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Senior Vice President Chronological Records - Ernest Stern - September 1991

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CHRON FILE
September 1991

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

'E: 03-Sep-1991 12:17pm

TO: Michael Ruddy

(MICHAEL RUDDY)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Payroll Statements

Mike -

We are in the new FY now. How long will it take before we can manage to shrink the individual payroll statements?

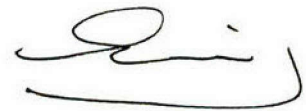
The World Bank

ERNEST STERN
Senior Vice President
Finance

9/3

Lew -

For your info. Nomura and
Nikko have now been
advised that they are
out of our primary
market business until
further notice.

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

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

DATE: September 2, 1991 05:06am

TO: Donald C. Roth

(DONALD ROTH)

FROM: Nobuaki Kemmochi, TOK

(NOBUAKI KEMMOCHI)

EXT.:

SUBJECT: Nomura/Nikko

1. Today, I have visited both Mr. Tonomura of Nomura and Mr. Nakanishi of Nikko respectively and have informed them of the Bank's actions against them.

2. After questioning reasons behind the action, possibility of restoring relations, publicity, etc., both of them have come to well understand the reasons for the Bank's actions and have expressed their firm determination to take necessary steps to avoid a recurrence of the previous events and to refurbish their image.

3. I have recommended them to take quick action to explain the present situation to the Bank (both Washington and the Tokyo Office), even if the attempt to petition the Bank to reverse its position should not be made in advance of the Annual Meetings.

4. Finally, they expressed their appreciation for my visit and clear explanation of the Bank's actions.

Best regards
Nobuaki Kemmochi

CC: Ernest Stern
CC: Kenneth Lay
CC: Peter Horvath

(ERNEST STERN)
(KENNETH LAY)
(PETER HORVATH)

The World Bank

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



With the compliments of
Ernest Stern
Senior Vice President
Finance

9/1/91

MR. Picciotto

Last chapter.

(2)

5. THE QUALITY CHALLENGE: IMPLEMENTATION

"Somewhere between history and theory stands the use of examples and models to stimulate creative and necessarily idiosyncratic responses by people solving specific problems."

-Robert Klitgaard

HIGHLIGHTS: Strategy is not implementation. Adequate quality standards for technical assistance require the generation of adequate country commitment, the use of more innovative TA delivery modes, and the increased participation of recipient institutions in the design and execution of TA projects. Bank internal management of TA processes should also be strengthened. In particular, procedures for appraisal documentation, review and monitoring of TA projects and components should be tightened. Resident missions should be given greater responsibility for TA aid coordination and monitoring. Finally, formal Bankwide networks should be set up to enhance institutional development work and technical assistance management.

5.1 This section deals with the processes required to enhance the quality of TA funded or administered by the Bank. Beyond strategy, factors affecting the quality of Bank technical assistance include issues of country commitment and absorptive capacity, appropriateness of design, clarity of objectives, terms of reference and performance indicators, skills and country knowledge of consultants, and adequacy of supervision of TA components (Box 5.1). There are examples of high quality performance but technical assistance schemes are frequently not prepared with the same professional rigor as the investment and policy components of projects. They should be. Guidance exists for good programming and monitoring of technical assistance but little managerial incentive to comply consistently with more than the letter of such requirements appears evident.

previous p.

Country Commitment

there is little evidence that managers

5.2 Notwithstanding the excellence of many aid programs, one of the main complaints of developing country officials about external TA in general is that it is "supply-driven," and that borrowers accept TA to which they are not committed simply in order to secure the funding with which it is associated. Political considerations, trade promotion objectives, pressures of advocacy groups and bureaucratic imperatives are seen to provide the driving force behind "supply-driven" TA. Discussions with Executive Directors substantiate these perceptions.

including the USAID

5.3 On the other hand, Bank staff and staff of other aid agencies are genuinely concerned about lending where country institutions are too weak to carry out the projects. There may be differences in assessment of institutional capacity between the potential borrower and the aid agency staff, or there may be some agreement on the weaknesses but disagreement on the solutions. In the end, the desire to complete the arrangements for financial assistance is usually strong enough on both sides to lead to the inclusion of TA components between the negotiating parties. This is not the same, however, as a deeply engrained commitment to institutional change on the part of the country entity involved.

and the overwhelming urge to "fix" frustrating problems quickly, by which is usually meant bring in the Marines; instead of devoting the time necessary to get governments or entities to use their existing (or doubtless available) resources here

Box 5.1: What Can the Bank Do to Improve ID Effectiveness?

In a draft CECPS paper on the Bank's work on institutional development in sectors, the authors suggest seven areas for sharpening the focus, quality and relevance of ID work in sector lending operations.

- Strengthen the diffusion of best practices by documenting approaches that have worked (TDs might do this, with PRE support) and sharing them in seminars and through an easily accessible database that is regularly updated.
- Support expanded upstream ID work in selected countries; match projects with overall sector ID strategy to facilitate consistency and sequencing of actions.
- Undertake periodic institutional assessments in sectors to develop an organizational memory within the Bank, to support sector lending preparation and to underpin donor coordination efforts. Assessments would look at: agencies relevant to the sector, their linkages, functions, strengths and weaknesses, the legal and regulatory framework governing them, the organizational incentives and agencies' capacity to perform their functions.
- Check out feasibility and absorptive capacity of entities for project ID, especially where multiple donors are assisting the same entity, to minimize risk of over-ambitious designs.
- Make the mid-term review of projects a Bankwide practice for projects dealing with complex ID reforms, and follow with redesign of projects if appropriate.
- Promote multiple approaches and instruments to support complex ID reforms: where Bank influence is weak, use ESW and policy dialogue to discuss long term ID issues; where leverage is stronger, lending with benchmarks for reform can be used.
- Establish mechanisms for managerial review of project outcomes, to emphasize the importance of sustainable results of lending once projects are completed.

5.4 Government commitment has been established as a prerequisite of TA success in many Bank (especially OED) reports. However, there is little analysis of the determinants of commitment (felt need, coherence of views within government, competence, etc.) and few evaluations identify the practices which would help ensure that only "desired" TA is included in development projects. However, available evidence suggests that establishing adequate recipient motivation for TA implementation is best achieved in the early stages of project design (project identification and preparation). In most cases of successful ID TA, the key has been a collaborative definition of the problem and the type of intervention needed (the Indonesia evaluation of TA projects details this link). Ownership of TA design has sometimes been achieved through "process consulting," whereby Bank staff (or Bank-employed consultants with appropriate skills) facilitate the definition by developing country officials of their own institutional needs and TA approaches (as well as other forms of assistance) to address these needs (Box 5.2).

5.5 Even with the strongest commitment to institutional development, developing countries may still lack an ability to absorb the advisory services and training they need. This is a capacity, rather than a commitment, issue. An excerpt from a Project Completion Report for a Bank-supported health project in a Middle-Eastern country summarizes what happens when TA project design overestimates executing agency potential:

and one good test is whether the govt is prepared to begin to make changes during the design/preparation stage.

(Like Benor - if you don't get me the jeeps by 9 AM tomorrow, you are not serious and I am not going)

Box 5.2: Process Consulting in Burkina Faso

When the Government of Burkina Faso asked the World Bank to assist it in the preparation of a National Environmental Action Plan (NEAP), an opportunity arose to put into action a participatory method of helping a country.

The first step was to work with the Burkinabè to organize a National Workshop on the Environment, which was facilitated by three local consultants who prepared reports on the natural, social and institutional environments. As a result of the hands-off approach, participants came up with the idea that the environmental impact of projects should be assessed before embarking upon them. They also identified several areas where studies were needed.

With the help of Bank staff, terms of reference for the studies were developed and financing for the preparation of the NEAP was arranged. After local studies were done, the Bank, in response to a government request, arranged for consultants to review and evaluate them in collaboration with public officials and private sector groups. Out of this came the draft NEAP. The next phase was to organize a National Seminar on the NEAP, involving all interested ministries, official agencies, public enterprises, teaching institutes, NGOs and journalists. The seminar participants debated a wide range of topics, and at the end, each intervention was adopted or rejected by the participants, which thus empowered the Burkinabe NEAP team to revise the NEAP and, most important, to send it to Cabinet for adoption.

In practical terms, the NEAP could have been done faster and cheaper. But if the product is to be a process, embraced by the local participants, that has a real chance of being adopted and eventually leading to improved environmental management, then the choice is clear. The Bank must have the patience to work with clients to identify what needs to be done, rather than tell people what to do and how to do it

"...the arrival of 17 advisors at the Ministry's offices...virtually at the same time overwhelmed the Ministry's ability to provide space, services and to assign qualified counterparts in a timely manner;...the lack of a technical assistance team leader and of Ministry management experience in technical assistance made experts unable to identify their roles, with many (9 of 17) finding little to do and a few having to delay their work for several months after arrival; ...all but three advisors left before their counterparts were fully trained on the job or had returned from external training."

No one can absorb 17 advisors simultaneously

5.6 To address this kind of issue, Bank evaluations of TA regularly call for a realistic assessment of a country's or entity's ability to make use of advisory services and training. Where assistance is aimed at institution building (rather than strictly substitute TA), the absence of such an assessment is a first step on the road to failure. Without adequate analysis regarding the institutional aspects of adjustment programs and development investments (and particularly of the general civil service framework in which national institutions function), only the most seasoned and skilled staff are likely to be able to carry out an adequate appraisal of the capacity of the institutions concerned to undertake the operation, along with any TA component or free standing TA "add ons." PRE's recent review¹ of how a sample of Bank appraisal reports handled institutional aspects of the operations found that only 44% had good treatment of ID issues, 24% were adequate and 32% were weak. Most of the latter were SALs and SECALs, precisely the type of operations that should be aimed at improving economic management. Even the free-standing technical assistance loans among this sample only treated ID issues satisfactorily half of the time.

X

they were aimed at it. But as noted on many occasions ID and TA are not good ingredients of SALs. They are almost bound to get inadequate design attention.

1. Gray et. al. "Institutional Development Work in the Bank." WPS 437, June 1990. See also Samuel Paul. "Institutional Development in World Bank Projects." WPS 392. April 1990.

Country Participation

5.7 Involving TA users in the definition of their needs and sources of TA supply is one important way of eliciting ownership of TA objectives. The Bank does not yet do this very consistently. There are exceptionally participatory projects in a variety of sectors that have been prepared within the Bank's procedural and resource framework (which are being studied for their lessons by the ongoing PRE/OPS Participation Learning Group). The quality and sustainability of such activities has been shown to increase in line with the involvement of beneficiaries. This is a reflection of Albert Hirschman's concept of "voice" leading to "loyalty." When consumers/users can influence the quality and focus of the product or service they are acquiring (i.e. have voice), they are more likely to be committed to that product (i.e. show loyalty). Consultative processes require quality time during project preparation and supervision (though it is not yet established how much this means in additional staff resources). Training staff (or retaining consultants) to use facilitating skills in upstream interactions with borrowers/users should also contribute to eliciting more country involvement in project design and monitoring.

For whom
are these
citizens
supposed to
be relevant

5.8 At the same time, if consumers/users have "exit" mechanisms, that is, if they can turn to other sources when unhappy with the quality of the product, the suppliers are more likely to be sensitive and responsive to user-defined demands. By making the TA market work, the Bank can enhance the "exit" mechanisms and encourage quality of TA supply. This market shaping role requires a systematic and consistent approach to Bank interactions with consulting firms and other entities delivering technical assistance to developing countries. It also calls for the maintenance of reliable and up-to-date information about consultants performance and costs, a traditional and important COD role.

This is
a market
without
any
backup.
First, I
doubt there
can be a
market.

5.9 There are two schools of thought as to whether "priced" TA induces interest and ownership on the part of developing countries. One hypothesis holds that commitment is likely to be higher for assistance for which governments must pay, as with loan-funded TA. The other points out that the most responsible country officials will seek the best terms in their national interest, and thus will be more appreciative of grant-funded TA. Interviews with Bank staff suggest that ownership is more a function of agreement on substance and delivery mechanisms arising from a consultative process (and "equal partnership" attitudes) as well as clear responsibility and accountability for execution of the TA—however funded. In practice, as comments from users responding to the field questionnaire also confirm, the Bank remains intricately associated with the procurement of loan-funded TA services. Thus, to combine appropriate oversight of Bank-funded activities with the long-term interest of commitment and capacity building is a major challenge for Bank operational managers, whatever the method of funding.

Consultants
come and
go. The
product is
far from
homogeneous.
There are
numerous
networks.
Second,
consultant
firms
reputations
are pretty
meaningless -

precisely.
And you
don't ever
owe gifts.
Donors solicit
exactly the
same way.

This is nonsense. And demonstrably
so. Being more appreciative (even
if true) is not the equivalent of
being committed to change.

Local Consultancy Industries

5.10 The use of local consultants and local consulting firms is another way of strengthening the market, involving recipient country nationals and building domestic capacity. This is allowed by Bank procurement procedures (guidelines permit limited consideration of cost factors in the selection of consultants), and use of local consultants has increased. They accounted for 24-28% of dollars disbursed on consultants over the past three years. Often, the constraints to developing a strong, capable local consulting profession lie in the lack of a business-like environment in the countries. Where government policies do not promote competition or contracting from the private sector (as when the public sector keeps much expertise in-house), small, new consultant firms have trouble finding work. Where a few large firms, well-connected to the public sector, predominate, the discipline that competition can offer in terms of objective selection, incentives for good

its the actual
people you get who
determine results.
Third, there is no
performance
data and
never has
been.
Fourth,
how often
have contract
been
cancelled
& consultants
switched? Not
very. Do we
pay for it?

1. Hirschman, Albert. 1970. Exit, Voice and Loyalty. Yale University Press.

it doesn't strengthen the market,
but builds capacity; involves outsiders
in review of govt processes, etc.

Finally, the proof of
the improbability of
all of this is shown by
the Bank's own consultancy
reports (many of which
are poor) and the absence
of quality control for our consultants

performance and low price is absent. Furthermore, Bank policies for costing projects and for justifying loan amounts still provide for consultant procurement in favor of expatriates, whose (foreign exchange) cost may be several times that of equivalent local consultants. The hiring of local firms can also in many circumstances offer "appropriate technology" in a cost-effective manner (Chile's Public Sector Management Technical Assistance project substantiates this). Therefore, the Bank should work with interested governments to deliberately develop local consultant capacity, to achieve both the capacity-building and cost-effectiveness objectives (Box 5.3). Such a strategy should include: defining a regulatory framework that would promote business-like selection of competent local firms, building a good data base on domestic consultant capacity, including country knowledge in the selection criteria, and (following the practice of regional banks, such as the InterAmerican Development Bank) anticipating that a portion of the consultant share of project TA components in Bank loans will be contracted locally where an adequate number of qualified local firms exist, through joint ventures if local firms do not qualify on their own.

TA Design and Supervision

5.11 TA projects tend to be approved at a much earlier stage in the project cycle than regular operations. Preparation of TA components is frequently done with less rigor than the rest of the project components, and no appraisal report is required for free standing TALs, and therefore one is not usually available. The 70 or so respondents to the TARTF field questionnaire generally endorse the quality of Bank TA project/component design. But they raise issues about consultation with borrowers and about implementation. Internal Bank evaluations have documented design issues fairly thoroughly. In addition to the gaps in Bank institutional analysis as a prerequisite to broader organizational or regulatory reform objectives, there are several areas where the Bank's internal procedures fall short in inducing quality TA. The Terms of Reference for studies or advisors, though formally required prior to negotiations, are frequently inadequate in terms of verifiable performance indicators. Even though flexibility is needed during TA project implementation to respond to new opportunities or unanticipated constraints, this should not be an excuse to avoid setting monitorable progress indicators from the outset. The field questionnaire respondents identify the selection for consultants and the ability of consultant and counterpart staff to work together as problem areas. Long-term expatriate advisors remain a common delivery mode in spite of their uneven performance and the preference of ID experts for a more flexible approach (e.g. short-term, task-specific advisors, twinning, contracting of NGOs, study visits and other innovative modes) to increase the opportunities for sharing best practices from elsewhere. Revised guidelines for the preparation, appraisal and supervision of TALs (and of components) should be enacted. To this end, a comprehensive revision of the operational directive (OMS 4.00) on technical assistance should be put in hand.

5.12 Given the approach described above, the costs of processing of free-standing TA projects are dramatically lower than those of any other sector, confirming the existence of a "benign neglect" syndrome. (Unfortunately, no separate time-recording for preparation of TA components takes place.) The project completion coefficient (cost of bringing a loan to approval) is 50-66 SWs for TALs compared to the Bankwide average of 116 SWs on average. Although a few TA operations (6 out of 37) during FY88-91 required significantly more staff time to prepare than the average project, 8 others are recorded as requiring only 15 SW or less. The latter may be attributed to the fact that some of these were "spun off" of more complex projects at the last minute, and thus their preparation work was probably recorded against the parallel project. If the administrative cost per dollar of commitments is considered though, TA loans (given their small size) are high cost so that excessive concern with lending volumes by some managers may help explain the limited staff resources allocated to TA projects.

by when?

I doubt it. They are simply not interested; or knowledgeable about the process. How

many managers have the requisite experience? What training is required of mns. in the area?

Box 5.3: Developing the Local Consulting Profession

The domestic consulting profession in developing countries¹ has grown dramatically in the last two decades. But its further progress depends on improving its performance. This requires a supportive environment for quality work, the promotion of competitive conditions, enhanced managerial and proposal-writing experience to complement technical expertise, etc.

Pioneering domestic consultancy firms, usually in the engineering and architecture professions, developed through public sector enterprises in the colonial era of developing countries, and did most of their work for the public sector (which accounts for three-quarters of demand for such services in those countries), without the discipline of competition. Professional societies and associations of consultants are generally weak. Where consultant firms are established in the private sector, especially in countries with well developed education systems, a greater degree of competence has developed, e.g. Latin America. In these cases, some firms have begun exporting their services as well. Interaction of domestic consultants with international development agencies and with foreign firms through joint ventures or foreign firm contracting of local professionals has helped to improve the quality of local firms. (Such interactions themselves are an effective form of technology and skills transfer.) Government policies which are market-oriented and encourage flows of technology from abroad is a key factor in generating competence within the local consulting profession.

Supporting the development of quality local consulting firms can have important benefits for development assistance effectiveness. For certain kinds of consulting (e.g. routine engineering), the quality of the resulting product may be very similar and the cost a fraction of a foreign firm's cost. In other areas (e.g. for small or dispersed projects), foreign firms may simply not be interested and in still other cases (e.g. local surveys), domestic firms may be the superior choice in terms of language skills and cultural sensitivities. Despite these benefits, and extensive studies of domestic consulting professions by various aid agencies, few programs to develop the local professions are under way. In fact, aid agency practices, just as government practices, often stand in the way of promoting development of quality in the local consulting profession.

To build a local consulting profession that is competent and ethical, governments must usually be involved, since, except for large and successful economies, the bulk of the consulting work is still generated by the public sector. Willingness to hire private firms rather than maintain in-house capacity, transparent and objective selection processes which demand reasonable quality as well as reasonable price, encouragement of joint ventures or other affiliations with foreign firms and prompt payment for services rendered are basic elements of a supporting government policy framework. Procurement and costing practices of aid agencies financing development projects also need to support these elements, and certainly not stand in the way of using qualified local firms, e.g. through tied procurement.

The World Bank, in this context, can do more than it is currently doing to encourage governments to design and carry out a local consultant profession development program. Just a few examples exist of a comprehensive effort to work with a government and a local consulting profession to develop the latter. Analysis of the capacity and organization of the local consultant profession, and the constraints to its development such as the regulatory environment or predominance of public sector consultants, could be carried out to assist countries in formulating such programs. Technical assistance needs could then be identified to improve local firms' management and marketing techniques, promote professional associations and encourage financing of such service oriented firms.

1. Kirmani, S. and W. Baum, "The Domestic Consulting Profession: A Strategy for Development," March 1, 1991.

5.13 Although the Bank undertakes studies regarding the institutional aspects of its investment projects,¹ the impact of IDTA (or any TA) funded through loan components is not systematically monitored. Supervision reports provide the vehicle for detailing success or problems with such TA components, but such reports regularly under-assess TA components (as confirmed by a TARTF review of Form 590s). Supervision of UNDP-funded TA is limited to administrative concerns. Assessment of impact and sustainability is less frequent (exceptions are the large ESMAP and Water and Sanitation collaborative programs). Bank supervision of the impact of other trust-funded technical assistance is also unsystematic. Although recent advances have been made in improving approval and accounting of trust-funded activities, the programming and performance evaluation of such work is still ad hoc.

5.14 With regard to supervision, the 1990 ARIS reports that technical assistance operations received about a staffweek less during FY86-90 on average for supervision than the Bankwide coefficient. There was regional variation. In Asia, where TA projects are relatively straightforward preinvestment operations, TAL supervision coefficients were considerably lower than average, while in LAC, they were 3 SWs higher per project. These figures do not necessarily contradict the hypothesis that some complex IDTA operations are (or ought to be) more staff-intensive; they merely document the resources that managers are providing to TALs on average. Much more rigorous quality assurance appears needed with respect to TA supervision. This could be referred to Project Advisors and Senior Operations Advisors in the regions.

Organizing for TA

5.15 Little can be gained by insisting on country capacity to define ID objectives and absorb TA when the Bank's own capacity is limited. The four Regions have approached TA/ID management in strikingly different ways:

- 1 precisely. Any recommendations on how to improve this?*
- (a) Africa has an ID division in the Technical Department (TD) and a TA/UNDP section there as well. The former covers both public administration and public enterprise areas (except for strictly sectoral public enterprises), along with private institutional issues and emerging themes such as governance and participation. Staffing is mostly with ID generalists. Some Country Departments (CDs) also have ID generalists. Africa Region has organized a thematic team on ID/TA issues, essentially a network of practitioners who can work together to address common issues (including undertaking specific cross-cutting studies).
 - (b) Asia has no ID or PSM division, preferring to let CDs focus on public sector management as needed; there is networking among the ID generalists in the Region, organized by the TD. A TA unit exists in the TD, which offers management support to CDs in the form of procurement and TA design assistance, largely for UNDP projects, and occasionally project management.
 - (c) LAC, like Africa, has an ID/PSM division in the TD, though its responsibility is more circumscribed, covering core public agency work but excluding work on public enterprises. LAC's division goes farther than others in assuming task management for free-standing PSM/TALs. This division is staffed with specialists (tax, financial management, public administration), consistent with the region's stage of institutional development.

1. See CECPS' "The Bank's Work on Institutional Development in Sectors: Emerging Tasks and Challenges," currently in draft.

- (d) EMENA has the least organizational focus for ID/TA issues, with no TD expertise. The special purpose unit for reimbursable TA was moved from the TD to the CD that deals with oil surplus countries. EMENA has thus had to draw heavily on PRE and LEG resources for specialized assistance for the emerging ID agenda (at the expense of less PRE and LEG attention to other regions). In view of the complex and urgent ID/PSM issues in Eastern Europe, the Region is likely to be particularly vulnerable to falling short in meeting member country needs unless the organizational issues are addressed.

5.16 These variations are related to Regional management autonomy in dealing with country issues. Yet, the different approaches are not fully explained by relevant responses to differentiated institutional contexts, stages of development or sets of issues. Systemic institutional problems are more widespread in Africa, but not absent elsewhere. The role of the State is rapidly evolving in all Regions, and most countries can be expected to need assistance to adapt and transform. Without being rigid (i.e. allowing for regional flexibility), a more systematic Bankwide approach to TA and ID issues seems called for. Accountability for providing professional support for TA/ID work, for monitoring TA/ID performance and for quality assurance should be strengthened.

5.17 One specific organizational approach to enhancing the quality of ID analysis, project design, supervision and TA coordination is to enlarge the role that field missions play in these steps. For countries where TA activities represent an important share of the Bank's work, field staff are already relating regularly to government institutions and to other aid agencies, and will usually have a good basic knowledge of local capacity and donor interests. These strengths should be captured by drawing the resident missions more into the consultative process of TA needs assessment, project preparation and supervision. Furthermore, they may be particularly suited to work with countries in developing a strategy for promoting the local consulting profession. Each country situation will differ; such a role in TA could mean adding staff to resident missions, training those already there, or limiting involvement to areas field staff could best address.

plus training
for managers
on the
importance/
relevance
of TA; and
what it
takes to
manage
it.
Is there a
single course
on this in
EDI?

5.18 Aside from regional organizational issues, there are several Bankwide ones. To address the issues raised in this report and monitor the evolving TA activity in the Bank, existing "TA networks" should be mobilized and the COD apex organization for TA strengthened under the oversight of the Bankwide Technical Assistance Advisory Committee. PRE's approach has been an informal division of labor, locating cross-sectoral public sector management and private sector development expertise in a division (CECPS) in its Economics Vice-Presidency, and attention to sectoral ID issues in the Sector Policy and Research Vice-Presidency (PRS). In effect, PRS' coverage of sectoral ID issues has not been systematic or continuing, although Environment, Water Supply, Transportation and Education units have produced some ID work. CECPS undertakes its responsibility for broad ID issues through periodic workshops bringing together staff involved in ID work, for which background papers are prepared and discussed. In its PSM work, CECPS has deliberately chosen to be selective, focussing on public expenditure management, civil service reform and public enterprise reform, in addition to private sector issues. PRE should revisit this informal arrangement, to assure that it meets Bankwide needs, while assuring that some Regions' dependency on CECPS does not divert the intellectual input PRE normally would make to other Regions. One option is to set up in CEC, or possibly PRS, a unit to concentrate on broad institutional development issues, provide policy and research leadership, deliver cross support to Regions in ID strategy design and disseminate best practice.

This maybe
OK - but
the problems
are not only
organizational

5.19 The Legal Department reflects another organizational area where work demands have grown phenomenally. Significantly increased attention to regulatory reform in country adjustment programs has involved Bank lawyers in direct technical assistance, lending preparation and supervision and in aid coordination, far beyond the Legal Department's traditional role of advising Bank staff. Major TA coordination efforts (Poland) and legal ID TA work (Laos, Guinea, Bulgaria, Angola) have generated distinct demands on legal staff. Such work will undoubtedly continue to

We have few
people with
practical
operating
experience.
presumably a
prerequisite to
handing out advice
on what actually
works.

grow but should be programmed and budgeted as part of the country assistance management requirements, and handled explicitly as cross-support, just as PRE has been doing.

5.20 Finally, financial technical assistance has been the subject of a prior task force. CFS, PRE and FINCOM are all sources of financial TA and a need for more systematic and coherent approach to countries seeking such TA was identified. The recommendation of the financial TA task force to integrate such TA services into the country assistance management framework is important and consistent with the findings of TARTF (Box 5.4).

5.21 Compared to 12 years ago, when the Bank's experts in institutional development numbered fewer than 10, there are currently 37 identifiable ID specialists in PRE and Operations (13 and 24, respectively). In addition, there are 12 technical assistance specialists, all in Operations. The Bank's ID "network" identified by CECPS for purposes of disseminating information and networking numbers close to 100, including the generalists working on ID issues and interested managers. The most recent staff planning exercise (undertaken in the context of FY92-94 business planning) identified the need to recruit more specialists in public sector restructuring/private sector development specialties, and this trend can be expected to continue with increased attention devoted to private sector development. Even so, the scope of attention to ID issues that is needed to improve sustainability of Bank operations will require enhancing the skills of many more higher-level operational staff. The task force recommends that Personnel should revisit ID staffing needs explicitly in the context of its human resource planning, recruitment and training programs during the next planning cycle.

Filling a Gap in the Bank's Tool Kit

5.22 The evidence from all evaluations of past performance is clear: the weakest link in the TA chain lies upstream. The high degree of upstream institutional development analysis and arduous constituency and capacity building necessary to accomplish the kinds of approaches discussed above will demand commitment of adequate resources. Despite the significant flow of TA resources from bilateral and multilateral agencies (discussed in Chapter 2), the Bank remains uniquely placed (especially after its internal management of TA is strengthened) to offer leadership on linking strategic ID needs assessment with macroeconomic management and sectoral policy analysis. Realistically, the Bank's budget cannot be expected to accommodate all institutional development preparation work (although managers should accommodate within their work programs the recommended improvements in procedures in CSP, business plan and project preparation and in supervision). Furthermore, much of the upstream work is best carried out under the management of the countries concerned. Unlike most other multilateral Banks, the Bank does not have a nonreimbursable instrument to help finance such upstream ID work.

5.23 Accordingly, and in the context of the overall improvement in processes recommended above, the task force proposes the set up of an Institutional Development Program Preparation Facility to respond to country requirements for upstream ID work. At current levels of Bank loan funded TA (\$1.7 billion), of which two-thirds, or roughly \$1.1 billion, is aimed at ID purposes, and assuming costs of preparation average 10% of eventual project costs, such a grant facility might be appropriately funded at \$100 million. During its pilot phase, and in view of potential cofinancing from external sources, the facility should be funded initially at around \$50 million, from Bank net income. Suggested criteria for allocation are: (i) consistency of proposed work with country assistance objectives; (ii) unless used for developing an ID strategy, access to the grant facility would be limited to countries where an ID strategy exists; (iii) no use of grant funds for purposes which can readily be met using the PPF or other regular Bank instruments; (iv) only TA schemes aiming to elicit Government commitment, design policy reform strategies, facilitate institutional development or capacity building would be funded; and (v) funding of Bank staff would normally

I have given you my comments on this separately. Aside from the not recommended this lacks any definition of eligibility (why grants to Korea? Mexico?); of functional emphasis; or justification for amounts. If it is a Preparation Facility - feasibility - for what? If it gets funded loan or credit why not restructure?

this is annual

?

?

Box 5.4: Financial Technical Assistance

External Financial Technical Assistance (FTA) is provided to countries in matters pertaining to the management of a country's public external assets and liabilities, and is categorized as follows: financial information and control; strategic financial management; funding and market access; and market management of external assets and liabilities. Within each of the FTA categories, assistance provided may include: information brokerage, where knowledge gained from the Bank's work in other areas can be shared with the country; training that can involve the use of seminars, technical courses or internships with other institutions; institution building activities; and, analytic tools and strategy advice.

While the level of demand for FTA services is difficult to assess, it is estimated to be relatively high and expanding rapidly as a result of the debt crisis, the difficulty in obtaining appropriate financial inflows and the increased volatility of financial markets. The demand is partially met by the private sector, but it cannot adequately address the long term capacity building aspects of debt management. Other international agencies are active in capacity building programs: the Commonwealth Fund for Development Cooperation, UNCTAD and the regional banks have all played a very effective role in many countries. Where these agencies are not able to meet the need, the Bank is a preferred provider and rather than a competitor, is perceived as an objective partner with the ability and desire to pursue sustained development strategies. The largest portion of the Bank's FTA services during CY 1989-90 was related to financial information and control (53%); the largest recipient of FTA services from all providers were the severely indebted countries. Currently, FTA is offered free of charge with very few exceptions (Chile has reimbursed staff time and travel-related expenses), but countries often pay for services provided by consultants out of TA loans or credits.

