it raises the suspicion that these accolades are not spontaneous, or are not representative of all comments. That may be unfair, but in a magazine of this quality, aimed at an intelligent audience, the box seems unnecessary.

The second, as you may imagine, is the one page commentary by Richard Feinberg. It is an unfortunate commentary on the level of interest in development issues in Washington that he has become the equivalent of Bob Hormats on development. I did not understand the title of the article. It seems to relate to the few press comments which called Mr. Preston "decisive". Anyone who knows Lew from his days at Morgan knows he is decisive. The sub-head refers to "maneuverings in the Bank", but as the article points out, all that was done was to remove one layer of management and expand the capacity of the Office of the President. This structure is common, as you know, in many corporations; it is alien to the more hierarchal governmental structures in Washington. But that does not make it irrelevant.

The article misses the fundamental points of the change and seems to cast the whole, in terms of the typical Washington gamesmanship of who stabbed whom. This is best exemplified by the truly nonsensical comment that I have ready access to Lew Preston. I have been in the Bank for some 20 years, and I have always had ready access to the Presidents. As does any other senior manager. The comment that Lew has ready access to me is so far beyond the bounds of common sense that it would not be worth commenting on, except to note that it is an example of the pervasive snippiness of the article.

This negative tone runs throughout. For instance, it is said that Mr. Preston "blithely admits his ignorance of the development business". I do not know in what mode he should have admitted this, but since his career at Morgan is well known, he could hardly want to pass himself off as a development expert. As far as I know, none of the Presidents of the World Bank had knowledge of the "development business" when they were appointed.

As a back-handed compliment, the article allows that Lew recognizes the importance of the Soviet Union---as if any one could not. But to make sure this is not seen as an achievement, success for the President is defined as "keeping the peace among his major shareholders." That is quite a test for the President of any international institution.

The basic point I want to make is that I do not believe that this essentially gossip-mongering type of article helps the reputation of the magazine, whose objective it is to present thoughtful material on significant issues.

This letter is, of course, intended only for your private information.

Best regards.

Sincerely,

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

Ernest Stern

The World Bank

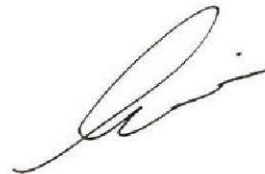
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

November 27, 1991

Mr. Preston
Mr. Karaosmanoglu
Mr. Sandstrom

This is just to let you know that I have asked Mr. Kavalsky, Director, Resource Mobilization Department, to expand the analysis on commitment level, which he had started in the context of reviewing our capital adequacy. He will organize a small group to draw on the experience of Operations and DEC. I have indicated that, should it be necessary, and since the FRS budget is small, we would provide modest additional resources for hiring a junior researcher to handle the statistical work. Mr. Linn will, of course, supervise the study.

A handwritten signature in dark ink, appearing to be 'R. Linn', is located in the lower right quadrant of the page.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 27, 1991

Ms. Uma Lele
Director of International Studies
and Graduate Research Professor
University of Florida
Office of International Studies and Programs
123 Tigert Hall
Gainesville, Florida 3261-2073

Dear Uma,

Thank you very much for your note which cheered me up immensely.

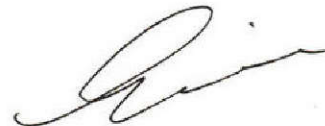
Since you wrote, of course, the new responsibilities have been more clearly identified, and I think there is considerable enthusiasm among staff and managers at the effort to reduce management layers and bureaucracy. The trick, of course, will be to continue down this road while, at the same time, trying to make sure that institutional objectives are accepted by individual units and incorporated in their work. This will require a change in Bank mentality, which will only come gradually.

I agree with you that we need to take a closer look at our style and scope of analysis and the nature of our lending operations. These are complex problems which we have started to address very tentatively and they will keep us occupied in the coming year. I would be delighted if you would share some of your views on these two interrelated issues either in writing, or if you ever come through Washington in your travels.