The Task Force on Financial Technical Assistance offered several recommendations to improve quality and accountability of Bank provided FTA services: the Country Department (CD) is the appropriate channel of communication between the Bank and a member country, therefore primary responsibility for defining FTA needs rests with the CD; each CD needs to acquire a minimum core of staff with financial skills capable of managing FTA work, and appropriate staff training courses should be a priority; CESW should be provided free of charge, however, institutional development and training activities which require outside resources should be funded by TA loans, trust funds and increasingly, by the countries themselves; FTA work should be subject to the CAM process for determining priorities in the use of staff resources; the Bank should pursue other funding sources to finance long-term consultants (UNDP, bilateral); and, the Bank should enforce strict quality and risk control. The need for improvements in countries' financial management capacity exceeds the articulated demand, as well as the resources available, therefore the FTA Task Force strongly recommended that action be taken to increase the effectiveness and efficiency of Bank-provided FTA.

be excluded. Preference in allocation would be given to low-income countries, with access possible for adjusting and reforming middle-income countries which need a significant effort in institutional development needs analysis over a short timeframe, such as would normally not be fundable through Bank ESW or loan preparation work. This facility would be managed in a decentralized fashion using the business planning process to allocate the funds across Regions and allowing a free approval limit of \$0.2 million, at the discretion of the RVP. Oversight would be ensured by a Bankwide high level Technical Assistance Advisory Committee which would clear schemes above the free limit, arrange for the preparation of an annual report to the Board and, in general, monitor progress of all actions recommended in this report. If such a facility is agreed in principle, details of planning and management of it would be worked out by Operations and CPB. FINCOM's Resource Mobilization Department would take the lead in the funding aspects including preparation of a Board paper.

1?
X

Recommendations

5.24 Technical assistance design is an art of the possible. Quality depends on selectivity, adjustment to local conditions and a participatory approach to design and implementation. The rate of success of technical assistance which aims at capacity building and institutional development is relatively low, even though there are instances of high payoff interventions.

5.25 Several interrelated measures need to be taken to achieve a higher and more consistent standard of excellence in Bank technical assistance activities:

- (a) At the identification stage, there is need for systematic testing of the commitment of recipients towards the objectives of the technical assistance and timely efforts made to generate ownership for the technical assistance activity, through participative approaches to diagnostic work, project design. Revision of operational policy procedures to this end is recommended (paras. 5.2-5.9).
- (b) The Bank should work with interested governments to develop the local consultancy profession through comprehensive support programs implemented within an appropriate enabling environment (para. 5.10).
- (c) Bank TA activities should be prepared, appraised, documented and supervised with the same care as investment and adjustment operations. Adequate priority should be given to economic and sector work on institutional development and public sector management issues, adequate staff resources should be assigned to process TA schemes and project processing guidelines should be revised to ensure sufficient selectivity in project selection and vigor in project design (paras. 5.11-5.14).
- (d) The organizational set up for managing ID and TA should be strengthened. Regions should review their processes and staffing for professional support and monitoring of ID/TA activities (para. 5.16). A formal high level TA Advisory Committee should be set up. Field offices should, where feasible, be brought more into the needs assessment, project preparation and supervision stages of TA activities, as well as the coordination of TA with other donors (para 5.17). PRE should consider how best to organize to spearhead ID policy work and dissemination activities, possibly through a separate unit (paras. 5.18-5.19). Legal and FINCOM should expand their ID and FTA cross-support activities to the extent these are incorporated in country business planning (paras. 5.19-5.20). Personnel should reassess Bankwide ID skills and plan appropriate recruitment and training activities in the context of the FY93 planning cycle (para. 5.21).
- (e) A grant facility should be created to help finance institutional development preparation work and progress reports to the Board should be produced annually. An initial \$50 million should be allocated to this facility, out of the income surplus account and this amount should be allocated among the Regions through the business planning process and used according to standard criteria under the oversight of the high level Bankwide Technical Advisory Committee (paras. 5.22-5.23).

budget

6. AN AGENDA FOR ACTION

6.1 The task force examined the history and concepts underlying current technical assistance activities; reviewed available analyses and operations evaluations; conducted interviews with Bank staff and Executive Directors, consulted with technical assistance recipients and donors and took account of recent policy reviews on connected subjects. Out of this intensive exposure to issues and lessons of experience, consistent themes emerged and the task force drew up an agenda for action aimed at improving the effectiveness of Bank technical assistance activities. A full list of recommended actions appears in Annex B.

6.2 The impact of TARTF recommendations on administrative resources could not be estimated in the time available to prepare this report. In any event, the nature of the recommendations preclude a reliable assessment from the center. On the one hand, TARTF prescriptions of selectivity and quality consciousness should trigger redeployment and savings in the resources currently allocated to ID type work. Increased efficiency should also flow from the organizational recommendations and the sharper delineation of the Bank's role. In time, improved coordination within the total international system should allow an increasingly specialized role for the Bank.

6.3 On the other hand, the pent up need for ID and policy reform and the growing demand from the membership for Bank involvement in upstream activities must be met. This will have significant budgetary consequences which the creation of the proposed grant facility should help to mitigate but may not eliminate entirely. Assuming the TARTF plan is adopted, it would be most appropriate to allow the decentralized planning process to bring forth and prioritize resource claims. TARTF believes that improved quality and efficiency should result from screening requirements through the country assistance programming system and from rationing scarce resources in light of efficiency considerations through the budgeting system.

6.4 The major constraint which will need to be relaxed in the short run relates to available ID skills. This will call for a special follow up exercise by ORG and Personnel to ensure that processes are in place to use available skills effectively, target recruitment appropriately and upgrade current training programs for ID-type work. Accordingly, TARTF recommends that the FY93 human resource planning exercise should give adequate attention to the issues highlighted in this report.

6.5 The time for reshaping technical assistance activities is ripe. Policy reform has changed the landscape of institutional development requirements and the modalities of technical assistance should be made more flexible, market-based and adapted to differentiated country needs. The weaknesses which characterize much of the technical assistance currently provided to developing countries should be addressed cooperatively. Accordingly:

- consultation should be initiated through DAC to enhance the framework of policies and procedures governing technical assistance;
- intensified consultations with UNDP should be carried out to reposition relative roles in institutional development work, technical assistance needs assessments and aid coordination.

6.6 The Bank's multi-faceted role as financier, manager and provider of technical assistance requires more effective management. Greater selectivity is needed to protect quality and the Bank

should concentrate on wholesaling functions rather than direct retailing of technical services.
Therefore:

- aid coordination of technical assistance should assume greater priority in Bank programs;
- country TA needs assessments should draw on UNDP experience and information;
- potential expansion initiation of fee-based services should be explored in areas which do not overlap with private sector advisory services.

which is said to be very poor?

That's not what was said. It was to promote private services. But, I guess it

6.7 The effectiveness and strategic content of Bank technical assistance should be enhanced through the following measures:

OK to provide free TA where private advisory services are available?

- greater emphasis on institutional development in PRE's policy and research agenda;
- explicit consideration of TA risks caused by governance constraints and lack of government ownership of TA activity;
- increased selectivity of TA interventions to focus on areas where strategic objectives are agreed;
- improved treatment of institutional development issues in country assistance strategy and planning documents.

6.8 Because technical assistance is a high risk, high payoff activity, it calls for a distinctive approach. But the task force found no reason to believe that its management should be any less rigorous than that adopted for other Bank services. Indeed, it found ample cause for concern regarding quality of TA work, especially with respect to the front-end of the TA cycle. In order to improve the success rate of Bank TA, the task force recommends that the Bank:

- give more emphasis to the preparatory phase of TA and to the generation and testing of Government commitment, through participation;
- work with Governments to promote capacity of local consultants;
- set up a grant facility for institutional development preparation work to fund upstream preparation work;
- assure the quality of all stages of the TA process, through tighter guidelines and more consistent quality monitoring;
- involve field offices in TA coordination and supervision to a greater extent than they are now;
- revamp the organizational processes and the oversight of ID and TA activities by a high level Bankwide Technical Assistance Advisory Committee, and strengthen the skills available internally to produce quality TA work.

a recommendation of desperation.

These things don't work. We know.

What needs to be done is to translate the above into specifics; train managers and staff; establish accountability and make it a part of the process.

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

TE: 30-Aug-1991 10:49am

TO: Ernest Stern (ERNEST STERN)
TO: D. Joseph Wood (JOE WOOD)

FROM: Basil Kavalsky, FRM (BASIL KAVALSKY)

EXT.: 80523

SUBJECT: Cote D'Ivoire

I attended a brief PC on Friday morning to review the agreed position on Cote D'Ivoire. There was one significant development subsequent to the OC. OPS has decided to allocate \$100 million of IDA up-front for the adjustment loans. Thus the first tranches will total \$200 million: \$100 million IBRD which thus maintains its exposure; and the \$100 million IDA.

The \$100 million of IDA is equivalent to the full three year (FY92-94) allocation to Cote D'Ivoire included in the most recent Lending Allocations Review. In reality therefore what we end up with is a far more generous package than the Option 2 outlined by the Region in its paper. The IMF and the French can scarcely object to our substituting such a large amount of IDA for IBRD.

This hardly gives a signal that we have serious concerns about performance and is not consistent with the position we took at the OC meeting. This said, it was difficult without advance notice and in the atmosphere of a rushed 15 minute PC to take issue with this point. What I propose is to ask OPS for a clear statement that what has been done is to front-load the full three year IDA allocation for Cote D'Ivoire at its current level of performance and that additional IDA allocations will require a clear improvement in performance. Do you agree?

On the question of conditionality on the real exchange rate I think the Region has done a good job. There is a clear statement that second tranche release depends on the restoration of the real exchange rate to mid-85 levels. This does not leave any wiggle room. We must ensure that the French do not think that in the June-November period of the IDA negotiations when their leverage is at its maximum, they will be able to pound us into releasing the second tranches without a devaluation.

CC: Fred Kilby (FRED KILBY)
CC: Lorene Yap (LORENE YAP)
CC: Jeffrey Katz (JEFFREY KATZ)

50v
eg
9/1/91

The World Bank

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



With the compliments of
Ernest Stern
Senior Vice President
Finance

Mr. Wood

Joe.

quite interesting.

9/11

ei

SHEARSON LEHMAN BROTHERS

A Member of The Securities And Futures Authority



International Economics
Helen Dunn
Gerald Holtham
(44)-71-260 2272

Economics - International

Exchange Rate Trends

Dollar Still Trending Up

The US dollar remains undervalued against the major currencies on conventional measures of PPP. But using trends to remove quality and productivity biases in price indices we find that current rates for the yen and DM against the dollar are broadly consistent with PPP.

Our equilibrium models for the yen and DM, which extend PPP by allowing for such factors as external debt and asset markets, show the dollar rising further towards the end of the year and early in 1992.

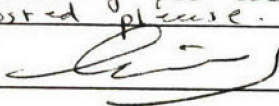
In the ERM, the high yielding currencies - sterling, the lira and the peseta - are all shown to be overvalued against the DM with the PPP estimates lying outside the present ERM bands.

Erratum

This version of Exchange Rate Trends replaces the one sent out on August 23rd/24th. The earlier version contained errors including transposed pages.

FORM NO. 1728
(2-8)

THE WORLD BANK

ROUTING SLIP		DATE: 9/11/91
OFFICE OF THE SENIOR VICE PRESIDENT, FINANCE		
NAME		ROOM NO.
Mr. Eccles ^{o/r}		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: I have only read this, as requested. But the story is not attractive and if CSH doesn't get itself organized to deal with these issues - and be responsive at all levels - let us not delay involving you and Don. Keep me posted please.		
FROM: 	ROOM NO.:	EXTENSION:

8-180
8-20-91
The World Bank

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

→ NSTERN

8/30



With the compliments of
V. S. Raghavan
Director
Loan Department

August 29, 1991

✓
Stephen,

Attached is a note I have given to Walter Peyerl based on the input from various LOA divisions. This will be discussed in CSH Management Retreat next week.

This is for your information only. I will keep you informed of further developments.

ERNIE

No action requested of you at this time, but I thought you should see how professionally and calmly this is being dealt with by Raghava. Steve.

OFFICE MEMORANDUM

DATE: August 28, 1991

TO: Mr. Walter Peyerl (CSHDR)

FROM: V.S. Raghavan (LOADR) *LR*

EXTENSION: 84116

SUBJECT: Loan Department Needs for CSH Services

1. This memorandum responds to your EM of August 21. We very much appreciate the overall level of cooperation we receive from your Department, and welcome the opportunity to outline areas where changes would be beneficial.

COLLECTIONS

2. Our most pressing issue is related to the Loan Service Payment (LSP) system. LOA needs access to import certain data structures from the current LSP system residing on the DEC machine to carry out critical testing of the various modules of the new LSP system which is scheduled to go into operation in November/December 1991. We have proposed two alternatives: (a) extraction of data by CSH, bearing in mind our urgent need for this data as soon as possible; or (b) LOA authorization to access data in read-only mode, in order to extract the necessary data. I believe your colleagues have some problem in giving the data within a reasonable time period: they have also not agreed to our request for read-only access even at non-prime hours. We seek your intervention to ensure that the necessary data is made available to LOA promptly.

3. It is too early for us to anticipate what other changes may arise once the new LSP system is in operation.

4. You are aware of the other concerns we have in an area of our operations which affects billing systems, overdue reports, loan charge waiver eligibility, suspension and non-accrual actions. Accurate and timely data on receipts should be released to the LSP system as quickly as possible (within 1-2 days). Problems of late confirmation from depository banks (e.g. Amrobank) and incomplete information (e.g. Deutsche Bank) should be followed up actively, and cash account reconciliation should be completed promptly (see para 10).

5. We welcome the automatic processing of incoming SWIFT messages which is currently being developed in CSH, but would like to ensure that our Receivables Administration Unit continues to receive all available information. There should be no loss of detail compared to the current receipts processing system when this new system is introduced.

LOAN ADMINISTRATION MODERNIZATION PROJECT (LAMP)

6. We expect that LOA applications on UNISYS will continue to interface with CSH systems for the next 2-3 years. Simultaneously,

during the design, testing and implementation of LAMP projects, we will need close coordination with CSH. We can expect increased volumes of data (messages) between LOA and CSH systems during the transition from existing LOA systems to the new systems. It is too early for us to give any further details.

DISBURSEMENTS

7. We believe it should be possible to reduce the elapsed time for execution of all payments. In FY91, CSH time to execute IBRD/IDA payments averaged 4.87 days compared with LOA time of 4.56 days to authorize the disbursement after completing substantive review of eligibility. Trust Fund payments took substantially longer: 7.54 days for CSH, compared with 5.79 days for LOA. (LOA elapsed time is somewhat longer partly because it includes delays while awaiting additional donor contributions.) I would appreciate your exploring the possibility of reducing elapsed time in CSH through maintenance of relatively small balances in commonly used currencies for IBRD/IDA operations, and through daily or semi-weekly execution of Trust Fund payments.

8. We see a need for improved quality control over existing transactions handled through the Loan Disbursement System (LDS). For example:

- (a) Occasionally CSH loses cancellation messages. CSH still sends the old transaction type for cancellations even though we agreed this should be discontinued.
- (b) Payment requests are sometimes seriously delayed (two current cases have taken more than six weeks) and follow up is either not frequent enough, or not sufficiently explicit to elicit a response. Similarly, requests for foreign exchange conversion of refunded amounts sometimes take too long (two current cases have taken more than a month) and require frequent follow up from LOA. We suggest introduction of an aging report or other management control to monitor these transactions and ensure timely handling.
- (c) More stringent controls are needed to avoid duplicate payments, and under- or over-charges on foreign exchange transactions. In the most recent case of an under-charge, the original amount charged represented only one-third of the corrected charge.

9. Enhancements which would improve the LDS-CTPS interface are outlined below:

- (a) Automation of Refund Advice Notification: This could be a new message or a modified version of the current receipt advice note used for interface with billing systems.
- (b) Automation of Requests for Foreign Exchange in connection with refunded disbursements.

- (c) Modification in CTPS Cancellation Message Processing:
Currently a hard copy of the LDS cancellation message is printed and used by CSH staff to locate the original request in the system. Printed copies are easily misplaced, and prone to printer problems. It would be preferable to record the cancellation message as a pending task and automatically link this to the original request.

CASH ACCOUNT RECONCILIATION

7 || 10. Cash account reconciliation is not completed in a way that ensures prompt identification of problems. On the disbursement side, we continue to learn of cases where payments have not been executed although confirmation of payment has been sent from CTPS. (Recent cases were identified when a borrower complained of non-receipt of U.S. dollar payments supposedly executed on April 11.) On the collection side, we need more timely reconciliation to eliminate late discovery of receipts or non-payment of refunds. A reliable system which ensures prompt identification of any such problems is essential.

GENERAL

- ✓ || 11. Now that I am reasonably settled in my new job, it may be useful for you and me to meet periodically - say once a month - to exchange ideas on improved communication and coordination between LOA and CSH.

cleared in substance and cc: Mr. Choudhury (LOALA), Mr. Sathaye (LOANS)

File: Cash Management Department (CSH)

cc: Mr. Ahmed (LOAAS)
Mr. Mayer (LOAAF)
Mr. Schneider (LOANS)
Mr. Sengamalay (LOAEL)
Ms. Huang (LOANS)
Ms. Lindsey (LOANS)
Ms. Ely Hachana (LOADR)

DReinke:dr

The World Bank

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



With the compliments of
Ernest Stern
Senior Vice President
Finance

91.191

Mr. Kavalsky

Basil -

What is our program in
Tanzania?

Can this status report be true?

(E)

INTERNATIONAL

South Africa

Capital values

FROM A SPECIAL CORRESPONDENT IN JOHANNESBURG

FOR an integrated South Africa, say the white people who believe in such a thing, black capitalists will be one of the pillars. Blacks who join the economic system, they say, will not want to see it torn apart. In the next breath the prejudices come tumbling out: "Blacks are lazy, blacks can't be entrepreneurs, there is no such thing as an African business sector."

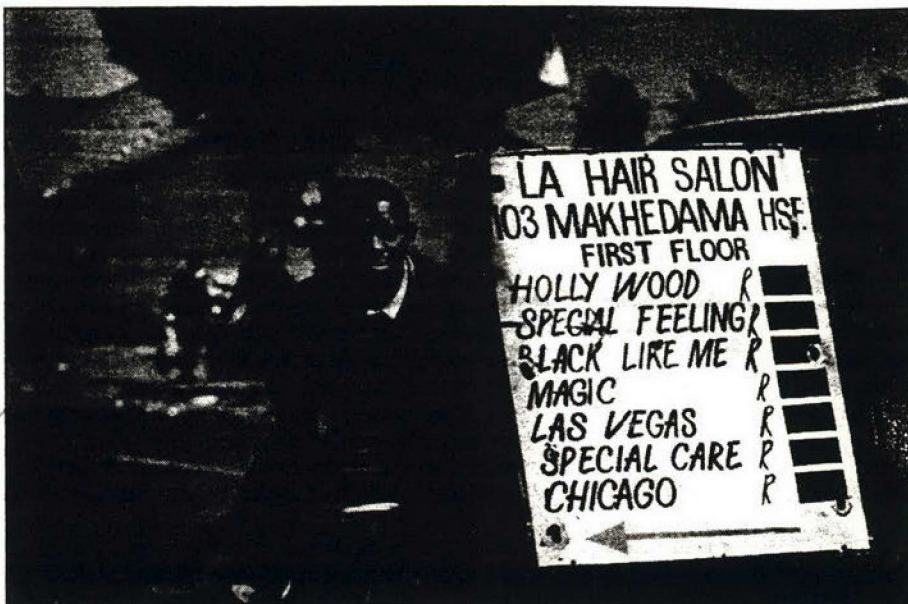
Most official policies are marked by the same contradiction. In theory, white officials and businessmen believe that black entrepreneurs should be encouraged. In practice, old prejudices, old habits and old ways of determining everything from lending to education continue to discourage would-be black capitalists.

Until the late 1980s black people could own no property and obtain no business licences. Many of the more conspicuous black entrepreneurs began by operating illegally, in the drink, gambling or transport businesses. A few more, very lately, have started from scratch. Most work in the "informal sector"; this means that they are modest retailers (traders and street vendors), owners of small service companies (repairmen and mechanics), or keepers of township drink and grocery shops. Since the authorities began encouraging such small businesses, they have changed the look of South African cities. Optimists point to the speed of their growth as evidence of what blacks can achieve, given the chance.

But Johannesburg's hawkers will not soon be competing with Anglo American. The South African Central Statistics Services reckons that the informal sector contributes only 3% of GDP. Of the 2m workers who take part in it, only about 12,000 make a monthly profit of more than 5,000 rand (\$2,000). Hawkers remain hawkers.

Blacks who seek to expand from a shop to a supermarket face tremendous obstacles. Until recently they could not get bank loans at all; owning no property, they had no collateral. Banks still do not like lending without personal security. In the townships, where violence is assumed to be endemic, insurance rates are high. Skills are scarce among black people; until 1987, only two technical schools were open to them. Although some blacks have prospered, the heritage of apartheid is that blacks rank far below whites, Indians, and Coloured (mixed-race) people in everything from literacy and numeracy to university degrees.

The suspicion survives, moreover, that established (meaning white) businesses throw impediments in front of blacks who try to expand into their territory. AFSURE, a black-run insurance firm, tried to get busi-



Short back and sides, long odds against expansion

ness from local councils in black townships. It found itself consistently undercut by established insurers, which it believed were willing to lose money to keep new competition down. There was nothing illegal about that; the only remedy would be fresh legislation discriminating in favour of blacks, and therefore against whites.

The dramatic success story is the black taxi business, which responded to deregulation in the 1980s by becoming the main means of transport for far-flung townships and tribal areas. The minibus drivers, shouting for custom on the corners of city streets, face (and often defy) a host of regulations. With black entrepreneurship so strongly concentrated in this industry, it is small wonder that the police regard it as a network of protection rackets.

Some large companies, to be fair, work hard to foster black enterprises, often by

supplying their more reliable employees with tools and raw materials, and by setting them up as independent subcontractors. This enables hard workers to earn good money, and to hire others to keep their tools working round the clock. (It also, say cynics, reduces the power of black trade unions.)

Advocates of black business insist that it will not expand—or not fast enough to satisfy aspirations—without what Thami Mzwai, a business writer for the *Sowetan*, calls a "massive programme of affirmative action". He means that white businesses should be compelled to hire black workers and to use black subcontractors. Others call for a huge assault on education, using schools day and night for adults as well as for children. Letting the market take its course, in an economy dominated by old habits and giant monopolies, may not be enough for South Africa.

Tanzania

Low Marx

FROM A SPECIAL CORRESPONDENT IN DAR ES SALAAM

ECONOMIC fashions travel fast these days. Eastern Europe's craze for economic reform has spread to Africa, where even Tanzania is beginning to heed it. Students of Marxist-Leninist internationalism should take note. Tanzania staked its claim to be the heartland of African socialism in 1967, when Julius Nyerere, the former president, triumphantly laid out the principles of *ujamaa* (Swahili for "familyhood"). The family was not happy.

Tanzania's *ujamaa*, proclaimed as a purely African construct, had practical consequences all too familiar to students of

eastern Europe. Western European governments—particularly Nordic ones, mistaking African socialism for their own democratic variety of it—gave the story an extra twist. Western donors poured about \$9.5 billion into Tanzania between 1970 and 1985. They supported, among other things, an arrogant single-party bureaucracy, the persecution of anybody seeking to provide a service for profit, and collective farms whose inhabitants were coerced into residence, and which sometimes lacked water, roads and arable land.

The World Bank financed white ele-

phants like the \$15m Morogoro Shoe Factory, designed (in the tradition of Stalinist gigantism) to produce 4m pairs of shoes per year, but which never produced more than 7% of its capacity. Nobody in Tanzania, or at the World Bank, took care of small problems like marketing and design, or saw to it that the plant got appropriate supplies of power and raw materials.

As Tanzania's GNP dropped, the government ran out of money to run its own activities. More western aid came as straightforward budgetary support, flowing straight into the hands of increasingly corrupt and numerous bureaucrats. The donor nations, disillusioned with Mr Nyerere, began pressing him to change. He conceded that "mistakes had been made" and, on his retirement (from the presidency, though not from the chairmanship of the single party) in 1985, he left the task of economic reform to his successor, Ali Hassan Mwinyi.

President Mwinyi devalued Tanzania's currency, cut its budget and removed some curbs on foreign investment and imports. Peasants, many of whom had slipped from cash-crop farming back into subsistence farming, were paid real money again (if not much of it). Imported goods, paid for by new forms of foreign aid, began to appear in the shops. Queues shortened.

But if *ujamaa* felt like an invention from outside, so does economic reform. The bureaucrats—in a one-party state, they are also the political elite—are still around, and grossly underpaid; government executives may earn as little as the equivalent of \$10 monthly. But the tightly regulated, centrally administered economy gives them many opportunities to supplement their salaries. Starting a business requires permission, and hence a bribe; producing anything requires a licence, and hence a bribe. The government talks of selling the subsidised state corporations which drain resources and provide comfortable niches for directors. Not a single one has been sold.

Tanzania still has Africa's largest state sector. When they do cut budgets, the bureaucrats prefer to starve social programmes rather than fire the 30-40% of their own number who have no real jobs; they say that laying off 100,000 people would be "inhuman". Currency reform moves with excruciating slowness. Banking reform has yet to begin at all. The building of white elephants continues, not least in deserted, waterless Dodoma, designated the country's new capital.

Once again, western aid contributes to the problem. When Poland and Hungary appealed to the IMF and World Bank for aid in 1989, they were told they would not get a penny unless they cut the budget, implemented monetary reforms, introduced a convertible currency, privatised industry. The list for Tanzania is much the same. Little of it has been done, yet the country got

Recycling the Russians

FROM A SPECIAL CORRESPONDENT IN DAR ES SALAAM

ONCE the large Soviet embassy in Dar es Salaam was stuffed with technicians, doctors and students of Marxism-Leninism. That was when the dictatorship of the proletariat, inspired by the leading role of the party, was bravely beating back capitalist monopoly imperialism in the exploited third world. These days, Soviet diplomats have other concerns. "We are looking for cost-cutting measures and profit-making," explains one. "We are trying to set up joint ventures."

Profit-making is proving harder than expected, despite some good ideas. A ferry link between Dar es Salaam and Zanzibar—the service was wretched before—was the first. But when the embassy, full of enthusiasm, tried to get the transport ministry in Moscow to supply a ship for the 40-mile (64-kilometre) run, it came up against implacable Soviet bureaucrats. Only when someone in the ministry left to form his own company did a vessel miraculously become available. Then came a tussle for licences with the Tanzanian bureaucracy.

Eventually, bribes paid up and bureaucrats on different continents satisfied, the Sea Express opened its ticket office last year, beneath a large sign written both in Russian and in English. But the ship keeps breaking down. "We are novices in this world of private business," a



diplomat humbly explains.

Subsequent efforts have included a transport company (using 25 trucks imported from Minsk) and a fishing company (a single Latvian fishing boat and a few sailors). Each project earns a little hard currency, which goes a long way at home. The embassy is proud that it is the first in Africa to try such ventures, although somewhat embarrassed by the modesty of their scale.

Cost-cutting will be the next stop, it seems. Some western embassies have already been approached about employing Soviet technical advisers, paid a tenth as much as a western expatriate. Some Soviet doctors are working for a Finnish-financed health project, but most such requests are laughed off. The days are long gone when western fear of a new communist onslaught on Africa earned the Russians some respect.

more than \$1 billion in aid last year, supporting the state sector that it is meant to help dissolve.

When the IMF cut off loan negotiations in 1980, the Tanzanians did move faster. But outside pressure was not maintained. As elsewhere in Africa, many donor nations are reluctant to accompany their cash with conditions—even, for example, to require accounting for an import-support programme. The excuses border on the racist: "This is Africa, what can you expect?" said a foreign expert, to explain why those state corporations remain unsold.

Some outsiders say progress is delayed by the lack of black capitalists. Others fear that freer markets could lead to racial strife, as local Asian entrepreneurs regain their former prominence. But a faulty system, not cultural incapacity, explains why Tanzania has few indigenous capitalists. If bribery and corruption can buy education, houses and cars, ingenious Tanzanians could surely work out honest ways of getting them.

About one-third of western aid goes to pay for hundreds of high-earning expatriates, to do jobs that Tanzanians are sup-

posed to be incapable of. Donors (though not America's agency, USAID) bring in foreigners, and are surprised to find that Tanzanians do not maintain their projects when they are complete.

Gradual change can lead to further corruption. When private firms were authorised to buy hard currency at special rates, subsidised by foreign donors, the bureaucrats who issued the licences demanded bribes for doing so, and pocketed part of the proceeds. Making the currency convertible would have been more effective, and cut out the rackets.

Tanzania's one-party state has avoided the worst of its neighbours' human-rights abuses. For that, western governments have rewarded it with aid. But that aid has enabled the oversized government to grow even larger and less competent. Ordinary Tanzanians need feel no gratitude to the foreigners whose kind intentions have made them even poorer. With less aid, their government might have been forced to take responsibility for its own failures, and to rectify them or resign.

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

ERNEST STERN
Senior Vice President
Finance

September 3, 1991

Mr. Preston

Lew -

Review of IDA

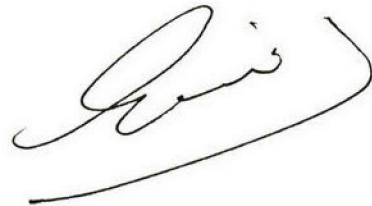
The attached report is scheduled to be discussed by the Board on September 26. It should be distributed by September 6.

The report describes implementation of the agreements reached during the IDA negotiations. While entirely descriptive, it may, nonetheless, be controversial since the IDA agreement was. That triggered a debate about the role of the IDA Deputies (they are from capitals, and recipients are not represented) and the Board, and about the recommendations regarding the environment and Board discussions of country strategies. Things have calmed down since then. The environmental recommendations have been incorporated in Bank-wide guidelines and the Committee on Board Procedures is considering country strategy discussions for Bank borrowers too.

The report was discussed at the Operations Committee (chaired by Moeen Qureshi; Legal and PRE are represented) and comments have been incorporated.

I do not believe a further review by the President's Council is necessary. There are no policy issues or recommendations in the paper.

If you concur, I will send the paper to the Secretary's Department for issuance.

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

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

LEWIS T. PRESTON
President

September 3, 1991

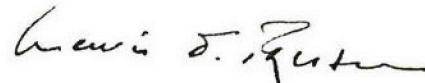
Mr. Legg

Allan -

Should the matter of distribution of your annual report to the JAC arise at Wednesday's meeting, you should:

- note our concern about the distribution of this document intended for internal management purposes, and;
- suggest that the JAC meet with you in private session, without management participation, at which you could summarize your principal conclusions and discuss any matters relating to cooperation in your audits and remedial actions, as well as any which bear on your independence of action.

If this proves satisfactory, it could be a permanent arrangement; if not, we can consider the circulation of the Annual Report to the JAC by the end of FY92.



cc: Mr. Picciotto

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

ERNEST STERN
Senior Vice President
Finance

September 3, 1991

Mr. Picciotto

Bob -

In reading the draft annual letter to us from Price Waterhouse, I noted that discussions have been inaugurated between your staff, specifically the Auditor-General, and Price Waterhouse, to have Price Waterhouse second staff to IAD.

I was astonished that you would sanction such discussions without prior consultation with Mr. Eccles or myself and, equally, that Mr. Legg would undertake such discussions without prior consultation. Of all the units in the Bank, I should have thought yours best equipped to know that our external auditing contract is with Price Waterhouse, and that Mr. Eccles is responsible for auditing relations with Price Waterhouse.

In my view, there is an obvious potential for conflict of interest in the proposed arrangement, and we are asking Price Waterhouse for additional information on what kind of staff will be involved. But I am skeptical that no matter what the internal organizational arrangements in Price Waterhouse are, the arrangement can do anything but affect the independence of judgement of Price Waterhouse and IAD. Given the plethora of account/auditing firms, it is hard to understand why IAD would choose to focus on Price Waterhouse.

We will convey both our concern on this, and our unhappiness that such arrangements should be discussed without prior consultation, to Price Waterhouse. Meanwhile, I would appreciate it if no further steps would be taken to formalize the proposed arrangement.



9-006
9-3-91

THE WORLD BANK

ROUTING SLIP		Date 8-29-91
OFFICE OF THE PRESIDENT		
Name		Room No.
Mr. Storm		
Mr. Picciotto		
Sandstrom		
	To Handle	Note and File
	Appropriate Disposition	Prepare Reply
	Approval	Per Our Conversation
☒	Information	Recommendation
Remarks If I recall, last time we set up a control system to make sure the GAO staff met with ours <u>only</u> with a repr. of the EDs office present. We should do so again. We also need to emphasize that we supply only information we would be prepared to release to any From <u>Sven Sandstrom</u> E.D. 		

OFFICE MEMORANDUM

DATE: August 22, 1991

TO: Mr. Sven Sandstrom

FROM: Yves Rovani *YR*

EXTENSION: 31720

SUBJECT: GAO Survey of the World Bank's Independent Evaluation System

We were informed through one of the assistants in the US ED's office (Tom Burke) of GAO's proposed survey in reference. Given the informal ways in which this was communicated to me, I have to assume that the President has not been informed. Please make sure he knows. I attach copies of the letters which have been given to us in this connection.

I asked Pat Coady about this and he confirmed that as far as he knew there was no particular congressional request behind this. It seems that it is a GAO initiative, intent on updating their review of ten years ago. The ED's office, which has acted as intermediary, sees that as a routine review. They have agreed to help brief the GAO team on how the Bank works, which would help focus their enquiry and save us time.

Given the professionalism of the GAO and USAID I believe that their external review could prove useful. It certainly is timely in light of the many developments since 1981.

I am awaiting a direct communication from GAO.

Attachments

AO

United States
General Accounting Office

National Security and
International Affairs Division

June 21, 1991

Mr. Samuel T. Mok
Comptroller, Department of the Treasury
Main Treasury Building, Room 1462
Washington, D.C. 20220

Dear Mr. ^{Say}Mok:

This is to advise you that the General Accounting Office is initiating a survey of the independent evaluation system of the World Bank. This assignment will be performed by staff of the National Security and International Affairs Division, Foreign Economic Assistance Issues, under assignment code 472261 by Mr. LeRoy W. Richardson, Assistant Director, and Mr. Douglas P. Toxopeus, Evaluator-in-Charge.

In the late 1960s and early 1970s, GAO, under provisions of the Foreign Assistance and Inter-American Development Bank Acts, cooperated with the Department in urging the multilateral development banks to establish independent audit and evaluation systems. The purpose of such systems was to provide accountability to the banks' governing bodies and their shareholders through independent assessments of bank operations and activities. We subsequently reviewed the progress made by each of the banks in this regard. We last reported on the World Bank's evaluation system in 1981.

Our objectives are to identify (1) how the Bank's evaluation system has responded to the changes in Bank operations since 1981, (2) the extent to which evaluation results are applied in revising bank operations, and (3) if the U.S. Executive Director is provided audit and evaluation information necessary for managing U.S. participation and for providing accountability to Congress.

Our work will be performed at the Department, the Agency for International Development, and the Office of the U.S. Executive Director in Washington D.C. We would appreciate

for notifying the appropriate officials of this assignment and requesting their cooperation and assistance. We will arrange through them to meet with the appropriate Bank officials. Mr. Richardson can be reached on (202) 275-5493, and Mr. Toxopeus can be reached on (703) 235-1304.

Sincerely yours,


Allan I. Mendelowitz, Director
International Trade, Energy
and Finance Issues

FIS

GAO

United States
General Accounting OfficeEXECUTIVE SECRETARIAT
AIDNational Security and
International Affairs Division

fr

ACTION: IG/PPO as appropriate
INFO: R LOGS, AA/PPC, IG, AA/LEG,
AA/FA

June 21, 1991

The Honorable Ronald W. Roskens
Administrator, Agency for
International Development

Attention: GAO Liaison

Dear Dr. Roskens:

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Our work will be performed primarily with the staff of the Department of the Treasury and of the Office of the U.S. Executive Director, and through them, with appropriate Bank officials. We would also like to meet with members of your staff dealing with the inter-agency process for managing U.S. participation and with the Center for Development

Conv w/
Toxopeus
7/12 →

Timeframe:

Survey completed
by end of Sept.
Issues identified/
approach delineated
Are there issues significant
enough to capture in more
depth.

emph
=>

91010171

Information and Evaluation. We would appreciate your notifying the appropriate officials of this assignment and requesting their cooperation and assistance. Mr. Richardson can be reached on (202) 275-5493, and Mr. Toxopeus can be reached on (703) 235-1304.

Sincerely yours,



Harold J. Johnson
Director, Foreign Economic
Assistance Issues

The World Bank

ERNEST STERN
Senior Vice President
Finance

URGENT

9/2

Basil

This looked in pretty fine shape.
My only comments relate to the references to Deputies. This should be avoided since it will only trigger the debate again as to whose report this was and what standing it has. Since it was approved by the Board we can refer to it more generally. You may want to improve on my circumlocutions, but the idea is clear. Similarly in the Environment Section we need to do something to disentangle Bank and IDA. On the guidelines we can just say they are generally applicable (though that may be hazardous too); but the project numbers etc. need to be IDA only.

Ernest

DRAFT

IDA'S POLICIES, OPERATIONS AND FINANCE IN
THE FIRST YEAR OF THE NINTH REPLENISHMENT (FY91)

Resource Mobilization Department
August 30, 1991

IDA'S POLICIES, OPERATIONS AND FINANCE IN THE FIRST YEAR OF THE NINTH REPLENISHMENT (FY91)

I. Introduction

1. The IDA9 Deputies recommended that the Association's Executive Directors ~~should~~ review the progress of the ninth replenishment on an annual basis. This report examines how IDA's policies and programs have evolved in FY91 ~~to reflect the advice of the IDA9 Deputies, as summarized in their report "Additions to IDA Resources: Ninth Replenishment" (IDA R90-1), which was subsequently approved by the Executive Directors and the Board of Governors.~~ (— 1990)

2. ~~In their review of the Association's evolving role the IDA9 Deputies~~ endorsed three priority objectives—poverty alleviation; macroeconomic and sectoral adjustment and good economic performance; and the protection of the environment. In each of these areas the ~~Deputies made~~ specific proposals as to how these priorities might be effectively implemented. First, ~~they~~ recommended certain changes in processes to permit a sharper definition of the objectives and the program content ~~needed to achieve them.~~ Second, ~~they~~ proposed that the level and composition of IDA's lending programs be geared to provide stronger support for developing countries' efforts in these areas.

3. The Deputies recognized that IDA ~~had already~~ made significant progress in these areas and that the Association had a strong basis of processes and programs on which it could build. The proposed changes were viewed as further strengthening these efforts. This report ~~does not attempt to provide full coverage of IDA's activities in these areas. For this the reader is referred to IDA9 Discussion Paper No. 1, "The Evolving Role of IDA" published in January 1989.~~ The focus here is on the changes in process and the content of programs in FY91. It is of course too early to examine the impact of these changes on the development programs of IDA's borrowers, ~~but in the subsequent annual reports this will be an important focus of the presentation.~~

4. Section 2 of the paper briefly examines how the priority objectives are integrated into IDA's country assistance strategies. Sections 3, 4 and 5 then examine the experience in FY91 in each of these three key areas. Section 6 looks at the overall lending program in FY91 and its financing. Section 7 provides a brief concluding overview of the progress achieved. FY91 was an unusually eventful year and the Gulf crisis in particular had a serious adverse impact on a number of IDA recipients. IDA acted expeditiously to ensure that the crisis did not result in the interruption of development programs. The record shows that IDA was able to maintain its focus on the longer-term goals of poverty alleviation, sound economic management; and environmental protection. These goals were clearly reflected in IDA's processes and programs during the year and will remain critical to the Association's ability to assist its developing country members during the rest of ninth replenishment.

1/ For a full description of IDA's activities in these areas see - ...

II. Country Assistance Strategies

5. ^A The central concern of the ~~IDA9 Deputies~~ was to ensure the effective use of IDA's resources in supporting three developmental priorities—poverty alleviation, sound economic management, and environmental protection. For maximum effectiveness, the instruments used to support these priorities must be tailored to the needs of individual countries and woven into an integrated strategy. The vehicle which IDA uses to ensure that objectives reflect priorities and that instruments are appropriate for the objectives, is the country assistance strategy. The ^{IDA} Deputies asked that IDA's Executive Directors systematically review country strategies. In FY91 the Board instituted this review in conjunction with the first IDA adjustment operation for each country (or the first investment credit for countries without adjustment lending). The initial round of strategy reviews covered 41 IDA borrowers.

6. The presentations to the Executive Directors build on IDA's dialogue with the borrower and assessments of developmental potentials and priorities. Against this background they identify the focal points of the strategy and the various instruments which will be used to assist the country to achieve its objectives (Box 1). This strategic response is developed through an integrated analysis of the needs of macroeconomic stabilization, undertaken by the IMF, the composition of public expenditures and investment programs and the necessary changes in structural policies at the macro- and sector levels, which flow from the Bank's economic and sector work. Lending operations and non-lending support activities are designed around the priority needs of the economy and the absorptive capacity of the institutions which must implement the program. But a comprehensive country strategy must also take into account IDA's comparative advantage relative to other providers of financial and technical assistance.

7. Box 2 reviews the discussion of country strategies. The discussions permitted the Board to improve its understanding of how the various IDA services are integrated into the country assistance strategy; gave an opportunity to comment on the assessment and the appropriateness and volume of lending; and provided a clearer view of the context of overall aid and technical assistance programs in which IDA is operating. [In FY91 these discussions were particularly valuable in allowing an ongoing assessment of how IDA's efforts in the priority areas are being implemented at the country level.]

IV. Economic Performance

27. ~~The IDA's Deputies stressed the importance~~ ^{is considered central} of giving greater weight to good economic management in IDA's assistance strategy. ^{in a period of scarcity of concessional assistance.} There is a growing consensus that development is best served when governments create a policy environment for markets to flourish, with stable macroeconomic conditions, a favorable incentive structure, and an appropriate regulatory climate. Development further requires that governments take responsibility for providing supporting infrastructure, and for investing in people and ensuring the sustainability of their development. ~~The Deputies asked that IDA enhance its support for governments which have demonstrated their commitment to good economic management.~~ ^{Consequently} They also urged IDA to help governments take advantage of the capabilities of the private sector.

Creating an Enabling Environment

28. In FY91 IDA maintained its central focus on policy reforms. The Association has continued its support to structural and sectoral adjustment programs, especially in Africa, where 24 countries are now eligible for adjustment assistance. Twenty-two percent of IDA resources were allocated for adjustment lending in FY91. Ten African countries—Benin, Burkina Faso, Comoros, Ghana, Kenya, Mali, Rwanda, Togo, Uganda, and Zambia—received adjustment credits, along with the Philippines, Sri Lanka, and Honduras.

29. Collaboration between the IMF and the Bank is firmly in place, ensuring coordinated support for borrowers' reform efforts. The Policy Framework Paper (PFP) process has helped countries formulate an integrated program of adjustment and reform which can be supported by IDA, the IMF, and donors (Box 6). In FY91, almost 30 PFPs were in effect, the vast majority in African countries.

30. With the accumulation of experience on policy reform, IDA has been increasing its support for a broader set of reforms and initiatives beyond those in trade, pricing, and sectoral efficiency. These include private sector development, taxation, public expenditure management, and institutional development. Private sector development, in particular, is a key priority for the entire Bank Group. IDA, IBRD and IFC are reinforcing their efforts to promote private sector development, by helping governments to improve the legal and regulatory framework for business, strengthen the effectiveness of the financial sector, and privatize public enterprises when warranted on efficiency grounds. This is being accomplished through lending, country assessments of private sector opportunities and obstacles, research, technical assistance and advisory work, as well as through increased collaboration between IDA/IBRD and IFC in these activities. ~~A committee, chaired by the President, will provide guidance on direction and oversee the implementation of the effort.~~

31. All of IDA's adjustment operations in FY91—including initial SALs for countries just beginning the adjustment process (para. 32)—contained measures to support the private sector, as well as to improve the efficiency of government. Several SECALs, such as the Financial Sector Adjustment Credit for Kenya, the Public Manufacturing Enterprises Adjustment Credit for Sri Lanka, and the Credit supporting Ghana's Program to Promote Investment and Sustained Development, focused on private sector related reforms. Most adjustment operations now also provide funding for the technical assistance needed to build the supporting institutional framework for the effectiveness of the reform program.

40. Institutions need to be able to analyze problems, obtain advice on how to solve them, and procure assistance in carrying out change. Technical assistance for these purposes has been perhaps the most rapidly growing area of the Association's work over the past year. Successful technical assistance of this kind requires a committed institutional leadership with support at the political level, a well-designed assistance program, and skilful consultants to implement it. The record of all donors here is mixed. The Bank established a Task Force in FY91 to review these issues and recommend further steps to enhance the Bank's capacity to deliver effective technical assistance. The institution will need to monitor this area closely over the coming years and adapt its structures and skills to the needs.

41. For many countries, improving public sector efficiency means parastatal reform, including privatization of public enterprises. Almost all IDA-supported programs contain plans for rehabilitating, liquidating or privatizing malfunctioning public enterprises. Implementation experience has been mixed. Comprehensive plans for restructuring, privatization and liquidation, in particular, have proven to be difficult to implement, especially if the enterprises are in poor financial condition. Nonetheless, some progress has been made. In Guinea, more than 100 public enterprises were privatized or liquidated during 1988-90. In Nigeria, the number was 50; and in Madagascar, Mali, Senegal, and Togo, about 20. In FY91, adjustment operations in Sri Lanka, Ghana, Benin, and Togo bolstered support for ongoing privatization programs. In Burkina Faso, which is just beginning to privatize, the SAL establishes privatization legislation and procedures, and sets an objective of privatizing at least 12 enterprises during the SAL period.

Supporting Good Performance

42. The Association made progress during IDA8 in linking allocations to performance.^{3/} This has continued in IDA9 (see Table 4.1). ~~The IDA Deputies recommended that countries with weak performance be limited to core programs. This was implemented in FY91.~~ Countries with very weak performance receive limited IDA allocations, which are typically restricted to priority social programs and safety net activities. In FY91, this approach was applied to Ethiopia, Somalia, Sudan, and Zaire. These countries, which accounted for about 7 percent of total IDA8 resources, received only 1 percent in FY91.

Table 4.1: FY91 IDA LENDING PER CAPITA
(For countries with populations between 2 and 50 million)

	<u>SDR/Capita</u>
Top 25% of Performers	9.6
Middle 50%	7.8
Bottom 25% of Performers	0.6

^{3/} See "Country Performance and IDA Assistance," IDA Technical Note No. 7, June 1989.

V. Supporting Environmentally Sustainable Development

IDA's activities relating to the environment received

during the IDA-9 negotiation

46. ~~The IDA9 Deputies devoted a great deal of attention to the environment. The recommendations, subsequently agreed to by the Executive Directors, were to achieve three main objectives:~~ First, to integrate environmental concerns into broader operational and analytical activities. ~~Second, to encourage an increased commitment by developing countries to environmental objectives and to support the development of sound programs, policies and institutions to implement them. Third, to assure adequate identification and assessment of environmental impacts and the participation of those affected in the decision-making and implementation process.~~

were agreed.

47. ~~The Bank Group (IBRD and IDA) is implementing the Deputies' recommendations for~~ introducing or increasing the use of specific instruments relevant to these objectives. The development of **environmental action plans** by governments, with the assistance of Bank staff, is being accelerated. **Lending operations** are being designed to support country environmental efforts, and **environmental assessments** are being prepared for projects which have a significant impact on the environment. These not only help staff redesign projects to avoid damaging environmental effects; they also encourage effective public participation in project formulation. **Policy guidelines** have been developed to provide a road map for Bank operational staff. The Bank, together with the other founding agencies, is involved in improving the effectiveness of the **Tropical Forestry Action Plan (TFAP)**. Finally, the Bank is exploring ways to encourage **debt-for-nature swaps** within the context of its operations.

48. Subsequent to the IDA9 report, an important additional theme of the Bank Group's work on the environment has emerged; namely to help developing countries forge a link between their development programs and such global concerns as the protection of the ozone layer, the reduction of greenhouse-gas emissions, the protection of bio-diversity and the avoidance of marine pollution. In FY91 donors agreed to make resources available for these purposes through the Global Environment Facility, managed by the Bank in collaboration with UNEP and UNDP.

49. Environmental Action Plans (EAPs). ~~The IDA9 Deputies asked that EAPs for all IDA borrowers be prepared before the end of the IDA9 period.~~ Substantial progress has been made. About half of all IDA recipient countries had completed or were working on EAPs at end-FY91. EAPs were completed in Bangladesh, Burkina Faso, Burundi, Ghana, Guinea, Lesotho, Madagascar, Philippines, Rwanda, and Sri Lanka (Box 8). EAPs were nearing completion in six other countries and preliminary work was underway in at least 15 other IDA countries. ~~Completing EAP's for all IDA borrowers by the end of the IDA-9 period.~~

in preparing

should be completed

50. IDA borrowers are developing EAPs in a variety of ways. Countries that have prepared high quality environmental management plans independently or under other programs, such as a National Conservation Strategy (NCS) initiated in the 1980s by the World Conservation Union (IUCN), are updating and modifying these, as needed. In some countries, major environmental sector work by IDA staff has produced national environmental plans that have been adopted by the governments and are of acceptable EAP standards. Subsequent to the IDA9 discussions, virtually all countries were asked to prepare National Environment Reports for the 1992 UNCED Conference in Brazil. Some of these reports will satisfy the general EAP objectives; others will provide an input into the development of EAPs.

50 funded at least in part by IDA. A major objective of these projects is to improve management and protection capability. The Environmental Management project in Burkina Faso, which will fund the first five-year phase of a long-term natural resource management program, also helps rural communities design and implement sustainable management plans for their lands and related natural resources. Some projects have a subsectoral focus, such as forestry in Kenya, fishery development in Malawi, and industrial pollution control, dam safety, and cyclone-related emergency reconstruction in India.

52. At the time of the IDA9 discussions, it was envisaged that lending for freestanding forestry projects would increase rapidly. To guide the design of this lending, the Bank first updated its forestry policy, which was approved by the Board in early FY92. In FY91, only one freestanding forestry project—for forest conservation and management of industrial plantations in Kenya—was approved, although the Environment and Natural Resources Adjustment Program in the Philippines also had a significant forest conservation focus. However, preparation was underway for about 25 proposed forestry projects ~~in IDA-eligible countries~~. ~~Total Bank lending for forestry is expected to increase to about \$440 million per annum in FY92-95, twice the annual level of FY85-90.~~

53. Environmental Assessments. Of the Bank Group projects approved in FY91 (229) or in the pipeline for FY92 or FY93 (308), 59 were classified as Category A, requiring a full environmental assessment and 239, Category B for which a more limited analysis is undertaken. EAs were completed for eight projects in FY91, none of which were IDA-funded. The EAs to date have made a difference to project design. First, special features have been incorporated into engineering specifications in a number of projects. For example, the Oso Condensate project in Nigeria now includes provisions to prevent blow-outs on offshore oil rigs. Second, a number of projects have been modified. For instance, a road was rerouted to avoid an archaeological site in the Botswana Tuli Block Roads project, and limits to the increase in cattle herds were set based on the carrying capacity of rangelands in the Uganda-Livestock project.

constraint
to IDA
projects
we don't
want to
get into
that
debate
again

can IDA project?

54. The EAs provide an important opportunity to develop an understanding by the affected populations of the objectives of the project and to respond to local concerns. NGOs and local residents are consulted at an early stage, i.e. during the preparation of the Initial Executive Project Summary of planned projects and the EA. Procedures for these consultations are not standardized at this time. For the EA on a Malawi energy project, for instance, the local population was contacted through a systematic survey and local NGOs were invited to an informational meeting. In Tanzania, where villages are organized in a hierarchical system, information on proposed projects reached the village level quickly. A review of experience with EAs, which is to be undertaken this year, will specifically cover the extent to which the views of groups affected by the project have been taken into account in the preparation of EAs and in project design.

(applying to IDA and Bank operations)

55. Policy Guidelines. Significant progress has been made in developing Bank guidelines for avoiding or mitigating negative effects on sensitive ecosystems and residents of affected areas. Policy Papers and companion Operational Directives have been or are being formulated for forestry, wildlands, and other ecosystems. The treatment of indigenous peoples, involuntary resettlement, and cultural property in Bank operations are also being reviewed. The Environmental Assessment Sourcebook, which was completed toward the end of FY91, codifies the Bank's environmental policies and disseminates "best practices" in these areas. In addition, a Bankwide task force is currently reviewing Bank practices and policy on energy efficiency and conservation. A description of the operational guidelines which were completed or under preparation in FY91 is given in Box 9.

Box 9: Guidelines on Environmental Issues

The Forest Policy Paper, which was approved by the Board on July 18, 1991, will be the basis for a forthcoming Operational Directive (OD). The Bank will support initiatives to expand forest areas allocated as parks and reserves and to institute effective management and enforcement in new and existing areas. Commercial logging in primary tropical moist forests will not be financed, and infrastructure projects which may damage tropical moist forests or other primary forests will be subject to rigorous environmental assessment.

The management of wildlands, i.e. natural land and water areas in a state virtually unmodified by human activity, is covered by the Bank's Wildlands Policy, issued as Operations Policy Note (OPN) 11.02. This will be the basis for an OD to be issued by June 1992. The OPN also provides operational guidance for conservation of wetlands of international and national importance as well as mountain areas that are recognized to be exceptionally important in watershed management, conserving biological diversity or providing other environmental services. Separate guidance on coastal resources, and watershed and river basin management, which complement the Wildlands Policy, will be provided in the EA Sourcebook. A paper on the management of drylands was completed in FY91. The Bank is also collaborating with the Commonwealth Secretariat and the Overseas Development Institute on a review of rangeland management practices in areas under communal control in Sub-Saharan Africa.

Guidance is also being provided to the staff on the people affected by development projects. An OD (4.20) on indigenous people is expected to be issued by the end of this calendar year. Its aim is to ensure that this population benefits from development projects, and to avoid or mitigate any potentially adverse effects caused by Bank activities. Specific guidelines for projects involving involuntary resettlement were issued in an OD (4.30) in FY91. In addition, the Operations Evaluation Department of the Bank is undertaking a study on the early experience of involuntary resettlement in Bank-supported energy and agricultural projects. The report, which concentrates on countries in Asia and Africa, is expected to be issued in FY92. The approach paper has already been reviewed and endorsed by the Joint Audit Committee.

A revision of the existing Bank OPN on Cultural Property is now in its final stage. Supplementary work includes an ongoing study of cultural heritage issues in Sub-Saharan Africa, which will be published as a handbook, and a review in progress of cultural issues in biologically diverse areas.

A Task Force to review Bank practices and policy concerning energy efficiency and conservation was set up in FY91. It will review the potential options for greater energy efficiency, conservation, and the transfer of this technology to developing countries. Together with a "best practices" paper now being prepared on these subjects, the Task Force's report, due in FY92, will provide the basis for policy guidelines.

56. Debt-for-Nature Swaps. Possible Bank support for debt-for-nature transactions was outlined in a paper to IDA's Board in May 1990. Emphasis was placed on bringing the interested parties together and in financing operations complementary to debt-for-nature transactions that would improve their effectiveness. An example of the latter is IDA's Environment Project in Madagascar, where financing for the biodiversity component was provided by NGOs using the debt-for-nature mechanism.

VII. Conclusions

agreed IDA objectives.

76. The record suggests that there has been substantial and broad-based progress in ~~amending~~ ^{strengthening} IDA's procedures and program content to reflect the ~~Deputies' concerns~~. In the first of the three years covered by the replenishment, implementation of the IDA9 ~~Deputies' recommendations~~ ^{has been} was obviously neither complete nor uniform. In some areas expectations have been met or exceeded, while in others important steps are still to be taken. ~~In addition, a number of other changes made in the past year, while not specifically requested, reflect the spirit of the Deputies' recommendations. These have also been described in the report.~~ ^{also are consistent with those objectives}

6. The ~~Deputies' recommendation that IDA's Board should discuss country strategy~~, in order to review how priorities were being reflected in programs at the country level, was implemented in the course of FY91. ~~While the content of and documentation for these discussions may evolve further,~~ ^{measured against the Report on Additions to IDA Resources. In addition to the specific measures discussed in that Report a} the overall assessment is that this has been a useful complement to discussions of individual projects. ~~The approach is under review by a Board Committee on Procedures.~~ In addition, the annual reporting on IDA9 will help the Board to form an overview of IDA's progress, which should provide a valuable context for the strategy discussions.

7. With regard ^{and will remain,} to poverty alleviation, IDA has taken a number of key steps to ensure that poverty reduction is central to its policy dialogue, ~~as requested by the Deputies.~~ The expanded levels of human resource lending, the greater weight to poverty reduction in allocations across countries, the introduction of poverty assessments to develop monitorable programs and criteria, represent important progress in this area. In addition, the special emphasis placed ~~by the Deputies~~ on population policy was well-reflected in the quantum expansion of lending for this purpose, especially in Africa. Work is proceeding on providing more detailed guidance to staff for incorporating poverty concerns in Bank operations.

8. Good economic management was also given greater emphasis in guiding IDA's actions in the course of the year. Adjustment credits remain the most important instrument for assisting countries in remedying policy distortions. In the course of FY91 there was increased attention to the use of these credits to support improvements in the policies and institutional frameworks needed for private sector development. IDA continued its strong support for good performers in both Africa and Asia. An important change in the year was the sharp reduction in lending to countries which were judged to be poor performers, reflecting the Deputies' advice. Collaboration with the Fund continued to be close and the jointly prepared PFPs played an increasingly important role both in the country dialogue and in aid coordination. The PFPs remain closely linked with the programs supported under IDA's adjustment credits.

9. In the area of environmental protection, the Deputies made a large number of specific suggestions. Progress was made during the year on most of these. The system of environmental assessments was implemented and these have been made available to the Executive Directors well in advance of project approval. A significant number of these are in the pipeline and it should be possible in FY92 to evaluate the experience more fully, and take action, if needed, to make them more effective. Environmental action plans are being developed at the country level and current plans are to complete these by end-FY93 as requested. Environmental guidelines have been completed or are being prepared for Bank operations relating to various ecosystems. In addition, ~~as requested by the Deputies~~, IDA

broadened its focus to encompass global concerns, by renewing its support for the Tropical Forestry Action Plan and developing the Global Environment Facility. FY92 should see an acceleration in IDA's support for constructive forestry activities and for energy efficiency following the reporting of the task force on the latter.

10. In addition, IDA demonstrated its capacity to respond rapidly to the shifting global situation by expanding its assistance to countries that were adversely affected by the Gulf crisis. Of particular significance in the longer term was the fact that a number of countries which had not received IDA credits during the eighth replenishment, became eligible to obtain IDA9 resources. This will have implications for the allocation of IDA resources in the remainder of the IDA9 period and also in IDA10. ~~The directions set by the IDA9 deputies have expanded~~ the Association's role in a number of areas. With a likely reduction in some of the extraordinary funding sources which IDA was able to avail itself of in FY91, difficult issues of balancing IDA's resources and its priorities lie ahead.

evolution of

as a result of)?
Since the
IDA-9 negotiations
has expanded its
activities

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 4, 1991

Mr. Chander

Ramesh -

Re: U.N. Role in Statistics

I found your note fascinating and I agree broadly with your proposed approach. I would hope we could energize both Larry Summers and Jacob Frenkel's replacement at the Fund to tackle the Under-Secretary.

I missed any reference to the UNDP to help strengthen national statistical offices. They would seem to be well placed to fund twinning arrangements with OECD national statistical offices, which will serve both institution building objectives and a better link between OECD developments and the rest of the world.

The only recommendation on which I have doubts is the role of the Development Center. From what I hear, the Center is not functioning at all and is not likely to anytime soon. It does not appear to be an attractive place to be funding.

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

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

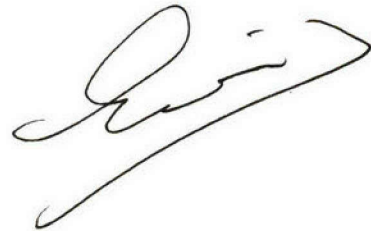
September 4, 1991

Mr. Shakow

Shakow -

Free Trade Agreement Linking Three Countries (U.S., Mexico, Canada)

- (1) Yes I have problems.
- (2) I do not think the response is innocuous. My version of an innocuous response is attached.
- (3) The reasons it is not innocuous are:
 - (a) the incoming asks for data on the U.S. side. It is being requested by a political group representing U.S. border states;
 - (b) we have no idea of what this group's agenda is, or how it relates to the negotiations. Yet, we jump in with both feet, including a mini-dissertation on our involvement in Mexico's adjustment program. Nobody asked about that; and some may not be fond of it;
 - (c) we offer to provide a group of U.S. Congressmen details of project components on loans to Mexico without as much as a "by-your-leave" to the Mexicans. Just whose projects are these? And who will explain design changes to this group if their interest is sustained? And how do we explain to our Mexican colleagues that some U.S. Congressmen would like us to add money for more border components -- which is a very likely result, and;
 - (d) we are inviting project-by-project involvement by a U.S. Congressional group. On the other days of the week, LAC, no doubt, will complain vigorously about undue U.S. influence.