I am delighted that everything is going so well for you, and that your work on Africa is getting the well-deserved attention. Actually, no keynote speech came with the letter, and I would appreciate it if you could send a sample of the conclusion of the prescriptions you are disseminating.

Best personal regards.

Sincerely,



The World Bank

ERNEST STERN
Senior Vice President
Finance

11/27

Lew

This is worth
looking at to get
a flavor of the
bureaucracies
surrounding global
environmental
issues.



Implementation Experience within the bank of the Montreal
Protocol's Interim Multilateral Fund

In their June, 1990, meeting, the Parties to the Montreal Protocol agreed to the establishment of the Interim Multilateral Fund to assist the developing countries who had ratified the facility in meeting the incremental costs of meeting their obligations under the Protocol. The Parties decided on a Governance structure for administration of the IMFMP which included an Executive Committee of 14 members - 7 "north" and 7 "south" - with rotating Chair- and Vice-Chairpersons, a Secretariat, and a set of implementing agencies which would establish separate agreements on their roles with the Executive Committee. UNDP, UNEP and the World Bank are implementing agencies and UNEP is the Fund Administrator and Trustee and responsible for establishing the Secretariat under guidance from the Executive Committee.

The Parties also determined that the Executive Committee will approve all projects over \$500,000. Once formed the Executive Committee took until April, 1991, to decide in accordance with the Parties wishes that it would delegate approval of projects below \$500,000 to the implementing agencies, provided they were identified in work programs they had previously formally approved.

The Parties requested that the implementing agencies prepare and present forthwith for Executive Committee approval work programs consistent with the broad roles assigned to them.

The Executive Committee has met five times since June 1990. The agencies have prepared and presented separate revised work programs to each of the four Executive Committee between December, 1990, and November, 1991, and only one set of work programs has been approved. In December, 1990, the EC refused to review work programs as it had not established its business procedures. In April, 1991, work programs were rejected because they did not accord with their expectations in documentation and roles, although no advice or guidelines had ever been issued. They decided on respective roles at the meeting and requested reworking and resubmission of CY91 work programs in June, 1991. At their June pre-Parties-Meeting, they decided that they had to agree to work programs for fear of nothing to show for a years deliberations. They requested the agencies then to prepare CY92 work programs for review at their November, 1991, meeting. At that meeting, they rejected work programs because they decided for the first time at that meeting that they wanted one work program document prepared by the Secretariat with the agencies, and not separate agency work programs, and they felt inter-agency coordination was insufficient to assure efficient resource allocation. November, 1991, was the first occasion that the EC determined how work programs should be prepared and presented.

The agencies will now revise their CY92 work programs with the Secretariat for presentation to a special EC meeting in March, 1992. In sum, several man-years has been spent by the agencies in preparing, revising, and presenting work programs which vary little substantively, but which respond to the ill-defined and changing requirements of the EC. The level of project documentation required (and the commensurate costs) relative to the size of the funding required is considerable. In addition, all of this has lead to an undesirable tendency to micro-manage on a myriad of details. This diffuses accountability and leads to multiple reviews and questioning with no value added whatsoever.

The EC has been preoccupied until mid-1991 with defining and formalizing its own business procedures, the respective roles of the agencies, the Secretariat and itself, and only in November, 1991, has it started to focus on its primary mission - cost-effective phase-out of ozone depleting substances in the developing countries. By issuing guidelines to the agencies for its main instruments of Governance (country programs, work programs, and investment projects) only 18-20 months into the three year pilot program it has constantly sent signals of lack of confidence and uncertainty to the implementing agencies and through them to prospective developing country beneficiaries.

The Bank's CY92 work program presented in November, 1991, requested resources for preparation of over \$100 million in projects during 1992, and presented the first project over \$500,000 - a \$10 million project for Mexico. After considerable discussion, the EC approved provisionally \$4 million for the Mexico project. The two major factors in downsizing the project were first that sub-project within it would exceed \$500,000 and this would imply abrogating to the Bank responsibility for approving such projects, and a severe funding constraint with only \$10 million available for investments net of administrative expenses made or committed during the first 18 months.