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

WORLD BANK
External Affairs
Office of the Director

Fax Cover Sheet

To:

Date:

9/3/91

Fax No:

76658

Name:

Mr. E. Stern

Organization:

FVNSV

Total Pages (Inc. this cover sheet):

18

FROM:

Fax No:

676-0618

Name:

A. Shapow

Address:

EXTDR

Phone:

3128

MESSAGE:

See attached.

THE WORLD BANK GROUP

Office of the Director External Affairs		DATE: September 3, 1991	
NAME		ROOM NO.	
Mr. Ernest Stern, FINSV		E-1227	
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
☒ CLEARANCE		PER OUR CONVERSATION	
☒ COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
Ernie:			
LAC has prepared this response - given your comments, do you have any problem with this? It seems innocuous to me so I'm prepared to sign unless you see a problem.			
FROM: Alex Saskow		ROOM NO.: 78011	EXTENSION: 31828

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

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

August 28, 1991

The Honorable Mr. Jerry Lewis
2312 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Sir:

Your letter of August 1, 1991 to Mr. Preston concerning the infrastructure needs of the border area between the United States and Mexico has been referred to me for reply.

The border areas of Mexico have been experiencing a very sharp rate of growth which have put heavy demands on supporting infrastructure services. ~~I share your observation that the North American Free Trade Agreement (NAFTA) is indeed~~ ^{it is indeed} ~~would be likely to accelerate this growth and these demands. [I therefore~~ ^{if you} ~~believe that the work of your bipartisan committee is timely and important.]~~ ^{wish}

~~In order to answer your questions about the World Bank's information and views of the infrastructure needs of the border areas, it would be useful to make some observations about public investment and infrastructure investment in Mexico in the 1980s and the Bank role. During the 1980s public investment was cut in half in Mexico and by the end of the decade non-oil public investment was at its lowest level since World War II. Mexico's priorities were to stabilize the economy, to ease its enormous debt burden and begin the process of economic reform. The Bank supported Mexico's efforts with a very large program of policy based sector adjustment loans in trade, finance, agriculture, transport and industry, as well as with lending which aided the debt reduction workout with the commercial banks. The situation has now changed. The Government's economic program has achieved impressive results and Mexico's huge external debt has been successfully renegotiated. There is no longer a need for quick disbursing adjustment lending, nor is there a pressing debt servicing problem requiring our assistance. However, the severe curtailment of public investment in the 1980s has created an enormous need for infrastructure investment to support continued economic growth. Wide poverty and income disparity and the problems of environmental degradation also pose large funding needs. We have therefore begun to reorient World Bank lending to support Mexico's new financing needs.~~

^{is}
The World Bank approach to finance infrastructure investment needs ^{of Mexico's investment plans and priorities} has, in general, been to take a sectoral and national view, ^{based on} ~~with the exception~~ of poverty alleviation efforts in four of Mexico's poorest states, Chiapas, Hidalgo, Guerrero and Oaxaca. ^{As a result of our past lending and our current focus, we do not} ~~As a result of our past lending and our current focus, we have not developed~~ the type of data you have asked regarding future infrastructure investment needs along the border, nor do we have any special views on how to streamline current border practices, or on the functions and utility of a binational entity dealing with border infrastructure problems.

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of

U.S.-Mexico

~~the sectoral~~

Government of
Mexico has

~~This does not mean that we do not view these as important issues for the United States and Mexico. However, we believe that the Bank can best support infrastructure development in Mexico by maintaining a sectoral and national focus. Within that focus there has been and will be room to address border area infrastructure problems. For example, the Water Supply and Sanitation Loan that we made last year and the Irrigation and Drainage Sector Loan we anticipate making this year both finance programs that are national in scope, but which contain projects in the border area. Projects now in preparation, or planned, for highways, the railway, the environment, education, housing and urban development ^{are being} will similarly be structured. We are also doing some sector work which will be looking at the special problems of mid-size cities, some of which will be in the border area.~~

~~We would be pleased, if you wish, to provide you details on sub-project components in the border areas. Perhaps the best way of doing this would be for your staff to discuss their particular interest with individual World Bank project task managers. Robert Kanchuger, our Country Officer for Mexico, is available to coordinate and facilitate such contacts with our task managers. His telephone number is 473-8728.~~

~~Please feel free to call on me, or any member of my staff if you have any further questions.~~

Sincerely yours,

by ~~the~~ Mexico.
Government

Alexander Shakow
Director
External Affairs

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

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

August 28, 1991

The Honorable Mr. Ronald D. Coleman
440 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Sir:

Your letter of August 1, 1991 to Mr. Preston concerning the infrastructure needs of the border area between the United States and Mexico has been referred to me for reply.

The border areas of Mexico have been experiencing a very sharp rate of growth which have put heavy demands on supporting infrastructure services. I share your observation that the North American Free Trade Agreement (NAFTA) would be likely to accelerate this growth and these demands. I therefore believe that the work of your bipartisan committee is timely and important.

In order to answer your questions about the World Bank's information and views of the infrastructure needs of the border areas, it would be useful to make some observations about public investment and infrastructure investment in Mexico in the 1980s and the Bank role. During the 1980s public investment was cut in half in Mexico and by the end of the decade non-oil public investment was at its lowest level since World War II. Mexico's priorities were to stabilize the economy, to ease its enormous debt burden and begin the process of economic reform. The Bank supported Mexico's efforts with a very large program of policy based sector adjustment loans in trade, finance, agriculture, transport and industry, as well as with lending which aided the debt reduction workout with the commercial banks. The situation has now changed. The Government's economic program has achieved impressive results and Mexico's huge external debt has been successfully renegotiated. There is no longer a need for quick disbursing adjustment lending, nor is there a pressing debt servicing problem requiring our assistance. However, the severe curtailment of public investment in the 1980s has created an enormous need for infrastructure investment to support continued economic growth. Wide poverty and income disparity and the problems of environmental degradation also pose large funding needs. We have therefore begun to reorient World Bank lending to support Mexico's new financing needs.

The World Bank approach to finance infrastructure investment needs has, in general, been to take a sectoral and national view, with the exception of poverty alleviation efforts in four of Mexico's poorest states, -- Chiapas, Hidalgo, Guerrero and Oaxaca. As a result of our past lending and our current focus, we have not developed the type of data you have asked regarding future infrastructure investment needs along the border, nor do we have any special views on how to streamline current border practices, or on the functions and utility of a binational entity dealing with border infrastructure problems.

This does not mean that we do not view these as important issues for the United States and Mexico. However, we believe that the Bank can best support infrastructure development in Mexico by maintaining a sectoral and national focus. Within that focus there has been and will be room to address border area infrastructure problems. For example, the Water Supply and Sanitation Loan that we made last year and the Irrigation and Drainage Sector Loan we anticipate making this year both finance programs that are national in scope, but which contain projects in the border area. Projects now in preparation, or planned, for highways, the railway, the environment, education, housing and urban development will similarly be structured. We are also doing some sector work which will be looking at the special problems of mid-size cities, some of which will be in the border area.

We would be pleased, if you wish, to provide you details on sub-project components in the border areas. Perhaps the best way of doing this would be for your staff to discuss their particular interest with individual World Bank project task managers. Robert Kanchuger, our Country Officer for Mexico, is available to coordinate and facilitate such contacts with our task managers. His telephone number is 473-8728.

Please feel free to call on me, or any member of my staff if you have any further questions.

Sincerely yours,

Alexander Shakow
Director
External Affairs

Cleared with & cc: Messrs. Steckhan, LA2DR; Halperin, LA2IE; Cullen, EXTIP

cc: Messrs./Mss. Cox, EDS01; Preston, Qureshi, Husain
Stern, RINSV; Shihata, LEGVP; Thalwitz, PRESV;
Stanton, EXC; Maguire, EXTDR; Squire, LA2C1;
Binswanger, LA2AG; Lee, LA2HR; Knotter, LA2DR;
Donaldson, LA2IE; Simas, Margulis, LA2AG

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

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

August 28, 1991

The Honorable Mr. Jim Kolbe
410 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Sir:

Your letter of August 1, 1991 to Mr. Preston concerning the infrastructure needs of the border area between the United States and Mexico has been referred to me for reply.

The border areas of Mexico have been experiencing a very sharp rate of growth which have put heavy demands on supporting infrastructure services. I share your observation that the North American Free Trade Agreement (NAFTA) would be likely to accelerate this growth and these demands. I therefore believe that the work of your bipartisan committee is timely and important.

In order to answer your questions about the World Bank's information and views of the infrastructure needs of the border areas, it would be useful to make some observations about public investment and infrastructure investment in Mexico in the 1980s and the Bank role. During the 1980s public investment was cut in half in Mexico and by the end of the decade non-oil public investment was at its lowest level since World War II. Mexico's priorities were to stabilize the economy, to ease its enormous debt burden and begin the process of economic reform. The Bank supported Mexico's efforts with a very large program of policy based sector adjustment loans in trade, finance, agriculture, transport and industry, as well as with lending which aided the debt reduction workout with the commercial banks. The situation has now changed. The Government's economic program has achieved impressive results and Mexico's huge external debt has been successfully renegotiated. There is no longer a need for quick disbursing adjustment lending, nor is there a pressing debt servicing problem requiring our assistance. However, the severe curtailment of public investment in the 1980s has created an enormous need for infrastructure investment to support continued economic growth. Wide poverty and income disparity and the problems of environmental degradation also pose large funding needs. We have therefore begun to reorient World Bank lending to support Mexico's new financing needs.

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This does not mean that we do not view these as important issues for the United States and Mexico. However, we believe that the Bank can best support infrastructure development in Mexico by maintaining a sectoral and national focus. Within that focus there has been and will be room to address border area infrastructure problems. For example, the Water Supply and Sanitation Loan that we made last year and the Irrigation and Drainage Sector Loan we anticipate making this year both finance programs that are national in scope, but which contain projects in the border area. Projects now in preparation, or planned, for highways, the railway, the environment, education, housing and urban development will similarly be structured. We are also doing some sector work which will be looking at the special problems of mid-size cities, some of which will be in the border area.

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Please feel free to call on me, or any member of my staff if you have any further questions.

Sincerely yours,

Alexander Shakow
Director
External Affairs

August 28, 1991

The Honorable Mr. Bill Richardson
204 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Sir:

Your letter of August 1, 1991 to Mr. Preston concerning the infrastructure needs of the border area between the United States and Mexico has been referred to me for reply.

The border areas of Mexico have been experiencing a very sharp rate of growth which have put heavy demands on supporting infrastructure services. I share your observation that the North American Free Trade Agreement (NAFTA) would be likely to accelerate this growth and these demands. I therefore believe that the work of your bipartisan committee is timely and important.

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Please feel free to call on me, or any member of my staff if you have any further questions.

Sincerely yours,

Alexander Shakow
Director
External Affairs

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

cc: JW ✓
JWS

I spoke w/
F.L.
Kandungan's
secretary. 8/29
M.

TO

Mr. Shakow (T-8011)

DATE:

8/09/91

SUBJECT:

Document From: Members of Congress
To: mr. preston
Dated: 8/01/91

Reference No.: EXC910807008

Topic: Congress now negotiating a free trade agreement linking three countries (US, Mexico, Canada). To conduct 2 field hearings...

ACTION INSTRUCTIONS:

| DUE DATE: |

9/03/91

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

Remarks: cc for info: Messrs. Quashy, Stern, Thalwitz, Shihata, Stanton
please keep EXC informed of how handled & provide copies
of any response.

Mr. Shakow

This is not addressed
to the Bank specifically -
but is a general request.
I do not believe we should
get into this substantively -
not least because we have
no information.

MR. Steckhan

RECEIVED

ELECTRONIC LOGGING AND ROUTING SYSTEM
SENIOR VICE PRESIDENT OPERATIONS
Routing and Action Transmittal Sheet

91 AUG 20 PM 1:15

Priority : NORMAL

Monday, 19-Aug-1991

CC: ** S. SHAHID HUSAIN, LACVP
CC: - DAVID BOCK, OPNSV1
CC: NGOZI OKONJO-IWABALA, OPNSV

From : OPNSV, SENIOR VICE PRESIDENT OPERATIONS

DOCUMENT Reference:

Item No : 1991081311465060, [OPNSV]
Previous Reference : 1991080700800000

FROM : Members of Congress
TO : Mr. preston
OC DATE : 01-Aug-1991

SUBJECT : Congress now negotiating a free trade agreement linking three countries (US, Mexico, Canada). To conduct 2 field hearings.

ACTION Requested:

Due Date

☐ Please handle
☐ For Information
☐ Review & Recomend
☒ Prepare Response for Mr. Preston
☐ Approval/Signature
☐ Forwarding To
☐ Discuss With
☐ OTHER

Signature 03-Sep-1991

REMARKS:

ZK

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

0: Mr. M. Qureshi (E-1241)

DATE:

8/16/91

SUBJECT:

Document From: Members of Congress
To: Mr. Preston
Dated: 8/01/91

Reference No.: EXC910807008

Topic: Congress now negotiating a free trade agreement linking three countries (US, Mexico, Canada). To conduct 2 field hearings...

ACTION INSTRUCTIONS:

DUE DATE:

9/03/91

☒ HANDLE

☐ REVIEW AND RECOMMEND

☐ FOR YOUR INFORMATION

☐ DISCUSS WITH

☐ AS WE DISCUSSED

☐ PREPARE RESPONSE FOR

SIGNATURE

☐ FOR YOUR FILES

☐ RETURN TO

☐ OTHER:

Remarks: cc: Messrs. Stern, Thalwitz, Shihata, Stanton, Shakow
FYI: EXC has phoned 4 staff listed to acknowledge receipt 8/14/91
pls. keep EXC informed of how handled & provide copies of response

cc: Pat O'Hara (for info)



Congress of the United States
House of Representatives
Washington, D.C. 20515

August 1, 1991

The Honorable Lewis Preston
President
World Bank
1818 H St., NW
Washington, DC 20433

Dear Mr. Preston:

As you know, the United States, Mexico and Canada are now negotiating a free trade agreement linking our three countries. Although it is premature to predict the outcome of these negotiations, every projection shows a dramatic increase in trade between Mexico and the United States over the next several years.

A North American Free Trade Agreement (NAFTA) will add further strains to infrastructure requirements along the border. These requirements are extensive, ranging from adequate roads and bridges to schools, hospitals, housing, and a variety of projects designed to alleviate border environmental problems. To address this vital issues, we have formed a bipartisan, ad hoc committee that represents each of the border states. In addition, we share a common goal of successfully implementing a NAFTA.

We are requesting your input on several key infrastructure components. First, we would like to know if you or your organization has developed any data regarding future infrastructure requirements along the border. We are interested in both identification of specific and general infrastructure needs, and of a prioritization of those needs. We define future border infrastructure requirements as any capital investment in transportation, water and sewer, communication, technology transfer and housing and health care that will result from increased trade between the United States and Mexico. We would also be interested in your advice on how to streamline the various practices currently in place at the border to facilitate trade, immigration, law enforcement, agriculture inspections and other routine procedures.

Second, a key step toward an effective infrastructure plan is the creation of a bi-national authority to develop and implement border infrastructure requirements. Several ideas have been offered, but we would be interested in any suggestions you or your organization may have on an entity comprised of U.S. and Mexican officials to oversee the complete issue of border infrastructure.

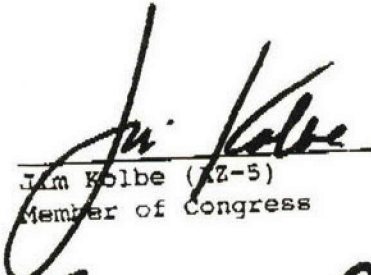
The Honorable Lewis Preston
August 1, 1991
Page 2

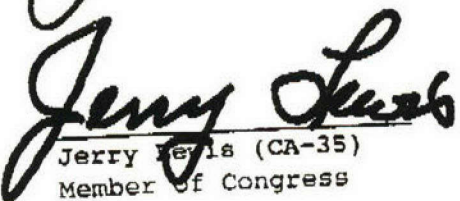
Third, facilitating increased border development will be expensive. The problems at the border are already extensive, and will become more urgent with the NAFTA. To meet the current demand at the U.S./Mexican border, the U.S. Customs Service and the General Services Administration are in the midst of a \$300 million expansion. Future needs will be even greater and thus, more costly. We would be interested in your thoughts about financing future infrastructure projects. The federal government certainly has a responsibility to finance infrastructure developments along the border. However, given current federal budget constraints, other sources and other resources may be required. We would be particularly interested in suggestions focusing on local and private investment options.

We hope to use the information we gather to introduce legislation on border infrastructure requirements. In addition, we plan to conduct at least two field hearings during which we would like to receive testimony from you or a member of your organization.

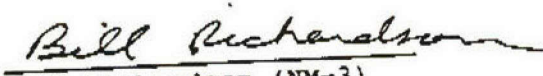
Your input will be extremely valuable to us in the coming months. Allow us to thank you in advance for your prompt attention to this request. We look forward to working with you on this issue. Please forward your correspondence or any questions you may have to the contacts listed on the following page.

Sincerely,


Jim Kolbe (AZ-5)
Member of Congress


Jerry Lewis (CA-35)
Member of Congress


Ronald D. Coleman (TX-16)
Member of Congress


Bill Richardson (NM-3)
Member of Congress

57

BORDER INFRASTRUCTURE CONTACTS

Representative Ronald D. Coleman (TX):

Mary Lou Brunnick
440 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515
(202) 225-4831

Representative Jim Kolbe (AZ):

Barry Moehring
410 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515
(202) 225-2542

Representative Bill Richardson (NM):

Scott Wiener
204 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515
(202) 225-6190

Representative Jerry Lewis (CA):

Darin LaHood
2312 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515
(202) 225-5861

OFFICE MEMORANDUM

TE: August 29, 1991

TO: Mr. Alexander Shakow, EXEDR

FROM: R. Kanchuger, Principal Country Officer, LA2C1

EXTENSION: 38728

SUBJECT: Mexico -- Reply to U.S. Congressional Letter

I have attached a proposed draft reply for your signature to a letter of August 1, 1991 from various U.S. Congressmen. The letter has been cleared by Mr. Steckhan. I have also attached a copy of the incoming correspondence for your information.

If there are questions, please call me.

Attachment

cc: Messrs. Steckhan, LA2DR; Squire, LA2C1; Halperin, LA2IE

RKanchuger/mds

9-020
9-4-91

Sept. 3

Ernie:

Here is a clean copy of the IDA9 report.

In the environmental chapter, we decided to report both Bank and IDA environmental assessments and projects, with the IDA portion broken out. When we followed your request to include only the IDA numbers, we had no completed IDA environmental assessments to report for FY91 and therefore no simple way to talk about how EAs have affected project design (para. 53).

ok - but
somebody better
watch this
phenomenon.

Lorene

ES

9/4/91

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

ROUTING SLIP		DATE: September 3, 1991	
NAME		ROOM NO.	
Mr. Stern		E1227	
Mr. Wood		D7067	
Mr. Scott White		F7051	
Ms. McGraw-Olive		D11029	
This incorporates all the Finance			
comments.			
		SS 9/4/91	
\	URGENT	PER YOUR REQUEST	
	FOR COMMENT	PER OUR CONVERSATION	
	FOR ACTION	SEE MY EMAIL	
	PER APPROVAL/CLEARANCE	FOR INFORMATION	
	FOR SIGNATURE	LET'S DISCUSS	
	NOTE AND CIRCULATE	NOTE AND RETURN	
RE: Joint Audit Committee Meeting of August 28, 1991			
REMARKS: Attached please find a draft of the minutes of the JAC meeting held last August 28, 1991. We would appreciate your returning the attached draft with any comments you may wish to make, at your earliest possible convenience.			
FROM: Marsha McGraw-Olive		ROOM NO.: D11029	EXTENSION: 80218

JOINT AUDIT COMMITTEE

JAC/M91-

FROM: The Secretary, Joint Audit Committee

September , 1991

Minutes of Meeting held on August 28, 1991
at 2:30 p.m. in F-1244

Present

Committee

Mr. Coady (Chairman)
Mr. Al-Ghannam (Alternate)
Mr. de Fontaine Vive (Alternate)
Mrs. Herfkens
Mr. Langley
Mr. Ximenes (Alternate)
Mr. Peretz

Other Directors and Alternates

Mr. Kodera (Alternate)

Officers and Staff

Messrs. Bock, Choi, Drysdale, Hansen, Kilby, Krisnamurthi, Nankani, Raghavan, Stern, White, Wood, and Mesdames de Nevers, Tran, and Olive (Secretary)

Distribution

Committee

Mr. Al-Assaf
Mr. Coady
Mrs. Herfkens
Mr. Landau
Mr. Langley
Mr. Leung
Mr. Peretz

For Information

Other Executive Directors
and Alternates

President	Mr. Rovani
Mr. Eccles	Mr. Shihata
Mr. Frank	Mr. Silard
Mr. Kopp	Mr. Stern
Mr. Legg	Mr. Thahane
Mr. Picciotto	Mr. Thalwitz
Mr. Qureshi	Mr. Wood
Mr. Roth	

Minutes of Previous Meetings

1. The minutes of the meetings held on June 12, 1991 (JAC/M91-9), July 15, 1991 (JAC/M91-11) and July 29, 1991 (JAC/M91-10) were approved.

Briefing on Status of Current IBRD Portfolio

2. Pursuant to recommendations in the JAC Report on Bank Policies and Practices with Respect to Countries in Arrears (R90-205, dated October 22, 1990), the Committee received its first annual briefing on the status of the current IBRD portfolio from Finance staff. The Committee agreed to recommend to the Steering Committee that a similar seminar be scheduled for the Board in February, 1992.

3. Staff Briefing. The staff (Kilby) briefed the Committee according to the request in paragraph 55 of the JAC Report on Arrears for an assessment of: a) the current portfolio; b) projected changes in portfolio profile, how these would affect the risks faced by the Bank, and the strategies needed to address them; and c) changes in borrower indebtedness and Management's approach to any emerging problems.

4. On the status of the Bank's current portfolio, the staff said that slightly less than one third of the portfolio was considered to be low risk; a similar portion was considered to be moderate risk. Slightly more than one third of the portfolio was in the high risk category. Since 1980, there had been a significant deterioration in the quality of the portfolio. The ratings changes in FY91 had resulted in a further decline in the share of the portfolio in the low risk category.

5. The staff noted that individual country creditworthiness ratings gave a preponderant weight to long-term factors that were slow to change. Accordingly, only a relatively few countries were upgraded or downgraded in any given year and the portfolio risk structure tended to evolve gradually

~~over time~~. A conscious effort was made not to overreact to short-term events in deciding on the risk ratings for individual countries. Nevertheless, where major changes did occur, the Bank had reacted and had kept the JAC apprised.

6. Regarding projected changes in the portfolio, the staff said it was not easy to form a judgment about the likely evolution of the portfolio. Lending plans for individual borrowers -- particularly those in the high risk category -- depended on country conditions. If the conditions which Operations staff regarded as most likely did in fact materialize, then more than 40% of Bank commitments would go to countries which were currently classified as high risk. Because a relatively high share of this lending would be for support of adjustment, the share of these countries in net disbursements would be even higher -- exceeding 50%.

7. A simple mechanical extrapolation of the portfolio would therefore show a steadily increasing share in the high risk category. But the planned lending to the high risk countries ~~generally~~ ^sassumed a significant improvement in economic performance. If the improved performance ~~did in fact~~ occur^s, there ^would be an improvement in risk ratings. If the improvement did not occur, then the planned lending would not take place.

8. Extrapolating the past five years' experience into the future, a few of today's high risk countries could be expected to slide into non-accrual over the next few years. That was the risk which the Bank was attempting to guard against in the build up of loan loss provisions. A few countries should manage sustained improvements in economic performance, with a consequent improvement in their risk classification. And several of today's high risk countries would experience periods of progress punctuated by backsliding.

9. The implications of the emerging current situation were that the Bank should expect an improved success rate in assisting countries regain market access and a viable external position. But this was likely to take considerable time for most countries. For those that failed, it could prove to be very difficult to arrange a viable debt workout. The Bank should thus be prepared to support adjustment strongly and quickly, but also be ready to curtail support if the conditions for effective use of Bank resources were not met. There were clear risks to the Bank in implementing such a strategy. Where countries encountered difficulties in implementing reform, external financing pressures could quickly reach crisis proportions, and the Bank's preferred creditor status could come under stress. For the foreseeable future, the Bank's financial position would therefore continue to require an adequate capacity to withstand situations of temporary non-accrual.

10. Finally, regarding the debt situation of borrowing countries, the staff said its assessment was that the debt crisis was gradually easing as a result of the improved rescheduling terms being offered to middle income countries by the Paris Club, the Brady initiative and the prospects for greater debt relief for low income countries that went beyond the existing Toronto terms. Net financial flows to developing countries were rising modestly and FDI was playing a more important role in the overall financing picture. Some Latin American borrowers were regaining access to private international markets, but for many Bank borrowers, access to voluntary lending remained costly and limited. Overall, the current net flow of resources being transferred to developing countries was far below the level required to facilitate their structural adjustment and growth. The Bank would

continue to play an important role in linking these countries with the international capital markets, both in terms of direct lending and in mobilizing resources from other creditors and donors.

11. The staff observed that progress in the debt strategy would be reviewed in the forthcoming Development Committee meeting. The conclusions were clear. Further officially supported commercial bank DDSR agreements for several indebted middle income borrowers must be pursued vigorously. Additional headway was also needed in bringing relief to lower middle income countries with substantial amounts of official debt.

12. Discussion. The Committee strongly welcomed the briefing, which they said was extremely valuable and should be repeated regularly. Several of the speakers (Peretz, Herfkens, Coady) observed that, ~~while not overly optimistic~~, ^{presented by staff, somewhat more optimistic} the outlook appeared ~~more positive~~ than current circumstances might warrant.

13. In this regard, the Chairman said he would appreciate a constructive worst-case ^{analysis} ~~process~~ that would help Directors judge whether the Bank was in a position to withstand a major loss, however unlikely it might be. Such protection against surprise was important for the Bank's access to capital markets, he said. He and another speaker (Peretz) ^{said} the briefing was sufficiently depressing to confirm their judgment that Bank reserves ^{and/or provisions should be} ~~were~~ ^{increased further} ~~not adequate~~. It would take the Bank some time to return to the relatively low-risk portfolio score of 1980, the Chairman observed.

14. The staff (Stern, Wood) noted that Bank finances were far healthier at present than in 1980 and that the Bank was better positioned to ^{handle primary} ~~absorb losses~~. ^{Reserves had been significantly increased as a result of the loan portfolio and loan loss} ~~These had been quantified in terms of a potential percentage~~

~~provision now provided considerable protection against temporary increases in the share of loans in non-accrual of the portfolio that could go into nonaccrual and then built into reserve requirements on the basis of a low probability that this would occur.~~

15. There was no disputing the fact that times were extremely difficult for many borrowers, the staff (Stern, Wood) continued. However, a realistic approach implied that neither the best nor worst case scenario would occur. Based on experience, the Bank expected that some high-risk countries would stay in that category, others would improve their positions, and others would fall temporarily into nonaccrual. Despite the qualitative imponderables that made future projections and provisioning judgments so difficult, there were reasons to be more optimistic than five years ago given debt reduction initiatives for low and middle-income countries and the strong adjustment efforts of many countries. If these improvements were sustained there should be an increase in the low-risk portfolio share in the medium-term. ~~In conclusion, the staff said, it disciplined itself to view the world as it was rather than with rose-colored glasses.~~

16. A speaker (de Fontaine Vive) inquired whether the projected increase in commitments to high risk countries in FY95 indicated a policy decision to lend more to them as a group. He asked why some sub-groups of high-risk countries were not projected to receive increased commitments.

17. The staff (Stern, Kilby) noted that these were conditional projections. Increased IBRD commitments to high-risk countries were predicated on an assumption of ~~improved debt indicators and~~ good policy performance under adjustment programs. Loans would not be ^{disbursed} if performance was inadequate. The Bank did not begin with a policy decision to lend more to high-risk countries; it did begin, however, with the assumption

that Bank aid in support of a high-risk country's adjustment efforts could lead to improved creditworthiness and a lower risk rating. In this sense the process was self-regulating: a rise or fall in net disbursements was linked to policy performance and to the associated change in risk rating. The staff (Wood) added that the ^{high} shares of new commitments ^{going to high risk countries} also reflected the availability of market financing to countries in the low-risk category, which ^{meant} ^{that a decline share of Bank finance for low risk countries} was appropriate.

18. In response to a request from a speaker (Herfkens) for more details on risk categories, the staff (Wood) said it would brief the speaker on the creditworthiness rating criteria that had been discussed in the JAC during the drafting of the Report on Arrears.

19. Distribution of Briefing Materials. Several speakers noted that the briefing materials contained ~~country-specific~~ ^{on country groups which was close} information ^{which was country specific} important to the portfolio analysis; ^{however,} the Committee's traditional ^{Though} practice was to avoid mentioning countries by name. At the same time, they noted that the Committee had been instructed by the Executive Board to review the Bank's current portfolio and Management's approach to any emerging problems, which by necessity touched upon country-specific questions. They also agreed with ~~concerns expressed by~~ ^{the} staff that its independent judgment would be undermined if ^{the staff were asked to revise the} ~~the materials were edited~~ before distribution. Under ^{Committee decided} these circumstances, they ~~agreed~~ ^{prepared by the staff would be distributed only} that the ~~distribution of~~ briefing materials ^{To ensure that the Board did not lose sight of the} ~~should be restricted~~ ^{by the Board} to Committee members only. In compensation, they agreed with the staff's suggestion to plan a seminar ⁱⁿ February 1992, at the time when loan-loss provisioning recommendations were to be reviewed, on the IBRD portfolio and country creditworthiness issues.

20. The Chairman and a speaker (Al-Ghannam) said the materials should be made available to all Executive Directors. The Chairman said Committee meetings were open to all Directors and that the country issues under discussion were not secret. Furthermore, the practice of avoiding country-specific issues was not relevant in this case because it was the Committee's duty, at Board instruction, to discuss such issues fully. The speaker (Al-Ghannam) added that the materials could be distributed with or without the country-specific information, but if the country information was included, the selection of countries should be justified.

21. The staff (Stern) said that ^{the} three sub-groupings of countries ~~characterized by special risk factors~~ had been included in the briefing because there was a high covariance ^{in each group to specific} ~~among them of susceptibility to external~~ ^{risk factors} shocks. Operational strategies to address their difficulties thus had common elements. The staff further said it had provided the Committee ^{the material} ~~what was~~ relevant ^{to its} ~~for the portfolio analysis; the distribution~~ of the material ^{of the portfolio; it was up to the Committee to} ~~was up~~ ^{decide} ~~to the decision of the Committee.~~ ^{whether} ~~The staff could not however~~ ^{to distribute} ~~to revise its material.~~ ^{all, parts} ^{have}

22. Conclusion. In conclusion, the Committee agreed, over the objection of the Chairman, to limit the distribution of the briefing materials to Committee members only. The Committee would recommend to the Steering Committee that a seminar be scheduled in February 1992 on the current IBRD portfolio.

Allocation of FY91 Net Income and Plan for FY92: Supplementary Note

23. The Committee considered the Finance paper entitled "Allocation of FY91 Net Income and Plan for FY92: Supplementary Note" (JAC91-37) and ^{was to be} ~~accepted~~ the conclusion in paragraphs ~~13-14~~ ¹³⁻¹⁴. The Committee agreed that the ^{in each} ~~accepted~~ ^{production} ^{venue} ¹⁹⁹²

paper, ~~as amplified by the staff introduction below~~, should be sent to the Executive Board for approval on an absence-of-objection basis.

24. Staff Introduction. The staff (Wood) said it had been argued that a conditional waiver of 25 basis points of loan interest provided sufficient incentive for timely payment by Bank borrowers, and that therefore, a conditional waiver of 50 basis points of commitment fee was not needed. The conclusion of the Supplementary Note was that this proposition should be put to the test during FY92. This would be accomplished by monitoring and analyzing the reasons for any overdue payments in the course of the year.

There were likely to be cases where it was not reasonable to expect that a change in financial incentives would improve payment performance. Such cases, such as those involving internal political turmoil, ^{not in themselves justifying a waiver} ~~would be examined and defined as reasonable exceptions to timely payment~~. On the other hand, there could be instances, as in the past, where "administrative difficulties" were used repeatedly by borrowers in a country as an excuse for late payment. It

was such cases, in countries where ability to pay was not an issue, that ^{strong incentives of the type which a conditional waiver of the commitment fee would provide} ~~raised concern~~. The goal was to eliminate overdue payments in cases where

timely payment was judged to be both financially and administratively feasible. ^{If this can be accomplished with a conditional waiver of interest only, that would justify continuing with an unconditional waiver of the commitment fee.} ~~Depending on progress, the conclusion at the end of the monitoring process might be to extend eligibility criteria to any commitment fee waiver~~ in FY93.

25. Discussion. Several speakers (de Fontaine Vive, Herfkens, Langley, Ximenes, Al-Ghannam) welcomed the conclusion of the Supplementary Note that the conditional waiver be confined to the interest rate for FY92. They termed this a fair compromise based on the reasonable need to gain more

information on whether additional incentives were required for timely payment. They expressed appreciation to Management for its pragmatism and flexibility in reaching this conclusion.

26. The speakers recommended that the Committee endorse the Supplementary Note and that it be sent to the Board for approval on a no-objection basis. They said it would be preferable for the Committee to reach a decision on the matter at this meeting.

27. Two of these speakers (Langley, Ximenes) also took issue with the notion that "administrative difficulties" were not an authentic reason for payment delays. One of them (Langley) said his close familiarity with the situation in many countries of his constituency confirmed that payment difficulties derived from genuine financial and administrative problems. He said the Bank should not take punitive measures because these contributed to the problem, not to solutions. The other speaker (Ximenes) argued that the desire to maximize profits might motivate some borrowers to delay repayment but was not a major factor for borrowing countries, for which inclusion on the list of late payers was undesirable. He added that there were unique circumstances in Brazil originating with the unification of the budget process in 1988, which required the Executive to request supplementary funding from Congress when inflation eroded the value of debt repayments in foreign currency. He noted that a new department had been created in Treasury to streamline payments, including those of public sector agencies and states.

I think you miss M.R. Ximenes' point was that the Govt had fixed its administrative difficulties. Since the have been able to eliminate overdrafts I establish a new unit, it was correct not to accept past practices as inevitable.

28. The Chairman and another speaker (Peretz) said their preference was to retain the original proposal in the Allocation of FY91 Net Income and Plan for FY92 (R91-111, dated July 8, 1991), that is, to apply eligibility

criteria both to the waiver of the commitment fee and the interest rate. As a second preference, they said they could accept the adoption of this approach now but to defer its implementation until July 1, 1992. The speaker (Peretz) said he hoped a decision could be reached in Committee today that would obviate further Board discussion of the issue.

29. The Chairman said the main argument in favor of making the commitment fee waiver conditional was that, as with the interest waiver, the Bank was voluntarily forgoing a payment that was contractually due from borrowers. He said the real cost to members as a whole of unjustified overdue payments was absorbed by those borrowers who paid on time. He recalled that this issue had been discussed in depth in the JAC during drafting of the Report on Bank Policies and Practices with Respect to Countries in Arrears (R90-205). That Report had detailed the extensive efforts made by the Bank to assist borrowers in overcoming both the technical and operational sources of payment delays. As had been noted in the discussions, there was no close correlation between a country's level of indebtedness and its payment record. In fact, some very poor countries consistently paid on time. He noted that the Bank's goal in improving country creditworthiness should include the ability to pay on time in commercial terms. This strategy was ultimately beneficial to the borrower and for the Bank's standing in credit markets.

30. The staff (Stern) said it was useful to view the discussion from the standpoint of two issues: equity among borrowers and incentives for timely payment. The most equitable solution would be to apply the conditional waiver both to the interest rate and the commitment fee. This was because late payment of such contractual obligations by countries in a

position to pay on time penalized all other borrowers. However, the equitable solution had not been desired by the majority of the Executive Directors at the July 23, 1991 Board meeting. On the other hand, it might be concluded after a year of experience that a conditional waiver of the interest rate alone was sufficient to induce timely payment. Should this occur, the equity issue would be irrelevant. On this basis, the staff urged acceptance of the compromise in the Supplementary Note.

31. The Chairman and another speaker (Peretz) said they could accept this approach as a last preference but that, after a year of experience, an analysis should be made available of the payment performance record. The speaker (Peretz) ^{asked} ~~suggested~~ that the staff introduction, which amplified the ^{be understood as complementing and clarifying} ~~intent of the~~ monitoring process, should ~~accompany~~ the Supplementary Note; the Committee agreed.

32. Conclusion. In conclusion, the Chairman said the Supplementary Note should be distributed to the Board for approval on an absence-of-objection basis, with the staff introduction ^{included in the records of the meeting with the intention} ~~added~~. ~~The staff (Stern) said this could be accomplished by the JAC minutes.~~

Date of Next Meeting

33. The Committee agreed to next meet on September 4, 1991 to consider the following items:

- (a) Report of the 1991 JAC Informal Subcommittee on Internal Audit Reports (JAC91-31);
- (b) Operations Evaluation
 - Study on Indonesian Education and the World Bank: An Assessment of Two Decades of Lending (SecM91-984); and

- The World Bank and Bangladesh's Population Program
(SecM91-937).

Adjournment

34. The meeting adjourned at 5:00 p.m.

Marsha McGraw-Olive
Secretary
Joint Audit Committee

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

3: September 3, 1991 04:30pm

TO: Ernest Stern (ERNEST STERN)

FROM: Charlotte Mandel, FINPE (CHARLOTTE MANDEL)

EXT.: 82627

SUBJECT: Membership of Bank-wide Panels

Raja Iyer has asked me to consult with you regarding the FINCOM representatives in the new Division Chief Panel, which Mr. Alisbah will be chairing. FIN is supposed to have three members (at the Director level) on this new panel and PER appears to be in a rush to get our recommendations.

We currently have Mr. Stoutjesdijk representing FIN on the economist panel. Mr. Eccles chairs the Finance Panel and Ms. Einhorn is a member. I understand Mr. Iyer will be contacting Mr. Eccles regarding a new member from CTR for the Finance Panel (which will have to be either Mr. Ruddy or Mr. Raghavan).

Assuming you don't want anyone to serve on more than one of these panels, this leaves the following Directors for consideration: Messrs. Santiago, Kavalsky, Ruddy or Raghavan, Koch-Weser, Rischard, Peryl.

Let me know if you wish to discuss.

Charlotte

WJ
9/4

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

DATE: 03-Sep-1991 04:41pm

): Ernest Stern

(ERNEST STERN)

FROM: Basil Kavalsky, FRM

(BASIL KAVALSKY)

EXT.: 80523

SUBJECT: Technical Assistance Trust Fund

In the memorandum copied to you, Steve Eccles was responding to a quick draft which I prepared on Friday which raised two options. First, a pilot TA trust fund financed from net income, which, if viewed after evaluation as a success, would become a special program under the administrative budget. Second, to move immediately to a special program under the administrative budget. In his note, Steven raises a third option on which I would like your views, namely funding a trust fund out of the administrative budget. I have disregarded this option in the past on the grounds that it would be perceived as a means of getting around the discipline relating to the fiscal year and the annual budget process. There are many programs that stretch beyond the fiscal year -- the research budget, EDI, ESMAP, etc, -- and it would be difficult to limit the use of the trust fund mechanism once we have introduced it.

For these reasons, in similar situations in the past, I have taken the view that we had a choice between setting up a trust fund or using the administrative budget -- and indeed in the USSR case, one of the main arguments for the net income transfer was precisely that it allowed us to set up a trust fund with the resulting fiscal year flexibility and the potential for donor contributions. Delinking the trust fund from the need for funding sources outside the administrative budget, would indeed give us a great deal of additional flexibility in responding to ad hoc requests in future. But it has potentially important implications for the budget process and is not a step to be taken lightly.

CC: D. Joseph Wood
CC: Michael Ruddy
CC: Stephen Eccles

(JOE WOOD)
(MICHAEL RUDDY)
(STEPHEN ECCLES)

Basil

I see no reason to establish a trust fund for this. The

only would be if we tried to amalgamate all the donor TA trust funds into this which is unlikely to be feasible and certainly is not desirable.

There equally is no reason whatever to associate a pilot with a trust fund. I see no reason not to propose a special program from the outset. By the way, it is

both useful and desirable, in light of the absence of any TA management, to have this facility subject to the budget process. We can so make it reimbursable from loans/credits, where necessary.

ES
9/14



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/04/1991	Document Type Report			
Correspondents / Participants From: Edward Jaycox, Senior Vice President Finance				
Subject / Title Audits of the financial statement of IBRD				
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

September 5, 1991

Mr. Preston

Lew -

I met Mrs. Faremo this morning. She is pleasant and knowledgeable. I expect she will be interested primarily in the long-term policy interests of the Bank and, particularly, our work in Africa.

She appreciates the thrust of the 1991 World Development Report and its emphasis on poverty-reducing strategy.

We discussed:

- (a) the Bank's increased emphasis on human resource development;
- (b) the need for the Bank to adjust to help countries deal with the substantively changed role of Government;
- (c) the need for the Bank to service increasingly divergent clients (Africa for example on the one-side, middle-income, Latin America and Eastern Europe on the other), and;
- (d) how we could retain our policy influence while channeling increasing proportions of our lending to the private sector and the social sectors.

The World Bank

ERNEST STERN
Senior Vice President
Finance

September 5, 1991

Mr. Preston

Lew -

Two other things. Chino may raise

- (a) Suspension from primary business of Nomura and Nikko. You know the reasons. We have phrased it as "not up to the standards we expect of our financial partners".
- (b) Staff. The Japanese always complain about inadequate staff. We have just initiated a new effort (with a special man in Tokyo) to attract more Japanese to the Bank. You are familiar with those kinds of problems. I would suggest that you just listen sympathetically.



OFFICE MEMORANDUM

DATE: September 4, 1991

TO: Mr. Lewis T. Preston, President

THROUGH: Mr. Ernest Stern, FINSV

FROM: Basil Kavalsky, Director, FRM

EXTENSION: 80523

SUBJECT: Your Meeting with Tadao Chino, Vice Minister, International Affairs, Ministry of Finance, Japan, 2:15 pm, Wednesday, September 11, 1991

1. Mr. Chino became Vice Minister last June, after 30 years of service with the Ministry of Finance. Japan is an important provider of resources to the Bank; some examples follow. You might express our great appreciation for Japan's strong support of the Bank Group. (More background information on these subjects is available in Attachment 1.)

IDA. Japan will play a key role in the upcoming IDA10 negotiations. In IDA9, the de facto Japanese contribution almost equaled that of the U.S. The burdensharing issue vis-a-vis the U.S. will be a sensitive issue. You might ask Mr. Chino what issues will be important to Japan in the IDA10 negotiations.

Cofinancing. Japan is by far the largest cofinancier of Bank operations, providing half of all bilateral cofinancing resources.

Brady Operations. Japan has supported the Brady operations for Mexico (\$1.9 billion), Venezuela (\$600 million), and the Philippines (\$300 million). Brazil and Argentina remain future possibilities for similar operations. You might ask for Japan's continued support for future Brady operations.

Global Environment Facility. Although Japan is one of the largest donors to the GEF, its contribution is primarily loan cofinancing rather than grant funds and there are practical problems in using it.

Special Funding. Since 1987, Japan has provided large amounts of grant resources in support of Bank operations, now consolidated in the umbrella Policy and Human Resources Development (PHRD) Fund, to which Japan has pledged \$300 million for FY91-93.

Special Program of Assistance for Africa. Japan has pledged the largest contribution of cofinancing for SPA2. However, funds remain blocked pending the outcome of the Paris Club discussions on increasing official debt relief for low-income countries.

September 4, 1991

2. Japanese Aid and Financing for Developing Countries. Japan's ODA has expanded sharply since its Capital Recycling Program (\$65 billion over 1987-92) was launched, and in 1989 surpassed the U.S. as the largest source of ODA. Moreover, Japan has now begun to advocate an "East Asian model" of development, which emphasizes close collaboration between the private and public sectors, exports, and competition, drawing on its own successful experience. With regard to the Bank, Japan has often been critical of its almost exclusively free market-oriented, rapid liberalization approach. If Mr. Chino raises any of these policy concerns, you may wish to note that the Bank is aware of Japan's thinking and that there has been an increasingly constructive dialogue between Japan and the Bank on these issues.

3. Another ongoing concern of the Japanese is their opposition to official debt reduction. If Mr. Chino raises this, you might note that while the Bank has been supportive of efforts to ease the burden the official debt of low-income countries, we have supported flexible approaches which include offers to provide new money as an alternative to outright debt reduction. (The Paris Club is now discussing this; see also the background section on the SPA).

4. As more of a general issue of concern to Mr. Chino, he may raise the question of private financial flow to developing countries in the 1990s. Given that commercial banks in the U.S., Europe, and Japan are all reluctant to increase their exposure in developing countries, there is the possibility of a major financial crunch in many developing countries. Mr. Chino may ask what the Bank is doing to address this issue. You may wish to note that the Bank is strengthening its private-sector development work to facilitate the spontaneous flow of private capital to LDCs. Also, the Bank is prepared to strengthen its catalytic role in private flows through the ECO (Expanded Cofinancing) Program and other vehicles of private cofinancing.

5. USSR. Another topic of interest to Mr. Chino may be what the Bank will be doing to support the USSR. As you know, the Board recently approved an allocation of \$30 million from FY91 IBRD net income for a Technical Assistance Trust Fund for the USSR. Japan's current position is that until there is satisfactory progress on the issue of the four northern islands, Japan will not provide large amounts of aid. However, the private sector has been actively seeking business opportunities in the USSR already.

Attachments:

Attachment 1: Information on Japanese Funding of the
Bank Group and ODA

Attachment 2: C.V. of Mr. Chino

JKirby-Zaki

cleared with and cc: Ken Ohashi and Lorene Yap

cc: Messrs. Wood, Kashiwaya, Shakow, Yurukoglu
Mmes. Okonjo-Iweala, Artus

Attachment 1 - Background Information on Japanese Funding of the Bank Group and ODA

IDA10 Outlook

Negotiations for the tenth replenishment of IDA resources will begin shortly, and a preliminary meeting is scheduled just prior to the Annual meetings in Bangkok.

Japan will play a leading role in these negotiations, both in raising priority issues and as a major contributor (the Japanese total contribution in IDA9 was at a level where it more or less matched that of the U.S., traditionally the largest donor). However, the question of burdensharing between the U.S. and Japan is a sensitive one. During the past two IDA replenishments (IDA8 and IDA9), although Japan was rapidly expanding the level of its aid program, rather than increase its share to equal the U.S. share, Japan chose to make supplementary contributions instead. In IDA9, for example, Japan's contribution totalled SDR 2.4 billion, consisting of an 18.7 percent share in the basic replenishment and a supplementary contribution of SDR 239 million. The U.S. contribution was SDR 2.5 billion, or 21.6 percent of the replenishment.

The burdensharing issue represented a constraint on the amount that Japan was willing to contribute to IDA9. In the case of IDA10, our preliminary discussions with major donors have indicated that most of their budgets will be extremely tight. The one exception is Japan, which has set ambitious targets for increasing its ODA and would be able to contribute more to IDA if an appropriate burdensharing arrangement could be found.

A critical factor in IDA10 will be the large number of new IDA claimants since the close of the IDA9 negotiations. These include newly-eligible IDA countries, such as Angola, Cote d'Ivoire, Egypt, Honduras, Nicaragua, and the Philippines, and currently inactive members such as Vietnam, Afghanistan, and Cambodia. The needs of these additional IDA claimants will place considerable pressure on IDA9 resources and will have important implications for the need for resources during IDA10.

Cofinancing

Japan is by far the largest cofinancier of Bank operations, accounting for about half of cofinancing with bilateral lenders. The OECF and J-ExIm committed \$2.6 billion (for 40 operations) in FY90 and \$1.4 billion (for 26 operations) in FY91 for cofinancing of Bank operations. Japan has provided large cofinancing for Brady operations (Mexico, Philippines, and Venezuela). Through the consultation meetings with the OECF and J-ExIm, currently held twice a year, policy issues on which the Bank and the Japanese agencies tend to differ are actively debated and collaboration strengthened.

Brady Operations

Japan has supported the Brady operations for Mexico (\$1.9 billion), the Philippines (\$300 million), and Venezuela (\$600 million) and it considers the Mexico operation to be particularly successful. Japan continues to be supportive of possible Brady operations in several countries. For the Philippines, Japan may provide about \$300 million in support of the second phase operation (the basic structure of the deal was agreed on August 30th), contingent upon a satisfactory IMF program. If Brazil reaches an agreement with commercial banks, Japan may provide a sizeable loan for enhancement in addition to other loans for traditional projects. Japanese support for Argentina is also a possibility.

Global Environment Facility (GEF)

Japan's total contribution to the GEF is the second largest, matching the total contributions of France and Germany. However, like the U.S. (the largest overall contributor), the bulk of the contribution is in the form of cofinancing. The Japanese contribution to the Core Fund is relatively small (SDR 7.32 million), while the cofinancing portion has a grant equivalent of SDR 100 million (or \$220 million). In addition, they have pledged \$21.42 million to the Montreal Protocol. Procedures for cofinancing the GEF portion of Bank projects are now being worked out. The Japanese have provided with a list of projects for possible cofinancing.

Special Funding - PHRD

Since 1987, Japan has been providing large amounts of grant resources in support of Bank operations. In 1990, Japan consolidated various programs and created an umbrella arrangement called the Policy and Human Resources Development Fund. It pledged to provide about \$300 million over FY91-93 on a grant basis (untied except for a small amount for Japanese consultants). Much of the funds are provided through the Bank to the borrowers for technical assistance, mostly in project preparation (about 95 percent of funds thus far). Other funds support EDI training seminars, a graduate scholarship program, the Japanese Consultant Trust Fund, the GEF, and African Capacity Building Initiative. In addition to supporting preparation of conventional projects, the technical assistance grants have been instrumental in strengthening the Bank's work on the environment, private sector development, and women in development.

Special Program of Assistance for Africa (SPA)

Japan has pledged \$975 million equivalent in cofinancing for the second phase of the SPA. However, since SPA donors are providing debt relief in addition to cofinancing, Japan made this cofinancing pledge conditional on an acceptable outcome of the discussions in the Paris Club on further debt relief to low-income countries, beyond the

current Toronto Terms. The Japanese are strongly against official debt reduction, and they feel they cannot provide new loans to countries that benefit from debt forgiveness. Therefore, for the past year, the Japanese SPA2 cofinancing funds have remained on hold and no commitments have been made.

The Paris Club meets again September 16th, and in the meantime, confidential negotiations among Paris Club members have been held to try to reach a consensus. At the London Summit in July, the G-7 issued a clear statement of agreement in principle to granting further debt relief to the low-income countries. Japan has indicated that a menu of options including an option without debt reduction would be acceptable. The U.S., while agreeing in principle with further debt reduction, apparently needs to reach an internal consensus among Congress and the Treasury before signing on to an agreement.

Japanese Aid Program

Since Japan launched its Capital Recycling Plan (\$65 billion over 1987-92), its ODA and other development assistance have increased sharply. It was the largest ODA provider in 1989. With the quantitative growth in aid, Japan's aid approach has been changing. There is now greater confidence in its own development experience as a possible model for developing countries. The Japanese Government, as well as its two main development finance agencies (OECF and Japan ExIm Bank) have become more vocal in policy advice, especially in the area of the role of the public sector, industrial policy, and fiscal policy. Japan places an increasing emphasis on military spending as one of the criteria for determining its aid allocations to developing countries.

USSR Membership and Technical Assistance Funding

In August, the Board approved allocation of \$30 million from the surplus account of FY91 IBRD net income to finance Bank technical assistance to the USSR. While the USSR is not a member of the Bank, its economic circumstances have a large impact on Bank members, which justify such funding. Moreover, the USSR has applied for membership in the IMF and World Bank, and such technical assistance has been provided, although on a smaller scale, to other recent members prior to their approval. The Board will have the opportunity to approve the initial program of technical assistance before any expenditures will be made. The technical assistance program, which will be firmed up after the next mission to the USSR, due to leave in mid-September, will likely focus on four areas:

- Policy measures to complement stabilization efforts and to help improve the economy's supply response - with emphasis on price liberalization, competition policy, and trade policy reform;

- Financial sector development with emphasis on strategy for development of the banking system and development of specialized lending institutions;
- Fiscal policies and program with emphasis on Union and Republic-level inter-government fiscal relations, and government expenditures especially in relation to the design and implementation of an effective but affordable safety net;
- Privatization, enterprise reform, military conversion and private sector development including policies and procedures for promotion of direct foreign investment.



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/04/1991	Document Type CV / Resumé			
Correspondents / Participants From: Edward Jaycox, Senior Vice President Finance To: Preston				
Subject / Title CV Tadao Chino				
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
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

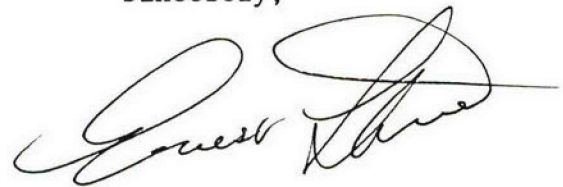
September 5, 1991

Dr. R. C. Janssen
Vivienstraat 62
2582RV Den Haag
THE NETHERLANDS

Dear Dr. Janssen,

As you surmised, I will indeed not be able to be in the Hague on October 11. Please extend my best wishes to Mr. Van Dam that evening.

Sincerely,

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

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Could you pl. give me any
comments on the attached.

740 Hugh - looks fine,
Except as noted
on the last
sentence, which
makes it sound
as if the EOs
will approve the
separation.

[Signature]

September 6, 1991

Rider 'A'

The draft Resolution in Attachment B of the memorandum and the Draft Report of the Executive Directors to the Board of Governors were amended at the meeting to include references to the Republics of the Soviet Union with the intention that the Technical Assistance Trust Fund for the USSR be established with sufficient flexibility to permit the Bank to provide assistance from the Fund to all parts of the Soviet Union within whatever political context may develop. The Trust Fund would not be used for a Republic which had separated from the USSR, without the approval of the Executive Directors. The Executive Directors



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 08/27/1991	Document Type Board Record			
Correspondents / Participants				
Subject / Title Minutes of Board Meeting Held on August 27, 1991				
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			

E. STERN

The World Bank

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



With the compliments of
Jean-François Rischard
Director, Investment Department

Sept 6.

Ernie:

I wrote this up in a hurry to get a
general flavor of whether you think
this strikes the right tone. Not shown to
Scott, Dan, Carlo; and stylistically
bad. (When you return, I'll be away
to Europe, until the 19th or so.)

df

Office Memorandum

DRAFT

Date: September 6, 1991

To: INV Trading Staff

INV Settlement, Control and Accounting Staff

From: Jean-François Rischard, Director

Extension: 80920

Subject: **General Guidance on Trading Conduct in the U.S. Government Securities Market**

Many of you have pointed out that it would be useful to confirm in writing the general dos and don'ts that pertain to dealings in the US government securities markets under their various forms: when issued trading, auction bids, secondary market trading, and securities lending and borrowing.

Such guidance is difficult to give as the US government securities market is by and large not a regulated market. As a consequence, there is still quite a bit of scope for disagreement between reasonable people as to how the few existing laws that appear to be relevant apply to various types of conducts, and to which extent.

Still, guidance is needed. As a first cut, I think that it is important to distinguish between two general classes of conduct:

- (a) conduct that entails fraud, intentional deceit, intentional false statements, intentional false bids, misusing a customer's name, intentional false recordings etc;
- (b) conduct of a collusive nature which, while not necessarily resorting to conduct such as (a) above, aims at willfully manipulating the price of a security or the rate of securities financing in such a way that third parties may be harmed.

I don't think that I need to do much clarifying with respect to conduct of type (a) which I believe is unlikely to occur in the Bank setting in any case. You are clearly all aware of the need to avoid any conduct of type (a) in any shape or form. Also, should you ever become aware of any such conduct in our midst, you know that you have a duty to immediately report this conduct to management. These principles are all the more important as the Bank is a very visible player in the world capital markets, so that any sort of conduct of fraud or deceit can bring enormous damage to the Bank's image and reputation. So let's watch out, even though we have never experienced such conduct, and even though the background of our staff, our multiple risk control lawyers, and the absence of a private sector-like bonus system give good assurances that the likelihood of such conduct in the Bank remains remote.

Where guidance is most needed, and hardest to give, is with respect to conduct of type (b). Let me distinguish two subcategories of such conduct:

JFR
Saveds good.
ES
9/6/91

(i) what's clear is that you should scrupulously avoid, and immediately report any knowledge of, any understanding or arrangement between ourselves and traders of other organizations aimed at price fixing or market manipulation in the securities and repurchase markets such that third parties could be harmed. (This applies to explicit or implicit understandings or arrangements; be wary particularly of the implicit ones, which may "creep up on you" if you project the image of not being sufficiently firm in your dealings with others). In general, traders should never price anything in conjunction with another party, and should act strictly on their own. This prohibition of reaching understandings or making arrangements with others applies to the whole spectrum: when-issued, auctions, securities lending and borrowing, secondary markets, futures, options etc.

any quality
any such
arrangement
are int.

(ii) where my guidance will be less crisp, and in a way more based on common sense than on the clarity of the applicable laws, is with respect to collusive conduct which, while it is not based on any understanding or arrangement with traders of other organizations, could be construed as such and could therefore implicate the Bank in embarrassing investigations. The problem with this cluster of conduct is that there is a fair amount of price talk and exchange of information throughout all the phases of the lifecycle of a government security, and that much of that talk serves an important economic function, namely price discovery. Thus, it is an area where any zealot and indiscriminate application of the "restraint of trade" concept may actually result in harming the very functioning of what needs to be protected, i.e. the government securities market. I guess all market participants and regulators do agonize over the dilemma this poses, or at least should. Nevertheless, here are some principles to guide you:

implicate X
involve

- if you don't have to divulge your intentions about the price or volume of our bids, don't;
- talking in yield ranges and bid size ranges is safer than providing point estimates of your intentions;
- if others give you information about their intentions about the price or volume of their bids, forget about it, don't do anything with it, and don't relay the information to others;
- in general, be far more cautious in divulging intentions than plain facts (we did bid X . . . at z rate);
- most important of all: be far more circumspect whenever you are a comparatively larger player in one particular issue than when you are a comparatively smaller player. If you are going to bid for 30% of an issue, behave accordingly; if you will buy only a few hundred millions, there's a far smaller risk that your having divulged price and volume information could later be construed as participation in a collusion. Use your commonsense.
- when in doubt, remember that it's far better to deprive the Bank of 1-2 basis points than to end up implicating the Bank in a messy, litigious situation. At the same time, don't overreact.

Special Guidance for the Repo Market

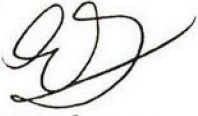


Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/06/1991	Document Type Letter			
Correspondents / Participants From : Ernest Stern, Senior Vice President Finance To: Mr. Coady				
Subject / Title [IBRD technical assistance]				
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

TO: Mr. Lewis T. Preston

FROM: Ernest Stern, FINSV 

SUBJECT: Committee on Board Procedures

September 6, 1991

On the whole, this is a sensible set of recommendations. We should react positively. The objective of reducing the Board's time spent on irrelevancies and streamlining procedures is welcome.

My principal concern is with the proposal on policy discussion (paragraphs 9-13). I agree that papers which contain no policies for Board approval should normally be circulated for information only. Exceptions will, presumably, be made for the Global Economic Outlook and the World Development Report, even though this is not noted in the Committee's recommendation.

I am troubled by the proposed distinction between "difficult" and "not difficult" papers (paragraphs 10(b) and (c)) and consider this an unworkable system for two reasons. First, the classification is to be decided on together with the Executive Directors. Since it only takes one to two Executive Directors in the Steering Committee to carry a point-of-view, almost any paper can be classified as "difficult". Second, since options are to be discussed even for "not difficult" papers, it will be hard for Directors to resist the temptation to speak in favor of options which would have benefitted their constituencies, but which Management discarded because they did not serve the overall interest of the Bank. If the options for "not difficult" papers are discussed, the distinction between these two categories will have disappeared.

Finally, I cannot conceive how the proposed process would function for most financial policy issues where the Management has a fiduciary responsibility for judgement. Specifically, I can see no advantage from a two-step approach to proposed levels of provisioning or reserves, disposition of net income or the size and composition of the borrowing program. In each of these cases, the predictable result will be that we set targets higher than where we want to end up, in order to leave room for compromise with supporters of lower objectives. The result will be that Management's real judgement will never come before the Board. I, therefore, recommend we ask the Committee to limit the proposed two-stage discussion process to those papers which Management identifies at the time the long-term Board schedule is presented.

Two other comments:

- The report proposes various discussions of the external environment. I know that this is a compromise with Part II countries in return for agreement on the discussion of country strategy. Nonetheless, it makes no sense. The external environment is discussed globally in PRE reports. I can understand why some country-specific discussion might be desired

in addition. But, to have this discussion in all sector and adjustment loans will be highly duplicative since there may be more than one such loan in a country. Moreover, many trade restrictions are not very country-specific, including the Common Agricultural Policy or the textile agreement. Neither does the impact change frequently. In addition, the subject is to be repeated in the annual discussions of country assistance strategy. The result, in addition to unnecessary work, will be to make the section so routine as to be meaningless.