While encashment rates of less than 50% of undertakings is an important issue, this outcome highlights dramatically the cost of multi-layered bureaucracy of IMFMP Governance. Of the \$21.7 million received in contributions as of September, 30th, 1991, \$11.6 million has been disbursed or committed and \$10.1 remains. The Secretariat has committed or disbursed \$3.5 million which is greater than the Bank's total expenditure in country program preparation, policy analysis, project preparation under the IMFMP since mid-1990 (the Bank will spend \$3.1 million and will authorize projects totalling \$1.1 million by December 31st, 1991). Secretariat costs are substantially subsidized below the line by the Canadian Government (office space and related costs) and will increase considerably when the nine person professional staff complement is fully established (June, 1992). Last fiscal year, UNEP spent close to \$2 million on organising meetings and workshops.

The utility of the separate substantial Secretariat remains



an issue. The initiative for inter-agency coordination to date has been taken by the Bank reacting to the vacuum that existed before April. The Bank has hosted two meetings in Washington to ensure that agency work program overlap is minimized. The Secretariat has attended. Apart from acting as executive secretary for EC administration, the Secretariat has provided minimal technical input to the agencies work and value-added for the cost involved in its administration is dubious. To correct this situation the EC is now requesting the Secretariat to make a separate review of each investment project over \$500,000, adding to the Bank's own technical review panels with outside specialists, and its existing extensive standard project review mechanisms. The addition of a separate project review layer is symbolic of the Montreal Protocol style of business - lack of confidence in implementing agencies with resulting heavy ex-ante control and second guessing. To date this has frustrated effective implementation.

After 18 months of extensive deliberation and consultation with implementing agencies, the Executive Committee has reviewed two country programs, and provisionally approved one investment project over \$500,000. Although the Bank had proposed in its CY92 work program to present to the EC by the end 1992 over \$100 million in investment projects, ironically this is not expected to be possible due to shortfalls against obligations of Parties to encash their contributions.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

November 27, 1991

All FINCOM STAFF

On December 1, FINCOM will cease to exist, as will the Office of the Senior Vice President and I---at least as Senior Vice President.

Change is a natural time for retrospection. As I look ahead to my new assignment, I look back with gratitude at what we, as a group, have accomplished---the Bank's financial strength has never been greater; IDA's resources have never been larger; and the standards of service to our clients have never been better.

We placed responsiveness to our members and borrowers at the forefront of our financial management, and this yielded many benefits. We made our currency management system transparent for our borrowers and reduced the volatility of their foreign exchange exposure. By doing so, we stabilized our reserves-to-loan ratio which, in turn, increased our discretionary income. This increased stability, augmented by the excellent results in both our capital market and investment operations, permitted a reduction in the commitment fee by 2/3, and a reduction in our interest spread by half---saving our borrowers millions per year. A more stable discretionary income also permitted us to transfer exceptionally large amounts to IDA countries, first in response to the Gulf Crisis and again this year.

All of this was made possible by the creative talents in the design and formulation of policy, and in the mobilization of the Bank's capital and IDA resources.

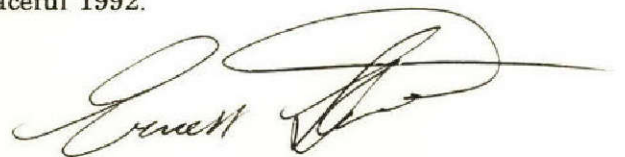
There has been an equally impressive, albeit less visible, set of achievements, such as putting the funding for our non-pension retirement benefits on a secure, long-term basis, and strengthening the management of the pension fund. Our internal training program was made more systematic, and we diversified our recruitment by nationality and gender. We improved the service levels in our loan billings and payments systems, increased support to the operational staff, and established a financial technical assistance program. Staff in every unit developed and implemented a wide array of cost-cutting or efficiency-enhancing measures.