- We have no objection to making overdue service payments, statements of credits and statements of loans available through the All-in-One system. The Executive Directors should understand, however, that the All-in-One is not a secure system. We cannot be responsible for unauthorized access to overdue service data.

bcc: JW ✓

OFFICE MEMORANDUM

9-046
9/91

DATE: September 6, 1991

TO: Messrs. Qureshi (OPNSV) and Wapenhans (EMNVP)

FROM: Russell J. Cheetham, ^{RJC}EM5DR

EXTENSION: 32552

SUBJECT: USSR: US Government Proposals on Coordination.

Russ
I think this is
exactly right.
I've told Coady
as much, who gave
me a copy of the
note. 9/6/91

1. I received the attached proposals from the US ED's office yesterday. I have not yet responded to Mr. Burke.
2. I think we should indicate that we do not agree with the proposal to formally assign responsibilities among institutions and member Governments. (You will notice that this proposal makes no mention of the EC or OECD for example.)
3. The proposed response by Mr. Preston to Jacques Attali on the question of coordination is also relevant here.
4. I would appreciate your guidance on how you wish this matter to be handled.

Attachments

RJCheetham:nsp

cc: Messrs. Stern (FINSVP), Sandstrom (EXEC)



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/05/1991	Document Type Letter			
Correspondents / Participants From : Thomas Burke, Advisor to U.S.E.D. To: Russell J. Cheetham, EM5DR				
Subject / Title [IBRD technical assistance]				
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			

9-080
9-10-91

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

DATE: 10-Sep-1991 04:38pm

TO: Ernest Stern (ERNEST STERN)

FROM: Basil Kavalsky, FRM (BASIL KAVALSKY)

EXT.: 80523

SUBJECT: IDA Reflows - the Fifth Dimension

The paper on IDA reflows was circulated to the FPC on August 20 on a no-objection basis. I received comments on it from Messrs. Eccles and Rao. I have sent replies to these comments. Each suggested that we delete a different criterion on grounds of redundancy. Since the criteria were constructed to meet the specifics of the Honduras case and it would cause difficulties if any were excluded, I propose to make no changes in the document. I have indicated this to them.

OPS has no problems with the current version and will incorporate the substance of these proposals in the Board paper on the country allocations under the Fifth Dimension, which will be sent to the Board for discussion in November.

Assuming Messrs. Eccles and Rao find the explanations satisfactory (I will contact them later this week), I suggest that you send a notice to the Finance Policy Committee indicating that the document was approved by the FPC on a no-objection basis, just so that it is on record. I will arrange this with your office.

CC: D. Joseph Wood
CC: Lorene Yap
CC: Pina De Santis
CC: Gautam Sengupta
CC: K. Tanju Yurukoglu

(JOE WOOD)
(LORENE YAP)
(PINA DE SANTIS)
(GAUTAM SENGUPTA)
(KADIR YURUKOGLU)

ack
ES
9/10/91

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

MOEEN A. QURESHI
Senior Vice President, Operations

September 9, 1991

Mr. Stern:

Ennio:

IDA-9 Paper

I have looked at the revised version of the IDA-9 paper and I still have great difficulty with the way the issue of compliance with IDA-donors requests is dealt with. My assessment is that our record in terms of compliance has been exceptionally good. There are some minor areas where, because of changing circumstances, we have not complied strictly with the letter but have observed the spirit of what the donors wanted.

In this regard, para 76 of the conclusions chapter is misleading and conveys altogether the wrong impressions, particularly through its lack of clarity and specificity on areas where compliance has not been full. To avoid being misconstrued, I propose that we reword the paragraph as follows:

"The record suggests that the agreed IDA objectives are being fully implemented. Even though only the first of the three-year replenishment period has transpired, there already has been substantial and broad-based progress in strengthening IDA's procedures and program content to reflect the Deputies' concerns in the key areas of country strategy discussions, poverty alleviation, economic management and environmental protection".

Secondly, the reference to Africa's share of IDA lending in para 64 can be misinterpreted because it lumps regular IDA resources with reflows. I have no objection to this figure being cited provided we also indicate separately the share of IDA resources (i.e. excluding reflows and income transfers) that are allocated to Africa. We have always allocated IDA reflows "broadly" in line with IDA allocations -- in fact we have used the Board's injunction (and you may recall that the language was carefully crafted for this purpose) to give us somewhat greater flexibility in the allocation of IDA reflows.

M. Stern

cc: Messrs. Bock, Grilli, Kavalsky, Sandstrom

BK
Per our
conversation
pls use in
opening
statement
(2)

9-076
9-10-91

ROUTING SLIP		Date
NAME		ROOM NO.
Messr. Ernest Stern		
Don		
URGENT	For Action/Comment	Per Your Request
Appropriate Disposition	Information/Discard	Returned
Approval/Clearance	Note And Return	See My E-Mail
File	Per Our Conversation	Signature/Initial
RE:		
REMARKS		
This is as far as I got; Don and Yves are taking over. Please let me see the Royal before it goes. <i>Ein</i> <i>JK</i>		
From	Room No.	Ext.
Jean-Francois Rischar	D4111	80920

P-1862

cc:cs✓

The World Bank/International Finance Corporation
Office Memorandum

DRAFT

Date: September 10, 1991

To: INV Trading Staff
INV Settlement, Control and Accounting Staff

From: Jean-François Rischard, Director

Extension: 80920

Subject: **General Guidance on Trading Conduct in the U.S. Government Securities Market**

Many of you have pointed out that it would be useful to confirm in writing the general dos and don'ts that pertain to dealings in the US government securities markets under their various forms: when-issued trading, auction bids, secondary market trading, and securities lending and borrowing.

Such guidance is difficult to give as the US government securities market is by and large not a regulated market. As a consequence, there is still quite a bit of scope for disagreement between reasonable people as to how the few existing laws that appear to be relevant apply to various types of conducts, and to which extent.

Trading Philosophy

As you know, the Bank's liquidity exists as a prudential buffer designed to help the institution handle possible interruptions in its very large borrowing program. While we try to achieve excellent performance in managing this liquidity, it is clear that the Bank does not depend on the last penny of profit made by our Department. This is not the idea behind our funds management approach, nor are we compensated in relation to our trading profits. Therefore, we should stay away from any trading approach that is, or can be viewed as, exceedingly aggressive or cavalier. Moreover, always remember that each one of you carries special prudential responsibilities, including those of protecting the Bank (which is an easy and visible public opinion target) from any controversy, embarrassment and, of course, litigation. In a nutshell: The cost of such embarrassment is potentially very large to the Bank, and it is not worth going for the last basis point if you are going to run even a remote risk of causing such embarrassment.

More Precise Dos and Don'ts

Still, more precise guidance is needed. As a first cut, I think that it is important to distinguish between two general classes of conduct:

(a) conduct that entails fraud, intentional deceit, intentional false statements, intentional false bids, intentional false recordings etc;

(b) conduct of a collusive nature which, while not necessarily resorting to conduct such as (a) above, aims at willfully manipulating the price of a security or the rate of securities financing in such a way that third parties may be harmed.

I don't think that I need to do much clarifying with respect to conduct of type (a), which I believe is unlikely to occur in the Bank setting in any case. You are clearly all aware of the need to avoid any conduct of type (a) in any shape or form. Also, should you ever become aware of any such conduct in our midst, you know that you have a duty to immediately report this conduct to management. These principles are all the more important as the Bank is a very visible player in the world capital markets, so that any sort of conduct of fraud or deceit can bring enormous damage to the Bank's image and reputation. So let's watch out, even though we have never experienced such conduct, and even though the background of our staff, our multiple risk control layers, and the absence of a private sector-like bonus system give good assurances that the likelihood of such conduct in the Bank remains remote.

Where guidance is most needed, and hardest to give, is with respect to conduct of type (b). Let me distinguish two subcategories of such conduct:

(i) what's clear is that you should scrupulously avoid, and immediately report any knowledge of, any understanding or arrangement between ourselves and traders of other organizations aimed at price fixing or market manipulation in the securities and repurchase markets. (This applies to explicit or implicit understandings or arrangements; be wary particularly of the implicit ones, which may "creep up on you" if you project the image of not being sufficiently firm in your dealings with others). In general, traders should never price anything in conjunction with another party, and should act strictly on their own. This prohibition of reaching understandings or making arrangements with others applies to the whole spectrum: when-issued, auctions, securities lending and borrowing, secondary markets, futures, options etc. Be particularly circumspect in the securities lending and borrowing business when securities become "special".

ii) where my guidance will be less crisp, and in a way more based on common sense than on the clarity of the applicable laws, is with respect to collusive conduct which, while it is not based on any understanding or arrangement with traders of other organizations, could be construed as such and could therefore implicate the Bank in embarrassing investigations. The problem with this cluster of conduct is that there is a fair amount of price talk and exchange of information throughout all the phases of the lifecycle of a government security, and that much of that talk serves an important economic function, namely price discovery. Thus, this is an area where any overzealous and indiscriminate application of the "restraint of trade" concept may actually result in harming the very functioning of what needs to be protected, i.e. the government securities market. I guess all market participants and regulators do agonize over the dilemma this poses, or at least they should. Nevertheless, here are some principles to guide you, particularly with respect to auctions:

- it is always safer to talk in general terms than in specific terms, e.g. talking in yield ranges and bid size ranges is safer than providing point estimates of your intentions;
- if others give you information about their intentions about the price or volume of their bids, don't respond, and don't relay the information to others;
- in general, be far more cautious in divulging intentions (we may bid x at rate z) than plain facts (we did bid X at rate z);
- most important of all: be far more circumspect whenever you are a comparatively larger player in one particular issue than when you are a comparatively smaller player. If you are going to bid for 20-30% of an issue, behave accordingly; if you will buy only a few hundred million, there's a far smaller risk that your having shared price and volume

information could later be construed as participation in a collusion. Use your commonsense.

- when in doubt, remember that it's far better to deprive the Bank of 1-2 basis points than to run even a remote risk of implicating the Bank in a messy, litigious situation. Also, remember that auctions are just one way to buy paper (actually our relatively low level of participation in auctions shows that we have understood this quite well.)
- at the same time, don't overreact.

Special Guidance for the Repo Market

As was said above, staying away from known collusive understandings and arrangements is also germane to the securities lending and borrowing market. In addition, be particularly wary of joining in a major way a "special" situation that although you have nothing to do with, might implicate you just because of the sheer size of your participation. Again, it's better to let a few basis points go than to run any sort of risk of implicating the Bank in a litigation.

J-FRischard:zsn

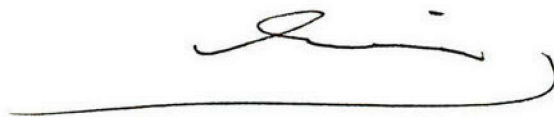
The World Bank

ERNEST STERN
Senior Vice President
Finance

9/11

Steve

Per our conversation this
morning - the most recent
SOE I signed had
"Marital status" and "did spouse
travel" on both page 1 and 2.
Surely...



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

ERNEST STERN
Senior Vice President
Finance

September 11, 1991

Mr. Preston

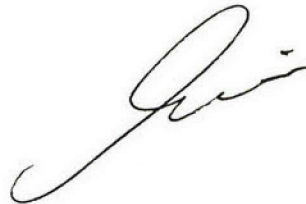
Lew -

Attached is a revised version of your draft Bangkok speech. I had sent the earlier draft to Larry, Sven, Joe Wood, Wilfried, Bill Ryrie and Moeen.

I have not heard from Moeen. Wilfried was concerned at the lack of detail and specific commitments and by the broad sweep. However, he had no alternative approach to propose. I have incorporated comments from Larry, Joe and Sven, though Sven had only time for a preliminary reaction. Joe thinks the speech is a straightforward and business-like confirmation of the current consensus, and suggests some useful balancing items.

I also have tried to reflect Bill Ryrie's comments, but probably have not done enough about the IFC. His comments are attached.

With all of that, it has not gotten shorter. After you have had a look at this draft, this should be put into language you are comfortable with.



Attachments

9-029
9-4-91

International Finance Corporation

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

Sir WILLIAM RYRIE
Executive Vice President

September 3, 1991

NOTE

To: Mr. Ernest Stern

Ernie:

I was glad to have an opportunity to comment on the draft for Lew Preston's Bangkok speech. It seems to me a good draft, although perhaps inevitably it does read a bit like a World Bank institutional draft -- Lew will have to add the personal touches.

There are two themes which are implicit in the draft and which I think could be made more explicit, partly with a view to attracting media attention. I like the theme of capital shortage and competition for resources; also the presentation of the need for a "market-friendly" balance between the role of governments and markets. But perhaps we could be a little more direct in drawing to conclusions from these themes: First, the need for development institutions to intensify their efforts to mobilize funds from private markets for the purpose of development. And it is in this context that I would like IFC brought in, as an example of an institution (due to expand its role with its new capital increase) whose essential function is to facilitate private markets in contributing to economic development. Secondly, the overriding need to make sure that resources are used efficiently. This is covered in the section on implications for the World Bank group, but I think it would be helpful to link the theme of efficiency again to the need for market-based policies as a means of achieving greater efficiency.

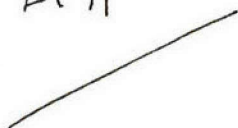
The second main theme which is in the draft but I think could be brought out more clearly and made a key point in the speech is defense expenditure, not so much by developing countries (although that should be covered) as by the industrial countries. As defense requirements are reassessed in all industrial countries, resources will be freed for other purposes (but avoid the phrase peace dividend). At this point in history, it would go down very well for the new President of the World Bank to make a plea that the needs of the developing world must

not be forgotten, and that plea should be a key point in the speech.

Finally, I think the speech will have to contain a bit more about the former USSR, but it is pretty difficult to write that now. And, on a detail, I think Indonesia is a case of success which should be quoted along with Chile and Mexico in paragraph 10 and perhaps elsewhere.

LPspeech.wr

B. 11



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

ERNEST STERN
Senior Vice President
Finance

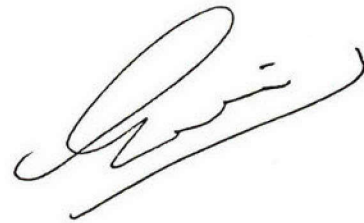
September 11, 1991

Mr. Summers

Larry -

Sorry for the delay. I have incorporated your comments and those of others and passed this version on to Lew, so it can be put into language he is comfortable with.

I also attach a copy of Bill Ryrie's comments for your information.

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

Attachments

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

ERNEST STERN
Senior Vice President
Finance

FAXED earlier today

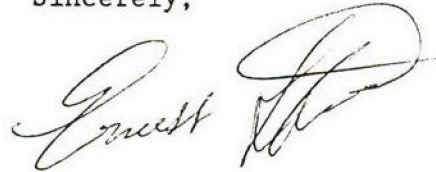
September 11, 1991

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

Dear Mr. Lautenberg:

Following our telephone conversation, we have designated Mr. David Scott to attend the Paris meeting. Mr. Scott is fully familiar with our financial sector work, current and planned, in Eastern Europe. Mr. Scott may be reached on (202) 473-7481 or by fax at (202) 676-0804. I would appreciate it if your office could confirm directly to him the arrangements for the meeting.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ernest Stern", with a large, stylized flourish at the end.

bcc: Mr. Scott

OFFICE MEMORANDUM

TO: Mr. Basil G. Kavalsky, FRM
FROM: Ernest Stern, FINSV *ES*
SUBJECT: Bilateral Contributions to the Technical Assistance Trust Fund

September 12, 1991

While discussing a separate matter, Mr. Wapenhans raised with me the issue of bilateral contributions to the Technical Assistance Trust Fund for the USSR. I think there is general agreement that we will not engage in a broad effort to attract bilateral contributions. However, we should, of course, accept contributions which have been offered.

Specifically, we should take up the Dutch offer and turn it into a specific contribution. However, I now understand that the Dutch offer envisages "burden-sharing". In line with my comments at the Board, we should make it clear to the Dutch that we have no intention of starting such an exercise. Without that condition, their money is welcome. Similarly, we should find out how Switzerland plans to contribute. In both cases, we should, however, make it clear that we will only accept untied contributions to the Trust Fund, to be used at our discretion, and within the Board consultative procedures which we have outlined. Donors who cannot accept these criteria should be encouraged to expand their Consultant Trust Funds.

In addition, Mr. Wapenhans pointed out that a number of countries have established funds to assist the Soviet Union outside of their normal Aid programs. Our concern about additionality could be met if contributions were made out of those specific funds. They are readily identifiable since they are generally in the hands of different Ministries.

All of this suggests that you should be in close touch with EMENA, and make sure that any solicitations and contributions are consistent with the above.

cc: Mr. Wood
Mr. Cheetham
Mr. Wapenhans

THE WORLD BANK/IFC/MIGA
OFFICE MEMORANDUM

DATE: September 12, 1991

TO: All Finance Staff

FROM: Ernest Stern, Senior Vice President, Finance *ES*

EXTENSION: 82005

SUBJECT: **Information Strategy Plan (ISP) Decisions**

1. The ISP report of April 30, 1991 submitted by the ISP Team has been reviewed by the Finance Senior Managers and decisions have been agreed to on the report's recommendations. This memo documents those decisions and areas for further action. Responsibilities and due dates for action items have been assigned to FINCOM units and staff.

Liquid Asset Management

2. While not a formal recommendation, the report suggested that there are some business process overlaps and synergies between the Investment and Cash Management Departments which, after a more detailed business analysis, could be the basis for opportunities to realign some business functions and organizational structures to produce economies of scale.

Decision: No near-term action is desirable or needed. Treasurer's will define reasons for maintaining any joint cash accounts shared by both Investments and Cash Management.

Risk Management and Counterpart Support

3. The report recommended that a comprehensive, integrated risk management approach (including an asset/liability management strategy) should be established, covering all areas of Bank financial risk exposure.

Decision: To clarify the issues before taking actions, the Risk Management and Financial Policy Department will prepare a paper outlining the nature and magnitude of specific risks not now covered on a regular basis and identifying any additional information that may be required to manage these risks in an integrated fashion.

3. The report further recommended that this risk management strategy should be supported by an investment in technology providing improved analytical and modelling capabilities, improved day-to-day risk exposure management, and implementation of the new risk management flows shown in the architecture.

Decision: Action on this recommendation was deferred until resolution is reached on the basic risk management strategy recommendation.

4. The report also recommended that counterpart relationship information and associated credit risk information should be consolidated into a single database.

Decision: There was agreement that counterpart risk information should be consolidated; however, it was decided that it would not be practical to maintain a database recording the contents and results of visits and discussions of FINCOM departments with counterparts. The TRE Credit Unit will prepare a note defining what actions, if any, remain to be taken.

Loan Administration Support

5. The report recommended that the Loan Administration Modernization Project (LAMP) work program should be initiated with the appointment of a project leader and the undertaking of a business area analysis of the loan/credit administration information area to determine the scope and structure of the follow-on implementation.

Decision: The Loan Accounting and Borrower Services Division Chief (Mr. Choudhury) has been appointed as the LAMP Project Leader. Controller's has confirmed that further analysis of the business area requirements is needed. The LAMP project has been initiated and FY92 FSDF funding has been allocated.

Executive Information System (EIS)

6. The report recommended that FINCOM should acquire, develop and install an EIS information delivery system as part of the Financial Information Center to support managers and senior staff.

Decision: There was agreement that the definition of EIS front-end system requirements was not sufficient to reach a decision and that the primary benefit of an EIS would be for division chiefs and senior staff. The Systems Administrator will review with managers their needs for information access and prepare further recommendations.

Trust Fund Support

7. The report recommended that a business analysis of the Trust Fund information area should be conducted to validate the previous studies and to produce a complete Trust Fund Administration architecture that can serve as the basis for future Trust Fund business process alignment and support systems.

Decision: There was agreement that further work on Trust Fund systems and integration of work-to-date was needed, and that better Trust Fund information could underpin needed efforts to achieve better compliance with Trust Fund procedures. It was agreed to begin work on analyzing the Trust Funds area to identify the additional information requirements and actions needed.

Investment Operations Support

8. The report recommended that before committing a large amount of funds for new Investment Department technology, a business analysis should be undertaken to document requirements, the available options, and the cost/benefit feasibility of alternatives. Specifically, this analysis should explore the feasibility of the integration of all business processes and supporting technology for the current Investment Department functions.

Decision: The Investment Department has prepared a Request for Information (RFI) for a FUNDTRAC replacement system and has received replies from vendors. The Department is pursuing the next steps to evaluate the alternatives and is proceeding with an integration program. They have initiated the recommended business analysis.

Financial Information Center (FIC) Resources

9. The report recommended that FINCOM should allocate stable funding and staffing to the FIC to enable it to continue and expand its work program in support of complex-wide needs and the suggested risk management approach.

Decision: The current funding was deemed stable (with significant FSDF inputs) and it was recognized that the staffing and funding of the FIC had increased in the recent past, although part of its work was now specifically dedicated to

Controller's requirements. It was agreed that the Financial Data Base (FDB) User Group should be reconvened by the VPCTR.

Information Technology Budgets

10. The report recommended that FINCOM should pursue an aggressive program to improve the cost and performance of Operations & Maintenance (O&M), subject to the clear understanding that the quality and responsiveness of maintenance activities be kept to the current high standards.

Decision: Controlling O&M costs, especially in a period of extremely limited budget growth, is very important. FINCOM needs to tighten the past "open-ended" approach to planning technology depreciation and O&M costs.

11. The report also recommended that FINCOM should continue to pursue negotiations for the transfer of O&M support for the BAS family of systems and should request special funding (in the range of \$0.8 to \$1.2 million) for the support of these institutional systems (to be transferred with the O&M support responsibility).

Decision: There was agreement that O&M costs should not be funded from the FSDF budget, and that these costs should be funded under regular budget requests.

12. Additionally, the report recommended that FINCOM should examine past technology investments and the business processes they support to identify opportunities for additional business process changes that could lead to realized benefits. In the same vein, the report recommended that FINCOM should require that significant technology investments include an analysis of basic business processes and how the technology investment can enable those processes to be made more effective and benefits realized. The report also recommended that FINCOM should identify in advance the sources or savings that will fund the depreciation of requested capital projects in the future.

Decision: The FINCOM Steering Committee will propose guidelines for FSDF and Capital Budget projects for identifying what will be achieved from the investments (e.g., cost savings, improved service, better delivery times, risk reduction, improved income). The Steering Committee will also investigate means for dealing with ongoing technology costs.

13. The report recommended that an annual FSDF funding level of at least \$4.0 million is required for the foreseeable future.

Decision: This recommendation was accepted.

14. The report recommended that FINCOM should make every effort to avoid using FSDF funds for ongoing O&M costs and to conserve these funds for systems development.

Decision: This recommendation was accepted.

15. The report also recommended that FINCOM should use a combination of the available options to manage the FY93-95 depreciation costs, with the diversion of systems development funds as the last choice.

Decision: It was agreed to use funds other than FSDF for depreciation.

16. In its summary recommendation regarding technology budgets, the report suggested that FINCOM should manage the technology program to achieve the following targets:

- \$4.0 million (minimum) dedicated to development annually.
- O&M growth rate of 9% annually.

- Smoother depreciation cost patterns and pre-identified sources for depreciation.
- Capture of benefits from systems development projects as a target rate of 10% in the aggregate.

Decision: It was agreed that FINCOM would try to achieve these targets as the decisions on the preceding technology budget recommendations indicate. However, it was recognized that the suggested capture of benefits would be difficult to achieve and reflect in the budget systems since many benefits are income-enhancing or risk-reducing rather than simply cost-saving. For large projects such as FUNDTRAC replacement and LAMP, the FINCOM Program Coordinator and Systems Administrator will coordinate the resource needs and benefits with PBD.

Information Technology Support

17. The report recommended that FINCOM should reestablish a centralized IRM oversight function at the FINSV level to provide technical advice and management support on all IRM related issues.

Decision: This recommendation has been enacted with the establishment of the position of FINCOM Systems Administrator.

18. The report also recommended that FINCOM should relocate the Financial Information Center (FIC) centrally, under the Systems Administrator.

Decision: The FIC will transfer when the current Controller's Workstation Pilot and Loan Information System projects are completed, but not later than July 1, 1992. In the interim, the FIC will report to the Vice President and Controller.

19. The report additionally recommended that FINCOM Vice Presidents should periodically review their systems programs and decide on the best systems support model at any given time.

Decision: This recommendation was accepted.

20. The report recommended that the Financial Policy and Risk Management (FPR) Vice Presidency should establish a technology support structure at the Vice Presidential level.

Decision: This recommendation was accepted.

21. The report also recommended that FINCOM should implement an Information Technology (IT) training program for technical, support and high level staff, as well as for managers, to aid in extracting the maximum benefits of IT investments.

Decision: This recommendation was accepted, recognizing that improved training and education would make major contributions to controlling O&M costs and realizing benefits from IT investments. The Systems Administrator, along with the FINCOM Personnel Office, with inputs and assistance from the Technical Committee, will prepare an IT Training program for FINCOM staff.

FINCOM Support of Business Processes Outside FINCOM

22. The report recommended that the location of the Budget Accounting function should be reexamined, recognizing that Controller's must retain responsibility for the overall control of decentralized expense accounting.

Decision: This recommendation was rejected.

Other Issues and Recommendations

23. The report recommended that information technology risk management and its funding be coordinated at the FINSV level.

Decision: *The Systems Administrator will coordinate departmental disaster recovery plans and timetables, bring any disaster recovery budget issues to management's attention, and ensure that department directors have approved the plans.*

24. The report recommended that FINCOM, in cooperation with ITF, should reestablish its technology plan as an immediate follow-up task to the ISP.

Decision: *This recommendation was accepted.*

25. The report recommended that FINCOM should actively support a recalibration of the Bankwide ISP in the immediate future and support and encourage efforts in other Bank complexes to conduct their own ISPs.

Decision: *This recommendation was accepted.*

26. The report recommended that FINCOM should review the placement of the FINCOM DEC Utility (FDU) management function and locate it where the best combination of user satisfaction, effective service, and cost efficiency can be achieved.

Decision: *This recommendation was accepted. The Deputy Treasurer and the Systems Administrator will jointly sponsor an analysis of the alternatives.*

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

ERNEST STERN
Senior Vice President
Finance

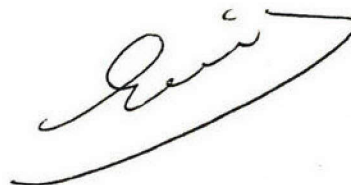
September 12, 1991

Mr. Preston

Lew -

We announced our Global syndicate today.

- Launch September 19.
- Closing September 30.
- 5-year Bullet.
- Lead Managers: CSFB and Goldman, Sachs.
- Others: US
 - Merrill Lynch
 - Lehman Bros.
 - Morgan Stanley
- Japan
 - Daiwa
 - IBJ
 - Yamaichi
 - LTCB
- Europe
 - Deutsche Bank
 - J.P. Morgan

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

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 12, 1991

Mr. Cox

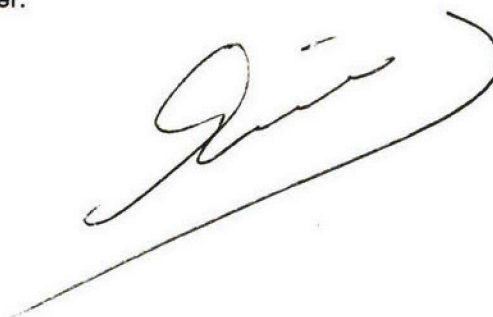
Mark -

Cofinancing Programs of ADB, IDB and IFC

I thought I had sent the attached along earlier. The note describes various aspects of the cofinancing arrangements of the ADB, IDB and IFC. The material has been checked with the agencies.

Please let me know if you want to discuss this further.

cc: Mr. Coady

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

August 14, 1991

COFINANCING PROGRAMS OF ADB, IDB AND IFC

This note is in response to your July 29 request for information on the cofinancing programs of the ADB, IDB and IFC.

The ADB and IDB programs are similar in structure. Under their complementary financing programs, the ADB and the IDB make two loans to a borrower. The first is a normal loan from the institution funded from the institution's own resources. The second, or complementary, loan is also a loan made pursuant to a loan agreement between the institution and the borrower. However, the loan is funded from commercial lenders through the sale by the institution of participations in the loan to commercial lenders pursuant to participation agreements between the institutions and the participating commercial lenders. The pricing and maturity of the complementary loan reflect commercial terms.

Although similar in structure, the ADB program has been more active than that of the IDB. The IDB has not made any complementary loans in recent years. In fiscal year 1990, the ADB made complementary loans for \$145 million for five projects, an increase of 30 percent over the prior year. Some of these loans were made in combination with the ADB's guarantee facility. Under this facility, ADB issues a guarantee covering amounts due on the complementary loan for those maturities extending beyond those that would be obtainable from the commercial lenders in the absence of an ADB guarantee. The guarantee can cover both principal and interest due on such maturities.

IFC's loan syndication program is structured somewhat differently than the ADB and IDB complementary financing programs. However, the basic effects of the program are similar, bearing in mind that IFC's borrowers are private sector companies rather than governments. Unlike the ADB and IDB programs, the IFC enters into only one loan agreement with the borrower, but the loan is composed of two portions. One portion (the A Loan) is retained by IFC for its own account. IFC sells participation in the second portion (the B Loan) to commercial lenders pursuant to participation agreements.

The IFC loan syndication program has been very active. According to IFC's 1990 Annual Report, IFC has placed over \$3.1 billion of participations with 249 financial institutions. During 1990 alone, \$622 million in participations were arranged out of the total of \$1.8 billion of loans approved by IFC.

The following are the significant accounting and legal aspects of the three institutions' commercial cofinancing programs:

1. Accounting. The portion of the loan sold to commercial lenders does not appear on the institution's balance sheet. In the case of the ADB and the IDB, all of the complementary loan is sold to

the commercial lenders. In the case of all three institutions, such sales are normally prearranged prior to the time the loan is made.

2. Loan Terms. ADB and IDB complementary loans are denominated and repayable in a specific currency. Interest rates are market based. Proceeds of complementary loans are not subject to the institutions' usual guidelines for procurement, but procurement must be from member countries. Proceeds can be drawn down immediately. IFC's own loans are normally made on market-based terms. There are sometimes differences between the terms for the A Loan portion and the B Loan portion of loans made under IFC's syndicated loan program to take account of the commercial lenders' maturity and interest-rate requirements.
3. Lender of Record. The ADB and IDB remain the lender of record on their complementary loans. The IFC is lender of record for the full amount of the loan made under its syndicated loan program, including that portion sold to commercial lenders. This means simply that the loan agreement is an agreement solely between the borrower and the institution. The commercial lenders are not parties to the loan agreement. As lender of record, the institution is solely responsible for the administration of all aspects of the loan, including administering disbursements and collection of loan payments.
4. Liability to Borrower for Loan Disbursements. Even though the institution remains lender of record, the complementary loan agreements of the ADB and the IDB and the investment (loan) agreement of IFC provide that the institution is only responsible for disbursing the portion of the loan that is for the account of the commercial lenders to the extent that it has received the amounts required for the disbursement from the participating lenders. Thus, the institution does not have any contingent liability to the borrower if the commercial lenders fail to perform their obligations to the institution under the participation agreement between the lenders and the institution.
5. Liability to Commercial Lenders. The participation agreements of all three institutions with the commercial lenders provide that the sale of the loan to the lenders is without recourse to the institution. Thus, the institution has no liability to the lenders for payments that are due but not made by the borrower under the loan agreement. The institution's responsibility is limited to passing on to the lenders the payments received by the institution from the borrower with respect to the loan. The institution would have a contingent liability to the commercial lenders only if the institution had guaranteed such payment, as ADB sometimes does under its guarantee facility.

In the case of IFC, however, since its program involves the sale of participations in loans for which the IFC is also a lender for its own account, the participation agreements between IFC and the commercial lenders provide that IFC will distribute all loan payments received pro rata among the participating commercial lenders and itself. Thus, IFC's portion of the loan cannot be serviced fully unless the other lenders are paid in full as well.

6. Defaults. Since the contractual relationship under the complementary loan agreements of the ADB and the IDB and the investment (loan) agreements of IFC is between the institution and the borrower, a default under that loan would be a direct default against the institution. Default under a complementary loan or an investment (loan) agreement made under IFC's syndicated loan program would permit the relevant institution to exercise the same remedies as under its normal loans, i.e. to suspend or terminate disbursements and to accelerate the loan. Furthermore, and most significantly, in the case of the ADB and the IDB, a payment default under the complementary loan agreement is an event of suspension and acceleration under all of the institution's loan agreements with the borrower. Thus, default under a complementary loan agreement could affect disbursements/repayments under the institution's entire lending program with the borrower. Similarly, in the case of IFC a default under a syndicated investment (loan) agreement would be an event of default under other loan agreements between the borrower and IFC.

In addition, the ADB and IDB complementary loan agreements and the IFC syndicated investment (loan) agreements contain limited cross-default provisions entitling the institution to exercise remedies under that agreement if the borrower has defaulted under other loan agreements with the institution. The ADB and the IDB do not accept, however, the inclusion in complementary loan agreements of the broad cross-default provision typically included in commercial bank loan agreements to the effect that a default by the borrower on any external indebtedness constitutes a default under the agreement. IFC agreements, on the other hand, usually have broad cross-default provisions. Under the IFC agreements, a default by the borrower under any agreement with another creditor would be an event of default under the IFC agreement. It should be noted, however, that this clause is typically limited solely to the company that is the borrower under the IFC loan and not to any other entity within the country.

7. Rights of Commercial Lenders Upon Default. Under the ADB and IDB participation agreements, the commercial lenders are not obligated to make further payments to the institution with respect to the complementary loan if the borrower is in default with respect to other external debt payments owed to the commercial lenders. The provision in the ADB agreement is triggered if there is any default on any amount owed to any of the commercial lenders

participating in the complementary loan. Similarly, the ADB complementary loan agreements condition disbursements under the loan on the absence of defaults on external debt payments due to the commercial lenders.

The provision in the IDB participation agreement requires commercial lenders having at least two-thirds of the commitments with respect to the complementary loan to determine that the borrower has been in default for at least 90 days in an amount exceeding \$1 million owed to any of the commercial lenders participating in the complementary loan. The only pertinent condition of disbursement in IDB's complimentary loan agreements is that IDB has received the necessary funds for the disbursement from the participating commercial lenders.

Unlike the ADB and IDB programs, the IFC participation agreements do not specifically excuse commercial lenders from making further payments to IFC under the participation agreement in the event the borrower is in default with respect to other debt owed to such lenders. However, IFC syndicated investment (loan) agreements condition disbursements on the absence of any events which would be events of default under the agreement, including the absence of a default by the borrower under agreements with other creditors. Under its participation agreements, IFC cannot waive this condition without the consent of all the participating commercial lenders.

With respect to defaults under their complementary loans, the ADB and the IDB undertake in the participation agreement to consult with the participating commercial lenders in a default situation for the purpose of obtaining the lenders' views, to keep the lenders advised of the situation, and to take the lenders' views into account before deciding on a final course of action. Each of the institutions also agree to exercise the same standard of care as it exercises in loans for its own account. Nevertheless, each institution reserves the right to exercise, or refrain from exercising, any of its rights under the complementary loan agreement, other than those relating to the borrowers' payment obligations and certain other provisions specifically enumerated in the participation agreements. Under these provisions, the consent of all the participating commercial lenders would be required for any rescheduling of the complementary loan.

With respect to the portion of its loan sold to commercial lenders, IFC, like ADB and IDB, undertakes in the participation agreement to consult with the lenders in a default situation on the course of action IFC intends to take. IFC also agrees to exercise the same care in the administration and enforcement of rights under the portion of the loan sold to the commercial lenders as it exercises in loans for its own account. Nevertheless, IFC reserves the right to exercise, or refrain from

exercising, any of its rights under the loan agreement, other than those relating to the borrower's payment obligations and certain other provisions specifically enumerated in the participation agreements.

Notwithstanding the foregoing, IFC participation agreements contain a provision not found in the ADB and IDB agreements. The provision obligates the IFC to accelerate the portion of the loan sold to the commercial lenders if there has been a payment default on that portion of the loan and the lenders holding a proportion (usually two thirds) of the loan request the IFC to accelerate. In exceptional cases, IFC has agreed to a broader provision allowing the commercial lenders to control action in the case of defaults other than non-payment. Where this is the case, the IFC includes a second provision in the participation agreement allowing IFC to withdraw from the B Loan and in effect to "put" the B Loan to the participating lenders. In such a case, the IFC would assign the B Loan to the lenders and the lenders would then become the lenders of records and be in a direct contractual relationship with the borrower. In no case can the commercial lenders sell back their participation to IFC.

8. Preferred Creditor Status. ADB has announced that it will take all necessary steps to defend all its loans, including complementary loans, against attempts to subject such loans to debt rescheduling. A copy of the ADB's statement is attached for information. Although the IDB has not made any comparable statement, it is reasonable to expect that it would take the same position as the ADB. None of the ADB's or the IDB's complementary loans have been rescheduled. IFC's 1990 Annual Report states that "[w]hile participating banks remain fully exposed to commercial risk, in practice [IFC's] special status has ensured that no IFC loan, including the portion taken by participants, has ever been included in the general rescheduling of any country's foreign debt."

The foregoing discussion relates only to the three institutions' lending programs. IFC, of course, may also be an equity investor. The IFC does not have any comparable program to provide a de facto preferred status to other equity investors in a company. Although IFC expects to enjoy preferential treatment in terms of repatriation of dividends, it does not seek to afford similar treatment to other foreign equity investors in the company.

COMPLEMENTARY FINANCING SCHEME **REPRESENTATIONS TO COMMERCIAL INSTITUTIONS ON** **"RESCHEDULING"**

Under the CFS, funds from commercial sources are made available to a borrower by ADB under a Complementary Loan Agreement between the Bank and the borrower, and ADB becomes the "lender of record". ADB administers the complementary loan as if it were made from its own resources, and the immunities and privileges that ADB enjoys with respect to its operations will equally apply to the administration of the complementary loan. Under its current policy, ADB will not voluntarily participate in any debt rescheduling exercise should such an exercise be undertaken by any of its borrower member countries. ADB will seek exemption from any such exercise for all its loans whether they are made from its own resources or through the CFS. The basis of the claim for exemption would include the fact that ADB is a multilateral international organization which enjoys certain privileges and immunities under its Charter for the purposes of carrying out its role as an international development institution. As such, ADB will claim a certain preferred creditor status in its member countries which entitles it to exemption from any rescheduling exercise and ADB would take all necessary steps to defend all its loans, including CFS loans, against attempts to subject such loans to rescheduling. It should be noted, however, that ADB cannot absolutely guarantee or warrant that its claims to exemption from rescheduling will always be successful. International pressures, pressures from creditors and those from the debtor country itself, together with other factors, may result in ADB not being successful in defending and enforcing its claim for exemption. Despite this uncertainty, the commercial institutions which participate in ADB's loans should have a better protection against sovereign risks than they would have if they directly lend to a borrower, and as such this warrants the quid pro quo of offering better terms and conditions to a borrower than those normally available in the market to the same borrower.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 12, 1991

Mr. Roth

Don -

Mary Bush (CV attached) will be calling you in the next day or so for an appointment. I would appreciate it if you would meet with her to discuss her interest in, and assess her capacity for, FOD.

Let me know your reactions.

A handwritten signature in black ink, appearing to be 'hi' with a flourish underneath.

Attachment

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 12, 1991

Mr. Dervis

Kemal -

Despite your busy schedules, I would appreciate it if you could give Mary Bush (CV attached) half an hour of your time when she calls in the next few days. She is interested in the World Bank, particularly in Eastern Europe or Finance. With her practical background in finance, she could bring expertise we sometimes are short of. She would like to explore whether her abilities match with any of our requirements.

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

Attachment

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 12, 1991

Mr. Long

Millard -

Despite your busy schedules, I would appreciate it if you could give Mary Bush (CV attached) half an hour of your time when she calls in the next few days. She is interested in the World Bank, particularly in Eastern Europe or Finance. With her practical background in finance, she could bring expertise we sometimes are short of. She would like to explore whether her abilities match with any of our requirements.

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

Attachment

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

ERNEST STERN
Senior Vice President
Finance

September 12, 1991

Mr. Cheetham

Russ -

Despite your busy schedules, I would appreciate it if you could give Mary Bush (CV attached) half an hour of your time when she calls in the next few days. She is interested in the World Bank, particularly in Eastern Europe or Finance. With her practical background in finance, she could bring expertise we sometimes are short of. She would like to explore whether her abilities match with any of our requirements.

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

Attachment



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/12/1991	Document Type CV / Resumé			
Correspondents / Participants From : Ernest Stern, Senior VP Finance To: Russell J. Cheetham, EM5DR				
Subject / Title Mary K. Bush CV				
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			

Office Memorandum

DATE: September 13, 1991
TO: Distribution
FROM: Paul F. Siegelbaum
EXT.: 80752
SUBJECT: *Upcoming Global Bonds*

Ken/Paul

Given the state of the market I would hope that we not settle at the bottom of the \$1-1.5 range. The borrowing program should not be a constraint for this issue; it at all the Spring issue

Members of the syndicate have now been notified. For your information the syndicate is as follows:

CS First Boston	}	Joint Lead
Goldman Sachs & Co.	}	Managers
Daiwa Securities	}	
Deutsche Bank	}	Comanagers
IBJ International Limited	}	
J.P. Morgan Securities	}	
Lehman Brothers	}	
The Long Term Credit Bank of Japan Limited	}	
Merrill Lynch Capital Markets	}	
Morgan Stanley & Co., Incorporated	}	
Yamaichi Securities	}	

9/13

Attached are copies of the form of letters sent to the joint lead managers, the comanagers and other firms. Also attached is a copy of the press release which was sent today.

Distribution:

Mr. Ernest Stern
Mr. Donald C. Roth
Mr. Caio Koch-Weser
Mrs. Jessica P. Einhorn
Mr. Kenneth Lay
Mr. Krishnan Chandrasekhar
Mr. Hans Rothenbuhler
Mr. Alan Mole

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

BY FACSIMILE

September 12, 1991

TO: LEAD MANAGER

WORLD BANK GLOBAL BONDS

We are pleased to confirm our advice to you that, in anticipation of the launch of our fifth global bond, the World Bank has selected your institution, together with Goldman, Sachs & Co. to serve as joint bookrunning lead managers for the transaction. We presently expect this issue to be launched as early as next week, although this timing could be postponed if conditions warrant.

We envisage that, subject to market conditions, the fifth global bond issue will be launched with the following terms:

<i>Size:</i>	USD 1.0 - 1.5 billion
<i>Maturity:</i>	5-10 years (intermediate)
<i>Callability:</i>	Non-call life
<i>Securities:</i>	Book entry, with definitive registered option
<i>Coupon:</i>	Semiannual, 30/360 basis
<i>Listing:</i>	Luxembourg

We have decided to maintain a relatively small syndicate for this global bond issue, to include a maximum of nine Co-Managers. Today, we issued preliminary invitations to the following firms to participate in the management team:

Daiwa Securities
Deutsche Bank Capital Markets Limited
IBJ International Limited
J.P. Morgan Securities
Lehman Brothers
The Long Term Credit Bank of Japan, Limited
Merrill Lynch Capital Markets
Morgan Stanley & Co., Incorporated
Yamaichi Securities

Once more, let us congratulate you on your selection as Joint Lead Manager. We look forward to working closely together with you on the preparation and execution of this transaction.

Very truly yours,

Donald C. Roth, Vice President and Treasurer
Kenneth G. Lay, Acting Director, Financial Operations Department
Paul J. Siegelbaum, Chief, Funding Group III

cc: Mr. Guillaume d'Angerville, Director
Mr. John Romanelli, Vice President, First Boston Corporation

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

BY FACSIMILE

September 12, 1991

TO: COMANAGER

WORLD BANK GLOBAL BONDS

The World Bank expects to launch its fifth global bond issue in the next week or two, subject to the receipt of the necessary governmental consents under the Bank's Articles of Agreement. I am pleased to invite your firm to participate as a member of the management team for this transaction.

The World Bank will designate a group of up to eleven financial institutions to participate as members of the management team for this global bond transaction. Credit Suisse First Boston Limited and Goldman, Sachs & Co. have been invited to act jointly as bookrunning lead managers.

Subject to market conditions, the fifth global bond issue will be launched with the following terms:

<i>Size:</i>	USD 1.0 - 1.5 billion
<i>Maturity:</i>	5-10 years (intermediate)
<i>Callability:</i>	Non-call life
<i>Securities:</i>	Book entry, with definitive registered option
<i>Coupon:</i>	Semiannual, 30/360 basis
<i>Listing:</i>	Luxembourg

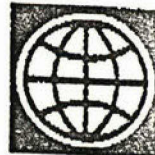
Once the details of the actual issue are known, you will receive a formal invitation specific to the issue.

Please call us as soon as possible at (202) 458-0752 to confirm your agreement to participate in the transaction as described above. The World Bank will issue a press release tomorrow, describing the transaction and disclosing the names of the members of the management group.

Very truly yours,

Paul J. Siegelbaum
Chief, Funding Group III
Financial Operations Department

cc: Mr. Koji Yoneyama, Chairman, New York
Mr. Hiroshi Yoshida



World Bank

1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 477-1234

NEWS RELEASE NO. 92/F7

Contact: Sheldon Rappaport
(202) 473-1797

WORLD BANK PLANS NEW GLOBAL BOND ISSUE

WASHINGTON, September 13 -- The World Bank announced today that in the coming weeks it plans to launch a new U.S.-dollar global bond issue. The issue, which will be \$1.5 billion in size, will be underwritten and distributed simultaneously in the euromarkets and in the U.S. and the Japanese domestic markets. As with the prior issues, these securities are designed to trade globally, on a 24-hour basis, through integrated clearing systems in the U.S. and the euromarkets.

In preparation for the global bond issue the Bank announced the formation of the management group of investment dealers that will bring the issue to market. CS First Boston and Goldman, Sachs & Co. will serve as joint bookrunning lead managers. The other members of the management team are Daiwa Securities, Deutsche Bank Capital Markets Limited, IBJ International Limited, J.P. Morgan Securities, Lehman Brothers, The Long Term Credit Bank of Japan, Limited, Merrill Lynch Capital Markets, Morgan Stanley & Co., Incorporated, and Yamaichi Securities.

- o -

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

BY FACSIMILE

September 12, 1991

REGRET LETTER

WORLD BANK GLOBAL BONDS

Subject to market conditions, the fifth global bond issue will be launched in the near future. We have considered carefully the most appropriate size and composition for the underwriting syndicate under current market conditions and have decided to maintain a small syndicate of no more than eleven firms. I regret to inform you that we will be unable to invite _____ to participate as a manager for the next issue.

This decision was a particularly difficult one for us, in light of the long-standing relationship between our institutions. Our decision in regard to this next issue is not, you should be aware, any precedent for future global bond transactions. Decisions as to those transactions will be made at the time and under circumstances then prevailing, bearing in mind the goals of those issues.

We have today sent invitations to a group of financial institutions to participate as members of the management team for our fifth global bond issue. These names, along with those of the joint lead management team, will be made public shortly in a press release.

Very truly yours,

Paul J. Siegelbaum
Chief, Funding Group III
Financial Operations Department

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 13, 1991

Mr. Roth
Mr. Lay

Nomura/Nikko

I am not sure where the thought originated that we had suspended new issues because of their association with gangsters. We should, if asked, stick to our previously agreed line, i.e., that we do not discuss or comment on relations with our financial partners.

In particular, it would be inappropriate for us to cite or confirm relations with gangsters as a cause for our action. We are and have been concerned that these two firms are involved in a number of charges of improper behavior, including some that have led to an unusual inquiry by the Diet. We are not a judicial body and have not based our actions on evidence relating to any specific actions. I do not know where the story emanated and it may be purely speculation. However, I want to be clear that we do not participate in any way in discussion of specific causes.

Please be sure that FOD staff understand this and that the press people have appropriate guidance.

A handwritten signature in dark ink, appearing to be 'hi' or a similar stylized mark.

To: R. Picciotto

I'd send this.
With ccs to
Sandstrom and me.

Ernie
9/15/91

L - I N - 1 N O T E

DATE: 11-Sep-1991 05:49pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Robert Picciotto, CPBVP

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Budget Process

Ernie:

I would appreciate your views on the attached draft.

Bob

To: Mr Lewis Preston

From: R. Picciotto

Subject: Budget Process

1. The following is a possible road map towards budget process simplification :

* compress the budget cycle, *Whether we can get down to 3 months should await detailed review of the process cycle. But it ought to be the starting objective.* ~~to 3 months and use the balance~~ of the year for cost effectiveness analyses; resource redeployment decisions and assessments of business results; (Annex 1); *should be used*

* enforce a simple and consistent budget management information system at all levels of the organization (Annex 2);

* initiate a dialogue with the Board regarding budget process reform (Annex 3).

2. For orderly management, existing processes should be observed until we have something better to put in their place. Clarification on this point would be helpful at the next PC meeting.

Make it clear that we'll stay with the current process for FY92.

3. If you broadly agree with the approach sketched in the attachments, you may wish to announce at the PC meeting that you have asked me to set a review process in train -- as you have done in the case of personnel decentralization. Obviously, your decisions would have to await the preparation of detailed process options and the recommendations of the Jaycox Task Force.

4. Following is a brief status report on planning and budgeting activities :

* Work is ongoing for a budget priorities paper to be delivered to you in draft by the end of September. It will reach the Board by the end of October. An outline is available.

* We are also expected to present the Board with a long term projection of work force growth by the middle of October as a basis for proceeding with IFC's purchase of a new building. *This is not feasible, and I suggest we tell the Board we are postponing the matter*

* The FY91 Retrospective will be sent to the Cost Effectiveness and Budget Practices Committee in October. An overview will be available in a couple of weeks.

5. Draft FY92 Budget contracts for each of the major complexes are in hand. You may find it useful to meet with the SVP/VPs concerned to discuss them.

on a sound professional basis

Annex 1

BUDGET PROCESS CALENDAR

in the first quarter of the cy

1. A three months budget cycle : budget guidelines would be issued to the Units ~~in March~~ and The President's budget would be sent to the Board in May. The budget would be grounded in managerial contracts and tied to unit work programs and task budgets.

2. A three months business planning cycle : Unit 3 year business plans would be put together from September to November. This process would be simplified and concentrate on broad institutional priorities, efficiency and resource allocation decisions : it would be used to force managers to face tradeoff decisions and allow the President to settle on budget growth options.

3. Quarterly reporting : simple, quantitative reports would be sent to the President every quarter to review progress against plans. A summary of the second quarter report (midyear review) and of the fourth quarter report (annual retrospective) would be sent to the Cost Effectiveness and Budget Practices Committee.

4. Role of the Board : Board involvement would be ~~drastically reduced. The Colloquium (October) ; The Priorities paper (November) and the Budget Framework discussion at the Committee of the Whole (February) would be eliminated.~~ ^{start with} Instead, the President would meet ^{he} informally with the Executive Directors soon after the annual meetings (November) to outline his budget priorities in the coming budget year, and The Cost Effectiveness and Budget Practices Committee would be briefed by PBD in February about the outcome of the business planning process and the budget growth options being reviewed by management.

We would consult with the EDs about the Annual Colloquium. If it is to be continued it would however be delinked from the budget process (to which it is only tenuously connected anyway) and used as a one-day retreat to discuss current major ^{topics} ~~issues~~ and/or longer term strategic issues.

Annex 2

INFORMATION SYSTEMS

As a first step the

1. The Bank's current management and budget information systems are excessively decentralized and cumbersome.

2. To make these systems more useful and transparent, a standard approach would be used at all levels of the organization. The design of a Presidential Management Information System ~~would be organized as an urgent priority. The President would approve specifications for his management information needs concentrating on basic business functions by the end of October and The new~~ reporting system ~~would be~~ in place by the end of December.

objective
should be
to have
a ~~new~~

of the
Office of
the President
would be
defined.

3. Budget information would be submitted according to standard formats and concentrate on : (i) program objectives; (ii) key activities; (iii) major output indicators; (iv) major budget and staff parameters. The same logic would be used at all stages of planning and budgeting -- as well as for monitoring of results.

4. A Cost Accounting Data Base would be set up to help ensure effective cost controls.

5. The Budget Accounting System would be improved in consultation with users.

ANNEX 3

Role of the Board

? Several!

1. The current process was set up in 1986 as a compromise -- to get Mr Claussen's last budget (FY87) approved. The Board reviewed the process in 1989. ~~One unfortunate concession was made: the colloquium was added to an already crowded budget calendar.~~

2. A winning strategy vis a vis the Board on budget process reform would involve a combination of tight budget management decisions and an explicit linkage between the Haralz proposals and budget process simplification.

3. Budget process simplification may be supported by influential Directors provided they are reassured that : (i) budget growth will be constrained; (ii) more budget redeployment will take place; and (iii) informal consultations will regularly take place regarding budget matters.

4. Still, the risks of a confrontation are substantial. ^{Therefore we should} ~~and it may be best to~~ let the beginning of this year's process run ~~more or less~~ according to established procedures and come to the Board with a formal proposal only after the required groundwork has been ~~done and the prerequisites are~~ laid for a smooth passage ~~of~~ to the new ~~"Preston"~~ approach to Bank budgeting. However, we should not wait too long : a specific plan of action should be ~~unveiled~~ ^{tabled for} ~~no later than the end of the calendar year~~ to allow completion of the discussions with the Board well before [↑] the initiation of next year's budget cycle.

discussion by January 1, 1992

OFFICE MEMORANDUM

DATE : September 11, 1991

TO : Messrs. Stern and Roth

FROM : Kenneth G. Lay, FODDR

EXTENSION: 80774/5

SUBJECT : U.S. Market - 10% Concentration Limit

1. Just before leaving for Europe last week I checked with Mark Cox to learn the status of Treasury's deliberation as to whether to oppose or not to oppose our effort to get exemption from the 10% investment-security concentration limit in the Bank Act.

2. Mark told me that the domestic side of Treasury remains opposed, despite our recent submission. The reason, according to Mark, is one of principle: Domestic staff doesn't like special exemptions for any of the government-sponsored agencies and accordingly doesn't want to acquiesce in the extension of this one. (Of course, they've got no intention of initiating a challenge to the existing exemptions - that would require political courage, a commodity always in somewhat short supply.)

3. I asked Mark whether the domestic position is dispositive. He said "no", that the matter could be taken higher. I asked whether the international side would support us. He said it would require a strong showing on our part of the need for it. I told him I couldn't offer him anything other than the potential for several tens of millions of dollars NPV of savings in our financing costs. He expressed skepticism about this outcome, to which I replied by explaining banks' portfolio decision-making and the remaining gap between IBRD and FNMA financing costs. I told him we'd be happy to have regional bankers discuss the matter with them.

4. The numbers seemed to capture his attention, and he allowed that international might be willing to press. I told him we would discuss the matter among ourselves and get back to him. I reiterated that we are only asking for a "no objection" position from Treasury, not active sponsorship.

5. Shall we keep pushing? My view is that we should.

cc: Messrs. Koch-Weser, Siegelbaum, White

OK - if the legislative schedule still leaves an opportunity.

[Signature]
9/15

cc: CS ✓

9-098
0 12-91

OFFICE MEMORANDUM

Steyer

DATE: September 13, 1991

TO: Mr. Ernest Stern, FINSV

FROM: Robert Picciotto, CPBVP

EXT: 84572

SUBJECT: FSDF - Cost Accounting Data Base (CADB) Funding

Clem -

If this approach
is agreed with
ACT, please make
room for an
initial allocation
out of FSDF, and
plan on an FY92
allocation of up to
\$150k.

Chin
9/15

1. The purpose of this memo is to provide you with information on actions taken and planned with regard to the CADB and to request that the full level of funding initially requested (\$150,000) through the FSDF be provided for the work planned and now under way for FY92.

2. Based on questions and concerns raised in FY91 by budget managers and others within the PMUs, including FINCOM, PBD has contracted with Price Waterhouse (PW) to document the requirements of this proposed system and develop an implementation work program. The emphasis, as can be seen from the PW contract (copy attached), is on meeting the requirements of PBD (the project sponsor) for management cost accounting information. While PBD is expected to be the major user of this system, it will be available to all PMUs. As a result of this work, the outputs, inputs and functions of the system will be confirmed/documented. The draft contract work program was discussed with representatives from each of the PMUs before negotiating the contract, and there is agreement that this will address the PMU concerns, including those of the Finance Complex. This was confirmed in my recent meeting with Mr. Ruddy.

3. I believe that the work now under way directly addresses FINCOM's concerns and will result in a system that is responsive to the needs of PBD and achieve the objectives underlying the BPTF Committee's recommendation to implement a CADB. From my perspective, management cost accounting information remains a significant unmet need in the organization. I have asked PBD to give priority attention to its design and implementation.

4. Please confirm your agreement to fund this work under the FSDF.

Attachment

cc: Messrs. R. Lynn
M. Ruddy
G. West

Price Waterhouse



August 9, 1991

Mr. George West
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Room N-6075
Washington, D.C. 20436

REF: Proposal to Assist with the Management Cost Accounting System

Dear Mr. West:

The purpose of this letter is to offer our assistance to the Planning and Budgeting Department (PBD) in its efforts to implement a management cost accounting system (MCAS). The letter describes:

- (1) Our understanding of the problem to be solved,
- (2) Deliverable products and a related work plan,
- (3) Staffing, and
- (4) Fees and billing arrangements.

Our Understanding of the Problem

As we understand it, your objective is to formulate and describe, in user oriented terminology, the functional requirements for a management cost accounting system. Furthermore, we understand that in the Bank, the purpose of management cost accounting is to estimate costs related to the entities that managers manage in order to help them make decisions where cost is a relevant factor in the decision making process. Bank managers at different levels or with different roles estimate costs related to a number of different entities. In this context the entities that Bank managers must manage are:

August 9, 1991
Mr. George West
Page 2

- (a) **Organization** -- Line managers estimate, allocate and redeploy resources (funds, staffyears and positions) based on variations in costs from one organization to another. An organizational cost accounting function might be to "compute the direct and discretionary cost per staff year by organization."
- (b) **Product** -- Product managers estimate the resources required to produce products in order to ensure that products can be produced within funding or staffyear constraints. There might be a number of organizations involved in producing a product. Product cost accounting functions might be to "compute the total cost per report title" or "compute the total cost of delivering a new operational computer system."
- (c) **Process** -- Process managers estimate the cost of processing at different levels of volume to determine the resource impact of changes in volume. Process cost accounting functions might be "compute the average cost of administering a trust fund" or "compute the average cost of producing a payroll check."
- (d) **Services (for sale)** -- Managers who sell services estimate the rates at which those services are to be billed. Billing rates might be set for services provided to internal organizations under interorganizational billing arrangements (e.g., cross support, chargeback) or to external agencies under contracts or other agreements (e.g., IFAD, RTA). Cost accounting functions related to services for sale might be "compute the billing rate for IFAD", "compute the chargeback rate for PC maintenance" or "compute the break even rate for a staff parking space."
- (e) **Benefits** -- Benefit managers estimate the cost of benefits for comparative purposes or to determine the full cost of staff of various types or at various levels. Benefits cost accounting functions might be "compute the cost per staffyear of benefits provided to consultants", "compute the average cost per staff member for contractual services required to administer the Bank's retirement and medical benefits programs" or "compute fee rate components necessary to assure that the Bank recovers the full cost of benefits related to externally funded activities."
- (f) **Overheads** -- Overhead managers also estimate the cost of overheads for comparative purposes or to determine the full cost of staff of various types or at various levels. Overhead cost accounting functions might be to "compute the average cost of providing office space to staff at grade level 24" or "compute fee rate components necessary to assure that the Bank recovers the full cost of overheads related to externally funded activities."

August 9, 1991
Mr. George West
Page 3

- (g) **Work Program/Services** -- PBD estimates the cost of work programs and the services that make up the work programs as part of its institutional management responsibility. Work program cost accounting functions might be to "allocate benefit and overhead cost to work program/services" or "compute the direct and discretionary costs of work programs/services."
- (h) **Program Objectives** -- PBD also estimates the cost of certain program objectives as part of its institutional management responsibility. Cost accounting functions related to program objectives might be to "allocate benefit and overhead costs to program objectives" or "compute the direct and discretionary costs of program objectives."
- (i) **Object of Expenditure** -- PBD estimates cost by object of expenditure as part of its institutional management responsibility. A cost accounting function related to object of expenditure might be to "compute the cost of operational travel for country groups in Africa."
- (j) **Sources of Funds** -- PBD estimates funding required from external agencies for services provided by the Bank as part of its institutional management responsibility. An example of a cost accounting function related to source of funds might be "compute the fee level required on category B trust funds to assure that the institution recovers the full administrative costs of its support for these trust funds."

Deliverable Products and Work Plan

We propose to work with Bank staff and the Bank consultant who is currently assigned to the cost accounting data base (CADB) effort to prepare:

- (1) A report to describe and illustrate the functional requirements for management cost accounting. That report will identify the functions required to meet the needs of individual users (entity managers) and illustrate the format of required outputs, and
- (2) A work plan for the next steps in the process of designing and implementing the MCAS. The work plan for the next steps toward implementation will be based on the implementation approach selected as part of our analysis.