Working in FINCOM has been exciting because we were able to develop and maintain a productive work environment which supported creativity, innovation, and high professional standards. Whenever a task was done, we looked ahead to see what the next opportunities for improvement might be.

The tasks in progress offer a full agenda of challenges. And much work will be required to maintain the objectives already achieved. It is truly gratifying to know that I leave this impressive agenda of unfinished tasks in the hands of the most capable and dedicated group of managers and staff with whom I have had the pleasure of working.

I want to thank you for the hard work which made our achievements possible and for tutoring me well in the ways of finance.

I wish you and your families happy holidays and a peaceful 1992.



The World Bank

ERNEST STERN
Senior Vice President
Finance

November 27, 1991

Mr. Khanna

Anupam -

Mexico looks fine.

Brazil looks fine, too, but I worry about the absoluteness of our position which may not hold. I would, therefore, add at the end of the first para, "This approach will be discussed with Mr. Camdessus" or something along those lines.

A handwritten signature in dark ink, appearing to be "ES", is located below the typed text.

THE WORLD BANK

ROUTING SLIP		Date 11/26/91
OFFICE OF THE PRESIDENT		
Name		Room No.
Mr. Karaosmanoglu		
Mr. Stern		
	To Handle	Note and File
	Appropriate Disposition	Prepare Reply
	Approval	Per Our Conversation
	Information	Recommendation
Remarks Re: <u>Brazil & Mexico CSPs</u> Since these were the first two CSPs reviewed according to the new system, Sven would like you to look at the decision notes and minutes before we finalize them. (Mr. Preston would sign the decision notes.) Please call him or me if you have any comments or suggestions.		
From <u>Anupam Khanna</u> X81140		

DRAFT

November 26, 1991

Mr. S. Shahid Husain

Re: Brazil Country Strategy Paper

We should continue the strategy of graduated response. Under present circumstances, and provided structural reforms are maintained, Bank lending should be in the lower half of the range proposed in the CSP. We should not exceed \$1 billion in aggregate annual commitments, make adjustment loans or support a DDSR package unless the conditions stipulated for upper-bound lending are satisfied. In this regard, the Bank should make an independent assessment of the macroeconomic situation.

The work program, with its focus on human resources, basic infrastructure and the environment, seems appropriate. Given the magnitude of poverty in Brazil, particularly in the Northeast and various urban areas, intensive efforts in the social sectors should remain one of our major priorities.

cc: Messrs. Karaosmanoglu, Sandstrom, Stern, Ryrrie, Rajagopalan, Shihata, Summers, Wood/Linn (FPR), Choksi

DATE: November 26, 1991
TO: Files
FROM: Anupam Khanna, Special Assistant to the President
EXT: 81140
SUBJECT: BRAZIL - CSP Review

1. The President chaired a meeting on November 15, 1991 to review the Country Strategy Paper for Brazil. The following conclusions emerged from the discussion:

- (i) The Bank should continue the strategy of graduated response with the volume and composition of lending determined by the depth of sectoral policy reform.
- (ii) In light of the poor prospects of macroeconomic stabilization in the near term, Bank lending should not exceed \$1 billion per year in the aggregate and should only finance investment projects in the areas of human resources, basic infrastructure and the environment.
- (iii) The Bank should make its own independent macroeconomic assessment even if there is an IMF program before contemplating adjustment lending or support for debt reduction.
- (iv) The Bank's approach and assessments should be made clear not only to the Government of Brazil but also to others concerned, including the Chairman of the Commercial Banks' Advisory Committee on Brazil.

2. The discussion covered the following:

- (i) Prospects for achieving macroeconomic stability in the next year or two are poor particularly because the political conditions for reform do not yet exist.
- (ii) The Bank's exposure has been reduced substantially both in absolute and relative terms during the last four years. The Region has managed this process commendably while maintaining an open policy dialogue and close working relations with the Government of Brazil. The proposed graduated response strategy implies that the net disbursements from the Bank to Brazil would continue to be negative.

- (iii) Bank Lending would not exceed \$1.0 billion per year in the aggregate and would continue to focus on supporting investments in human resources, basic infrastructure and environmental protection.
- (iv) A debt-reduction agreement would probably be struck with the commercial banks soon after an IMF program was approved which could happen in the next few months. There would then be tremendous pressure all around on the Bank to come forward with adjustment loans and to provide enhancements for the debt agreement. Our position could be very difficult, especially since the Region was quite skeptical about the prospects for successful economic stabilization. The participants were unanimous in their view that the Bank be guided by its own independent macroeconomic assessment which should be available in December. Mr. Preston agreed with the suggestion that he would personally spell out the Bank's assessment and concerns to those concerned.
- (v) The need for closer coordination between Bank and IFC staff on their Brazilian operations was urged once again by Mr. Ryrie.

AKhanna:bt

Attachment

cc: Participants - Messrs. Choksi, Husain, Rajagopalan, Ryrie, Sandstrom,
Stern, Summers
cc: Messrs. Karaosmanoglu, Wood/Linn (FPR), Shihata
IISC Files

November 26, 1991

Mr. S. Shahid Husain

Re: Mexico Country Strategy Paper

Bank lending to Mexico should now decline and total commitments during FY92-95 kept below \$7.0 billion. Bringing down our presently high exposure during this period when Mexico can finance development investment from other sources (domestic and external) will enhance our capability to respond adequately if a crisis were to occur in the future.

The operational work program seems appropriate, although the Region should be prepared to accommodate additional assistance (analytical and financial) for agriculture and rural development if requested by the Mexican Government. The aim of our country assistance strategy should be to help make Mexico's economic progress equitable and environmentally sustainable.

cc: Messrs. Karaosmanoglu, Sandstrom, Stern, Ryrie, Rajagopalan, Shihata, Summers, Wood/Linn (FPR), Steckhan

DATE: November 26, 1991
TO: Files
FROM: Anupam Khanna, Special Assistant to the President
EXT: 81140
SUBJECT: MEXICO - CSP Review

1. The President chaired a meeting on November 15, 1991 to review the Country Strategy Paper for Mexico. The following conclusions were reached:

- (i) Bank lending to Mexico should be scaled down; total commitments during FY92-95 should not exceed \$7.0 billion;
- (ii) While the composition of the operational program is satisfactory, some adjustments may be warranted to accommodate additional assistance for agricultural and rural development.

2. The discussion covered the following topics:

- (i) Mexico's recent economic performance has been outstanding and there is little risk of major policy slippage in the near future.
- (ii) The Bank's presently high exposure (11.5%) limits its capability to respond adequately if a crisis were to occur in the future. Hence this period, when Mexico can finance development investment from alternative sources (domestic and external), should be used to bring down the Bank's exposure.
- (iii) Share of project costs financed by the World Bank should be reviewed comprehensively and revised downwards as appropriate in different sectors without jeopardizing a meaningful level of financial participation. The need for some local cost financing in selected sectors (e.g., health, education, rural development) was acknowledged.
- (iv) Cooperation between the Bank and the IFC would ensure complementarity of roles and a coherent Bank Group strategy. Mr. Ryrie indicated IFC could increase commitments while the Bank was scaling back and suggested toll roads, and B.O.T. schemes (e.g., for power) as potential areas of greater IFC activity.

- (v) Mexico's population growth is still high, but the Government is making an effort on family planning. The World Bank has deliberately pursued a low-profile role addressing the population problem in the context of health and education projects and broader economic policy dialogue.
- (vi) Conclusions of the North American Free Trade Agreement (NAFTA) is very important for Mexico's economy. Despite the commitment of the Mexican and U.S. presidents, however, there is a possibility that it would be delayed until after the 1992 U.S. elections.
- (vii) Concentration of economic power, particularly by the big Mexican "groups" is disturbing and should be a cause of major concern in view of its implications for future governance of the Mexican state and economy.