August 9, 1991
Mr. George West
Page 4

We propose to prepare these two products by building on your existing work related to the CADB to complete four tasks.

- (1) **Confirm (and where incomplete determine) the management cost accounting requirements** of the current manual and automated processes in the Bank. This process should:
 - (a) Specify the cost accounting functions that are performed,
 - (b) Specify the information required to perform each function,
 - (c) Specify the output of each function, and
 - (d) Confirm the requirements with relevant users.
- (2) **Review the capabilities of other systems** in or around the Bank to:
 - (a) Determine where the input data for the management cost accounting system will come from,
 - (b) Identify possible means of making that input data available to the management cost accounting system,
 - (c) Identify potential problems of data integrity, availability or consistency, and
 - (d) Identify requirements met by other systems that should perhaps be met by the management cost accounting system.
- (3) **Prepare a description of the requirements** as a record of what the management cost accounting system should do, what input it needs to do the management cost accounting functions, and what the system should produce as outputs.
- (4) **Prepare a work plan to describe the next steps** in the process of implementing the MCAS. Formulate a means of developing the management cost accounting system and prepare a work plan for the future as far out as you can reasonably estimate. The development approach will consider the extent to which existing systems (e.g., the Institutional Management Information System (IMIS) and the Budget Accounting System (BAS)) and their related data bases can be used and the appropriateness of mapping, cross referencing or classifying existing coding schemes as bases for aggregating and reporting information.

August 9, 1991
Mr. George West
Page 5

We attach, as Annex 1, our proposed task plan.

Our Project Staff

Resumes of the proposed project team were submitted to you on June 6, 1991. Ann Hopkins will manage the engagement, work with your staff and guide the preparation of the functional requirements. She will be responsible for meeting your product expectations. Tracey Welsh will review the existing documentation and prepare the detailed functional descriptions in conjunction with the CADB consultant. Frank Lewis will advise the project team on cost accounting issues and ensure that nothing is overlooked.

Fees and Billing Arrangements

We estimate that approximately 710 hours will be required to perform the work over a three month period beginning when the Bank approves our proposal. We propose a time and materials contract in the amount of \$78,300 based on rates shown in Annex 1. We normally submit invoices for services rendered on a monthly basis. If you wish to discuss the work plan or fee estimates, please contact Ann Hopkins at (301) 493-2622.

We look forward to working with you.

Very truly yours,

A handwritten signature in cursive script that reads "Price Waterhouse".

copies:

Ms. Engoron, Falls Church
Mr. Everett, Baltimore
Mr. Rossi, Philadelphia
Mr. Jones, Falls Church
Mr. Venezia, Washington

Annex 1: Task Plan and Rate Schedule for a Management Cost Accounting System

Entity	Task Description	PW Staff	Bank Consultant
	100 Confirm the cost accounting requirements of current manual and automated processes.		
	110 Confirm the cost accounting requirements of institutional budget managers in PBD. For each entity that is managed, perform these tasks:	160	120
	1 Record the cost accounting functions of the PBD client team leaders.		
	2 Record the information required by the PBD team leader to perform each cost accounting function and record problems related to obtaining information.		
	3 Record the resultant output of the entity cost accounting function.		
	4 Convene a discussion group of a PBD client team leaders.		
	5 Confirm the cost accounting requirements of the client team leaders with the team leaders.		
Work Programs/ Services	111 Confirm cost accounting requirements related to work program/service.		
Program Objectives	112 Confirm cost accounting requirements related to program objectives.		
Object of Expenditure	113 Confirm cost accounting requirements related to object of expenditure.		
Sources of Funds	114 Confirm cost accounting requirements related to sources of funds.		
	120 Confirm the cost accounting requirements of central budget managers in the PAA complex and in PBD. For each entity that is managed, perform these tasks:	110	80
	1 Record the cost accounting functions of the entity managers.		
	2 Record the information required by the entity manager to perform each cost accounting function and record problems related to obtaining information.		
	3 Record the resultant output of the entity cost accounting function.		
	4 Convene a discussion group of a representative group of entity managers.		
	5 Confirm the cost accounting requirements of the entity managers with those managers.		
Benefits	121 Confirm benefits cost accounting requirements with PBD and PAA managers.		
Overhead	122 Confirm overhead cost accounting requirements with PBD and PAA managers.		
	130 Confirm the cost accounting requirements of unit budget managers in the complexes. For each entity that is managed, perform these tasks:	160	120
	1 Record the cost accounting functions of the entity managers.		
	2 Record the information required by the entity manager to perform each cost accounting function and record problems related to obtaining information.		
	3 Record the resultant output of the entity cost accounting function.		
	4 Convene a discussion group of a representative group of entity managers.		
	5 Confirm the cost accounting requirements of the entity managers with those managers.		
Organization	131 Confirm organizational cost accounting requirements with a representative group of organizational managers.		
Product	132 Confirm product cost accounting requirements with representative group of product managers.		
Process	133 Confirm process cost accounting requirements with representative group of process managers.		
Services for Sale	134 Confirm cost accounting requirements related to services for sale.		

Annex 1: Task Plan and Rate Schedule for a Management Cost Accounting System

Entity		Task Description	PW Staff	Bank Consultant
	200	Review/discuss other systems/documentation where the concept, the analysis, the design or the system may provide MCAS capabilities.	120	80
IFC Cost Accounting	210	Review the capabilities of the IFC cost accounting system.		
DMIS	220	Review the capabilities of the DMIS.		
BAS	230	Review the capabilities of the BAS.		
OPS/PRE MIS	240	Review the capabilities of the Operations/PRE MIS.		
PAA MIS	250	Review the capabilities of the PAA MIS.		
	300	Prepare a summary of management cost accounting functional requirements showing required input information, functions and required output information.	80	40
	400	Formulate and evaluate implementation options.	80	40
	Total		710	480

Name Level		Rate	Cost	Hours
A.B. Hopkins	Partner	\$170	25,500	150
F.E. Lewis	Senior Manager	\$150	6,000	40
T.T. Welch	Senior Consultant	\$90	46,800	520
			\$78,300	710

OFFICE MEMORANDUM

9-114
9/13/91
DATE: September 13, 1991

TO: Mr. Lewis T. Preston

FROM: Lawrence H. Summers

EXTENSION: 37774

SUBJECT: Update of "Global Economic Prospects"

1. We have traditionally given the Board every six months a paper on the short term outlook for industrial and developing countries. With the introduction of the paper entitled "Global Economic Prospects and the Developing Countries" last spring, it has been agreed that we only circulate an update of the short term outlook prior to the annual meetings each year. Executive Directors have found this document useful in briefing their delegations to these meetings.

2. A draft of this paper is attached for your approval prior to circulation to the Executive Directors. We are currently scheduled to circulate this paper on September 20 for discussion at the Board on October 1.

Attachment

cc: Messrs. Thalwitz, Stern, Qureshi, Sandstrom, Rao

9/15

Larry -

All this looks wonderful. Only one editorial observation. Since this is intended for an ~~outside~~ outside audience (as well) couldn't we throttle back on the use of the alphabet soup. LMIC, SMICs, SPAs. The word processor won't get tired. "Perturbations in LMIC Performance" could probably be translated lest it be confused with the volatility of an Aztec deity. *Ami*

OK
eg

L - I N - 1 N O T E

DATE: 16-Sep-1991 01:09pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Basil Kavalsky, FRM

(BASIL KAVALSKY)

EXT.: 80523

SUBJECT: USSR - Technical Cooperation Agreement

I am sending up the USSR Technical Cooperation Agreement for your review. I have reviewed it and I see only one major point of concern. Section 1.01 still states that the USSR shall be invited to the Annual Meetings. The Region says that the Soviets are adamant on this point and that it will in any case be included in the agreement with the Fund. In practice we are adequately covered by the termination provision (4.04), since presumably the kind of government which we would not want to invite would also be one to which we would not give TA. I would advise that we let this go. *1 attached*

The language on local cost financing is surprisingly strong (3.06 b), covering any goods, services and facilities procured in the USSR. My concern on this point would be that the Region not negotiate most of this away. If you agree I will underline to Russ how important this is from the standpoint of Board approval.

For the rest the major changes relate to the possibility of shifts in the legal relationship vis-a-vis the republics. There is a nice provision (3.04c) on p. 11, which enables us to terminate activities in one republic without terminating the agreement as a whole.

There is one thing that looks a little odd. We are proposing to work out first a three-month program (Nov. 1 - Jan. 31), then a five month program (Feb. 1 - June 30), and annual programs thereafter. It will be hard to avoid a second discussion with the Board on the five-month program. I understand the Region's reasons for this, but I think it would be a good idea to press them to try to put together a single program for the rest of the fiscal year. After all the program is not cast in concrete.

The Region wants to fax this to Moscow tomorrow.

CC: D. Joseph Wood
CC: K. Tanju Yurukoglu
CC: Lorene Yap
CC: Kah Hie Lau

(JOE WOOD)
(KADIR YURUKOGLU)
(LORENE YAP)
(KAH HIE LAU)

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. T. N. Srinivasan
Samuel C. Park, Jr. Professor
of Economics
Department of Economics
Economic Growth Center
Box 1987, Yale Station
27 Hillhouse Avenue
New Haven, CT 06520-1987

Dear T.N.,

I enjoyed your 'Economic and Political Weekly' article. Blunt.
Succinct. Right to the point. I hope that current
developments will not be stopped too soon by the systemic
aversion to changing the underlying concepts.

Regards.

Sincerely,

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

The World Bank

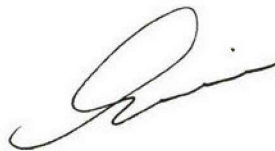
ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. Preston

Lew -

You ought to read this in a leisure moment (when it comes along). Mr. Srinivasan is an outstanding (and outspoken) economist. He is Indian, but is permanently in the U.S. -- now at Yale. A very blunt statement of what is wrong in India.

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

The World Bank

ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. Karaosmanoglu o/r

Attila -

You may already have seen this -- but, if not, it is worth reading. Also, you are quoted at the end.

A handwritten signature in dark ink, appearing to be a stylized 'J' or 'G' followed by a horizontal line.

Indian Development Strategy

An Exchange of Views

T N Srinivasan

We have to face up to the fact that our development strategy and the whole bureaucratic planning and control system that implemented it have failed. The failure is systemic.

Statement

The problems of India are other than mere bureaucratic delays or adherence to leftist principles. They go back to the abysmal poverty and to the glaring inequalities that exist in India.

Response

It is not the pursuit of 'egalitarian principles' that is at the root of Indian failure, but a development strategy and policy that robbed the poor while professing to serve them in the name of a 'socialistic pattern of society' and self-reliance. This strategy condemned the economy to an avoidably slow growth and bottled about 75 per cent of the rural labour force, a majority of them poor, in agriculture. The fact that the proportion of rural male labour force in agriculture declined from 83 per cent in 1972-73 to 74 per cent in 1987-88 is less significant than that the proportion is still so high after 40 years of planning! This can hardly be called egalitarian in its achievements whatever be its intent. Other economies which did not proclaim their egalitarian principles with great fanfare have achieved faster and more egalitarian growth than India.

Statement

It is inappropriate to compare India with South Korea or Taiwan and argue that India missed the opportunity for faster development. If India were to be divided into a thousand countries of the size of Taiwan, certain sections of it would doubtless record a rate of growth faster than Taiwan's.

Response

This is a silly argument. India is not *sui generis*. The belief that "comparisons with other countries, though occasionally helpful and useful, are illusory. They can never find the answers to the problems of any country at any time" [Arun Ghosh, *EPW*, June 1-8, 1991] is fundamentally misconceived. In any case, an overwhelming majority of the 100 or so developing country members of the UN are even smaller than Taiwan. But few of them can claim to have achieved the sustained and egalitarian development of Taiwan. If anything, the size of Indian economy with

its large internal market and a unified monetary system and few internal barriers to trade (if not labour movements) should have been an advantage rather than an obstacle to development. Once again our development strategy failed to exploit this advantage, but instead through 'planning' created high-cost inefficient industries of less-than-economic scale and sheltered them from foreign and domestic competition. Self-reliance, an arguably sensible objective, was perverted into self-sufficiency in everything. From a national resource allocation perspective, there is no particular advantage in self-sufficiency *per se*, whether it is with respect to food grains or to nylon stockings. Nor does national sovereignty and honour hinge on any particular exchange rate for the rupee—it is a price, albeit an important one, like any other price such as that of crude oil! Its administratively set value can be, and in India has been, unsustainable. What is crucial is that the economy generates enough foreign exchange through exports that are internationally competitive (and from borrowing) to pay for imports that cost more to produce at home. Borrowing is appropriate provided the borrowed resources are used in a way that the economy can service its debt in the future. Our self-sufficiency in many areas has been bought at a very high cost.

By some measures, the Indian economy is not large; thanks to a failed development strategy, in terms of value added our manufacturing sector in 1989 at US \$ 44 billion is smaller than South Korea's US \$ 54 billion. These figures, taken from Table 6 of the World Development Indicators section of the 1991 *World Development Report*, may overstate the Korean figures because they are in *purchaser's* rather than *producer's* prices, even if the usual problems of exchange rates used for conversion, etc, do not bias them in one direction. Still, it is unlikely that Korea's manufacturing sector would be smaller than India's given the rapid rate of growth of the former over the last three decades compared to India's. Table 17 of the same report shows that Korea's manufactured

exports to OECD countries totalled US \$ 43 billion in 1989 compared to India's paltry US \$ 8 billion. China's exports grew at 11.6 per cent per year on average during 1980-89, a rate that was twice India's. Closer to home, Pakistan's GDP grew at 5.2 per cent per year during 1965-80 and 6.4 per cent per year during 1980-89. The corresponding figures for India are, respectively, 3.6 per cent and 5.3 per cent. Thailand's performance is better than Pakistan's. The notion that comparisons with other countries are not very helpful is that of the proverbial "frog in the well".

Statement

South Korea and Taiwan are authoritarian regimes, while India is a plural democracy. Both countries are by no means *laissez-faire* economies and their governments intervened in the economy extensively. There are many things wrong with us. But let us not run away with the idea that a *laissez-faire* economy will be the solution to our problems.

Response

It is naive to argue that the authoritarian regimes in South Korea and Taiwan had a lot to do with their success, while India's plural democracy explains its failure. Once again, authoritarian regimes are far more numerous than democracies in the developing world and not many of these have succeeded in generating egalitarian growth. Authoritarianism and small size are neither necessary nor sufficient for success.

There are no *laissez-faire* economies in the world. No one has ever suggested that Korea was a *laissez-faire* economy or that India should become one. The relevant issue is not that the Korean government intervened in the economy but that Korean interventions, unlike Indian ones, did not distort resource allocations seriously and, if they did, they were soon given up. For example, Koreans withdrew from investment in heavy chemicals when they found it was a mistake rather than run them in the public sector as sick enterprises!

Statement

India is a soft state—we do not tax the really rich and in fact, we do not collect the taxes that they should pay. What we have succeeded in doing in the last five years is to attain a rate of growth of 5.5 per cent per year at the cost of future growth; we are not only close to the debt trap internationally, we are in a debt trap internally.

Response

The Myrdal notion of the Indian state being soft is somewhat of a myth. Far from the softness of the Indian state in

the Myrdal sense, it is the softness of the budget constraint (to use Kornai's term) of the bloated Indian public sector and the bureaucracy that is at the heart of the problem. Be that as it may, the extent of redistribution that can be achieved through the fiscal system is fairly limited. If the socio-political system is unable or unwilling to redistribute assets, it is unlikely to redistribute income after its generation through the fiscal system anyway. Attempting to influence the distribution of consumption, through the negative instruments of industrial and import licensing is unlikely to succeed and has not succeeded in reducing inequalities. In the old days, automobile imports were banned because they were luxuries, but their high cost domestic production and administrative allocation at fixed prices to the elite was not viewed as inconsistent with egalitarianism. Pepsi is viewed as a luxury but Gold Spot is not! It should be obvious that under these circumstances, the prospects for the poor depends on how fast the economy grows and raises the demand for and the returns on the assets with which the poor are endowed. Since in our economy the basic assets of the poor are essentially their labour, successful egalitarian development strategy would have emphasised skill accumulation and rapid growth of productive employment opportunities. Alas, the Indian strategy failed miserably in this regard.

Whether or not the rich are adequately taxed, it is certainly the case that the tax revenues as a share of GDP have risen substantially over the last four decades, but the revenue has been increasingly squandered. The revenue deficit reflects in part the growth in subsidies of various kinds (food, fertiliser, exports, etc) and the soft-budget constraint of the public sector. But for the natural resource rents earned from the nation's petroleum resources, the losses of the public sector enterprises would be a much higher proportion of GDP. And the subsidies, particularly export subsidies, reflect the fact that a bad policy in one area imposes costs on another, to wit: a restrictive import control regime and an overvalued exchange rate imposes costs on exports, which, if not offset by subsidies, would affect exports adversely. The silliness of the policy, at least until recently, was that the import controls were largely in the form of quotas with tariffs being low enough to allow significant quota rents, thereby robbing the revenues that otherwise might have accrued to the state. Fertiliser subsidies in part reflect a whole series of bad policies relating to the domestic fertiliser industry and the inability to exercise the market power that a large importer such as India in principle has in international markets.

The faith of the fifties that the pricing, output and investment policies of the public sector would be used to generate resources for investment, to direct the private sector development along socially desirable lines, to set an example for the private sector as a model employer, and so on and so on, has proved to be naive, if not a malice, aforethought. Unsurprisingly, what happened, of course, is that the huge and over-manned public sector, including the public enterprises in the financial sector (commercial banks, LIC, etc), has redistributed income in favour of the well-off. Scandalously abused medical reimbursement schemes, leave-travel concessions, subsidised housing, etc. to mention just a few, not only redistributed income to the well-off, which includes the labour aristocracy in the organised sector, but eroded the revenue surplus. Anyone who has had dealings with the LIC can testify to its colossal inefficiency. The nationalised banks and term lending institutions are no better! They are over-staffed, they over-pay their staff and are inefficient. Aided and abetted by politicians, through their loan 'melas' and loan 'mafis', they have reduced the commercial banking system to near-bankruptcy while implicitly taxing their depositors by paying them low real interest rates. What all this means is that the savings of the public are being squandered by the LIC and financial system.

It is true that India is getting close to the debt trap and indeed we may catch the Latin American disease. However, it is not just the policies of the last five-six years that brought this about but the development strategy of the last four decades. The so-called 5.5 per cent growth of the eighties is in part the reflection of employment expansion in the service-oriented public sector. Since there is no direct measure of productivity in service sectors, if government pays a higher real wage to a larger number, even though there is no change in productivity, it will be counted as real income growth! But its cost would be reflected in larger budget and current account deficits, financed by domestic and foreign debt. The otherwise interesting study of Vijay Kelkar and Rajiv Kumar [1990] which documents an increase in growth rate in the eighties in many industries does not examine whether total factor productivity increased (or at least did not fall) at the same time. Growth rate comparisons across countries and over time within a country can be misleading even if problems of aggregation, price deflation, exchange rate conversion were absent: after all, one could sustain growth for a while by simply using more and more inputs in the face of declining productivity as the Soviets did.

Such comparisons have to be supplemented by resource-use efficiency comparisons.

Statement

What is happening in eastern Europe and the USSR is tragic. It should certainly be an eye-opener. It shows that one should never get too far away from the people and that is what some of the party leaders in eastern Europe did.

Response

What is happening in eastern Europe, far from being a tragedy, is the inevitable denouement of a failed, oppressive and murderous system. Eastern Europeans are realising that it is the system that failed and has to be replaced. Mere reform of the old system is pointless. This is not to say that changing the system will be easy or costless. Nor is it to say that eastern European countries wish to or will become *laissez-faire* economies. But what is clear is that the old system is dead as a door nail. The change-over to an as yet ill-defined new system will be inevitably painful even if the rich industrialised market economies decided to help eastern Europe generously. After all, the mess accumulated over seven decades in the USSR and over four decades in eastern Europe cannot be costlessly cleared overnight; the destruction of enterprise and initiative had gone too far to be rejuvenated at a wink; societies that eliminated the market system cannot hope to revive it instantly. As per the current joke in that region, socialism is the longest and costliest road from capitalism to capitalism!

Nationalism and Communal Politics in India, 1885-1930

Mushirul Hasan

1991, Demy 8vo, 338p. Rs.300

MANOHAR PUBLICATIONS
2/6, Ansari Road, Daryaganj
New Delhi - 110 002

Pol Pot was not the only one who massacred millions. Stalin did it before him and so did Mao who let over 20 million die in the avoidable famine of the late fifties. More and more horrors of the Ceausescu, Zhvikov and Hoxha regimes are being revealed as time goes on. All this says something about their system! In eastern Europe the party was imposed on the people by Soviet power—the leaders were not close to the people to begin with. It should come hardly as a surprise to anyone in India that those who controlled the allocation of goodies allotted lots of it to themselves—the privileged life of the *nomenclatura* in the Soviet Union, the now-made-public lifestyle of Honecker and other East German leaders, not to mention the privileged life of the party elders in China, are what one should have expected to find whenever the veil of secrecy is lifted.

Statement

Opening up the economy to international competition is not the solution to India's problems. There is a real danger that recourse to IMF assistance in the short run may force the country into adopting policies that have a high long-run cost. The first step in liberating the Indian economy from the shackles of bureaucratic control is not trade reform of the type recommended by the World Bank.

Response

The statement reveals an unwarranted national inferiority complex. We are mature enough to examine suggested policies, regardless of the origin of the suggestions, on their merit: we should not accept unsound policy advice and reject sound ones depending on the source from which the advice originated. We need not fear competition, domestic or foreign: on the contrary, many of our failures in the industrial sector are due to lack of competition. The fact that any opening up to competition, domestic or foreign, will necessarily threaten the continued existence of some industries should not deter us from such an opening. The issue is not the reality of such adjustment costs: it is whether our present development strategy is sustainable. Clearly, if the pursuit of self-reliance and indiscriminate import substitution over four decades have not at all eased our balance of payments constraints and, in fact, have brought us to the desperate situation of having to go to the IMF and the World Bank in a position of weakness, rethinking of the strategy is surely called for.

We in India have to face up to the fact that our development strategy and the whole bureaucratic planning and control system that implemented it have failed. The failure is *systemic*, just as it was in eastern Europe. Merely changing the cast

of characters in the political leadership, bureaucracy and Planning Commission, but by and large keeping the system as it is, will not do. Changing the system does not mean changing the objective of our development: eliminating poverty should continue to be the overarching objective of policy. But what we need is a *system* that will achieve the objective, not one that grinds the poor down further all the time, chanting the mantras, self-reliance, socialism and planning. Alas the editorial and other pages of the *EPW* continue to invoke these mantras!

Let me conclude this exchange with an episode involving one of the most perceptive, pragmatic, non-ideological and dedicated of India's planners, the late Pitambar Pant, under whose guidance I had the privilege to work at the Planning Unit of the Indian Statistical Institute at Delhi. This episode was recently recalled by Attila Karaosmanoglu from Turkey, who is currently a vice president at the World Bank. I quote,

I would like to conclude with one really precious memory. I think it was in January 1961. It was two or three in the morning in the garden of one of the houses that were given to civil servants in India, and I was with Pitambar Pant. He kept asking me a lot of questions about Turkey in his machine-gun style. What is the rate of growth? What is the composition of GDP? What is the savings rate? What is this, what is that, etc, and I was trying to answer as quickly as I could that we had only an export level of

about \$ 500 million. We were trying to stretch our imagination to see whether we could make it \$ 550 million. Per capita income was over 150 dollars and the rate of growth in Turkey in those days for the last five years had been about five per cent. He turned to me and said, "Attila, why are you trying to plan?" He said, "If I get to that point, I will stop all the planning in India!"

Attila concluded, "Maybe the time has come" for India to abandon planning, at least as it has been practised in the last four decades. I agree with him.

Note

[This is based on my correspondence (early in 1990) with a senior Indian economist. I apologise to him in advance if I have in any way distorted his views in the following statements. In any case, the views expressed in these statements are held by many, including many contributors to this journal.]

1 From the remarks of Attila Karaosmanoglu, vice president, summarising the discussion at an Asian Region Seminar on Policy Changes in India, World Bank, October 1990.

References

- Ghosh, A [1991], 'Big World's View of 'Small World'', *Economic and Political Weekly*, XXVI (22 and 23), June 1-8, pp 1369-72.
Kelkar, V and R Kumar [1990], 'Indian Industrial Growth in the Eighties: Emerging Policy Issues', *Economic and Political Weekly*, XXV (4), January 27, pp 209-22.

New from

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Publishers of the Professional Social Sciences

INTERNATIONAL TRADE IN TEXTILES

MFA Quotas and a Developing-Exporting Country

SRI RAM KHANNA

This pioneering case study of India examines the impact of MFA quotas on firms in developing countries engaged in producing and exporting textiles. It is based on a sample of 177 such units drawn from all over the country. Dr. Khanna highlights the impact of MFA quotas on the business behaviour of manufacturing-exporting companies. He analyses the key question of how and when country level export quotas become binding at the level of the individual firm. In addition, the author examines the manner in which a market for buying and selling quotas develops in the exporting country and how firms adjust their pricing, production and internal management in response to the environment created by the MFA.

Among the issues covered are the composition of India's apparel exports; the utilisation of quotas; and the attitude of apparel-exporting firms to various aspects of the MFA. In conclusion, Dr. Khanna discusses the implications of his findings for corporate policy-makers and outlines strategies which are applicable to most developing countries engaged in exporting textiles.

196 pages • 220 x 140 mm • Rs. 190 (hb) • 1991



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The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. Frank Li (Li Miao)
Institute of Governmental Studies
109 Moses Hall
University of California Berkeley
Berkeley, CA 94720

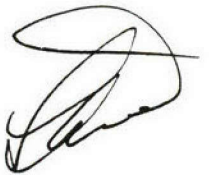
Dear Mr. Li:

It was good to hear from you. It has indeed been a long time, but I am glad to see that you have been putting the time to good use.

As to your specific queries, I am sure I can add nothing to the knowledge the faculty of the Institute has on foundations and other grant-providing institutions, or on contacts in these organizations. Looking at the literature you sent, I was struck by the rather narrow funding base and, in particular, the absence of any funding from the many internationally-oriented financial institutions and corporations. But that must have been tried in the past.

As to your personal situation, I do not know enough about your field to be able to advise you of likely sources of fellowship support, or of colleges or universities where you might combine your research with teaching. But, given your extensive experience and research of recent years, I would hope that you could locate a base for a further year without too much difficulty.

Sincerely,



The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. Rischard o/r

Jean-François -

Fundtrac Replacement Project

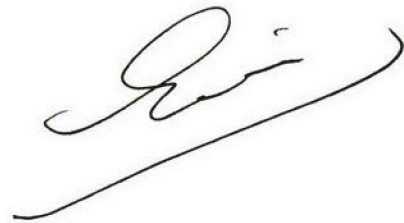
I have no problem with the approach outlined in paragraph 10 of your September 9 memo. It is very much in line with our earlier discussions and schedule.

I agree fully with GSD's observation on a competitive bidding approach to this highly specialized product.

I would like to see, by your December proposal date or sooner, rough cost estimates on the capital and operating costs referred to in paragraph 8, and current cost data on Fundtrac.

I would also like to know the current Bank status, if any, of Messrs. Lore and Scott.

As to timing, while we may well be able to operate without serious risk for 2-3 years on the current Fundtrac, availability of the new systems will be a factor in our decision should the difference, if any, be significant.

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

cc: Mr. Roth

The World Bank

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

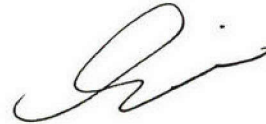
ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. Peyerl

Walter -

I know nothing about check security, but looking at my last reimbursement check, I could not help but wonder how much more difficult it would be to tamper with ours if we could get our machine to start writing at the left hand margin instead of at the right. It would be impossible then (or at least more difficult) to insert words in front of the authorized amount. Equally, it would seem to me that we would reduce the opportunity for tampering if we could teach our machine to write out hundred and thousand instead of merely numbers.

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

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

DATE: September 16, 1991 10:36am

TO: Lorene Yap (LORENE YAP)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Australia

Just wanted to say that the responses to our Australian
inquisitions are very well done. Fine job. Thanks.

CC: Basil Kavalsky (BASIL KAVALSKY)
CC: Institutional ISC Files (INSTITUTIONAL ISC FILES)

L - I N - 1 N O T E

DATE: 16-Sep-1991 10:38am

TO: Basil Kavalsky

(BASIL KAVALSKY)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: USSR

Thanks for the information on the USSR invitation. I will talk to Thahane. Meanwhile, I assume that you will have another look at the draft agreement before the mission takes it to the field.

L - I N - 1 N O T E

DATE: 16-Sep-1991 10:44am

TO: Jon HITCHINGS

(JON HITCHINGS)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Special Reserves

I assume there is nothing to prevent us from holding the Special Reserves in any currencies we like, just like the General Reserves. I read a contrary implication in one of the recent reports, but probably I misinterpreted.

By the way, I assume provisions are handled similarly.

L - I N - 1 N O T E

DATE: 16-Sep-1991 10:49am

TO: Jon Hitchings (JON HITCHINGS)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Currency Management Report

Would you explain the last para of the July Currency Management Report. I have no particular objection to the use of guilders for loans---it is part of the DEM group---but I do not understand how volume at these levels can affect an INV benchmark, national or otherwise.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 16, 1991

Mr. Preston

Lew -

We still have pending a Board discussion on the IFC's purchase of the "I" Building for a period during which they will build their own building. Additional staff projections were promised by Conable to the Board by October 15.

The numbers we have are soft, and future numbers are highly conjectural. If we proceed, we will only have another contentious Board meeting with us in a weak position.

This is not a high priority item just now. Probably, you could get it approved by putting your prestige behind the proposal, but I see no need to incur that cost.

I would recommend that:

- (a) you tell Ryrie to cool it until you have reviewed the issue;
- (b) advise the Board that we will not be submitting data on October 15, and that we will have no specific date for scheduling a Board discussion;
- (c) have IFC site selection proceed;
- (d) you review the matter after the Annual Meeting. The review should include the question of whether facilities planning and maintenance should be a common Bank Group activity or a separate one for IFC and the Bank.

The commercial real estate market in DC shows no signs of recovery, so there will be no adverse effect in case we decide later to proceed as now proposed.





Record Removal Notice



File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365
Document Date 09/09/1991	Document Type Letter	
Correspondents / Participants From : Ibrahim F.I. Shihata To: Lewis T. Preston		
Subject / Title Issues related to the USSR		
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/IFC/MIGA
O F F I C E M E M O R A N D U M

.E: September 16, 1991 09:26am

TO: Basil Kavalsky (BASIL KAVALSKY)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Re: IDA-9 Paper

Would you please get in touch with