Attachment

cc: Participants - Messrs. Husain, Rajagopalan, Ryrrie, Sandstrom, Steckhan,
Stern, Summers
cc: Messrs. Karaosmanoglu, Wood/Linn (FPR), Shihata
IISC Files

The World Bank

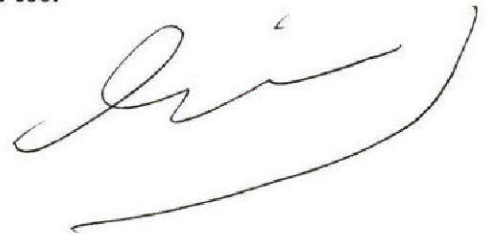
ERNEST STERN
Senior Vice President
Finance

November 27, 1991

Mr. Kavalsky

Basil -

I hear it asserted recently that the growth of lending was directly correlated to staff years allocated to lending. I am very skeptical since a) TRS data is unreliable and b) SY allocated to lending have on several occasions been diverted to other activities which simply shifts the question. It would also mean that size is immutable. But you had better have someone check this out too.

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

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 29, 1991

Mr. Mossop

Jack -

Since neither the development page was filled in nor any indication given of future plans, I suggest that you call Lutz to find out what his plans are and when we plan to have him come back.

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



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - November 1991		Barcode No. 30265367		
Document Date 11/29/1991	Document Type Letter			
Correspondents / Participants From: Ernest Stern, Senior VP Finance To: Mr. Mossop				
Subject / Title Performance Review				
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			

The World Bank

ERNEST STERN
Senior Vice President
Finance

November 29, 1991

Mr. Ruddy

Mike -

Congratulations on the shrunken payroll statement.
Actually looks normal.

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

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/29

Mr. Picciotto -

Bob -

Are these Rules right?

If so, how did you come
up with the 40% rule?

Would you let me know
how you plan to proceed.

E

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

DATE: November 26, 1991 06:09pm

TO: Bilsel Alisbah (BILSEL ALISBAH)
TO: Robert Picciotto (ROBERT PICCIOTTO)

FROM: Stephen Eccles, CTRVP (STEPHEN ECCLES)

EXT.: 81674

SUBJECT: Regularization of LT consultants

WE NEED YOUR HELP!

In CTR, we have started examining the details of the conversion of the first of our LT consultants under the "T" scheme. The ones we have looked at so far are showing up such funding problems that, on reflection and without some changes, we may have to abort the whole exercise. This is not a step we would take lightly, as there would be quite an adverse staff reaction (not only amongst the LT consultants concerned), never mind any SA reaction.

2. This EM first reviews what I understand to be the theory behind the 40% premium (which is the cause of our funding problem). It then goes on to describe the problem we are facing. It closes with a suggestion for a pragmatic solution. I would be grateful for your help.

3. Theory. It is our understanding that the origin of the 40% premium to be paid on conversion of a consultant [by transfer of this amount from our regular budget base to the overhead budget account] is the fact that regular staff have greater institutional overheads (especially benefits) than do consultants. If this was the case then consultants might be expected to accept a smaller 'take-home pay', as regular staff, than they would as consultants, in recognition of increased benefits and of security of tenure. Thus, a consultant currently earning \$70,000, say, would accept a salary cut of \$20,000, to \$50,000. Rather than CTR taking this \$20,000 saving, to be spent elsewhere, this sum would be deducted from our budget base, to offset the increased expenditure on staff benefits, etc. In this way, the conversion would be budget-neutral for the Bank as a whole; CTR would not get an unwarranted budget freebie; and the consultant would be asked to pay a reasonable amount for the benefits he/she would acquire, beyond those previously available.

4. Practice. In practice, we are finding that our longer-term consultants are paid fees which more-or-less mirror the salaries they would expect to receive had they been regular staff, without any premium for lacking benefits or security of tenure. Given that this is the normal case, CTR is not in a position to take the cuts in its base budget (which would be 'real' and not an off-set) which conversion would seemingly imply. If some solution to this problem is not found, CTR will not be able to take part in this exercise. That is not an acceptable situation, so a solution has to be found.

5. I was naturally puzzled as to how this situation could have arisen, as the cause of the problem seems to be that we are notionally under-paying our LT consultants - and I had not been aware that that was the case. I have discovered the following:

a. the POP consultant unit says that daily paid consultants do receive a supplement in lieu of certain benefits (eg leave), though it is only 20%. More importantly, long-term consultants (on payroll) receive no supplement at all as they are entitled to 26 days of annual leave, 15 days of sick leave and the right to join the medical and life insurance plans. In other words, the Bank is already meeting many of the overheads of LT consultants (especially when you consider that they invariably have their own offices as well), so that there will not be an increased charge to the Bank from these items on conversion. This fact does rather challenge the basis for a full 40% premium.

b. I presume the remaining premium arises from the access that permanent staff have to the pension fund, educational and home leave benefits 1/ and perhaps some other minor items. That must be worth something to the LT consultants, as would improved tenure. But, as the consultants never received any supplement over regular salaries to cater for this in the first place, there is no room for them to take the appropriate salary cut to finance it, without putting the resultant salaries below those of colleagues doing similar jobs, with similar background and experience. And thus CTR would have no funds disposable to pay any premium. (1/ Actually, most of our LT consultants are expatriates in resident alien status, so the Bank pays neither US taxes nor expatriate benefits; nor would the Bank have to pay these after regularization.)

c. The above situation has been compounded by the way we handle annual increases in consultant fees. In general, they do not get the full benefit of the YMR, but just the structural increase. In addition, they miss out on what might otherwise have happened by way of 'professional growth promotion'. Thus, it should not be so surprising, if the LT consultants have been here for a substantial period (and several have been here considerably longer than the 4 year minimum), that some are actually entitled to a rise in take-home pay on regularization, rather than deserve a decrease! (We have to do this in the first case we examined, because the person is currently earning less than the minimum salary in the grade to which she was entitled.)

6. In short, it would seem that the Bank may have been marginally 'exploiting' its LT consultants. Our budgets (requested and received) have of course been based on actual fees charged, so that there is no fat available for putting matters to rights.

7. Solution. The easiest solution is to cancel the need for the 40% premium as the rationale for it does not seem to be there; the overhead costs of regularizing these consultants, such as they are (and much less than the 40% premium), should be absorbed within the Bank's general overhead for staff.

8. If this is not acceptable (or the CTR situation is unique), then I would suggest we (CTR) do pay a premium for regularization, derived as follows:

a. we determine the post-regularization salary for each consultant concerned, through a standard process, involving POPRT as well as the CTR personnel officer and the manager concerned. Sometimes this will result in a cut in 'take-home pay', if the consultant would otherwise be overpaid compared to existing staff doing similar work.

b. when there is a cut in 'take-home pay', CTR will take a reduction in its base budget in the amount of this cut. There will be no premium when there is no change (or an increase) in 'take home pay'.

CC: Everardo Wessels
CC: Alberto de Capitani
CC: Richard Lynn
CC: V.S. Raghavan
CC: Michael Ruddy
CC: Jack Mossop
CC: Bruno Vollmer
CC: Ernest Stern

(EVERARDO WESSELS)
(ALBERTO DE CAPITANI)
(RICHARD LYNN)
(V.S. RAGHAVAN)
(MICHAEL RUDDY)
(JACK MOSSOP)
(BRUNO VOLLMER)
(ERNEST STERN)

The World Bank

ERNEST STERN
Senior Vice President
Finance

11/29

Kavalisky

11-69
11/22/91

IDA Memo Paper

Basil -

I have noted my comments on the text. On the whole paper is in good shape. As noted, we may need to expand a bit on the 3rd window line.

As to clearance/circulation for comments. Will your working group do? We need to be sure that Shihata gets to see the next version, as well as Jaycox, Husain, Wood, Kaji and Koch-Weser.

This does not leave a lot of time. I'll do the clearance with my colleagues when we have the next draft.

Ernie

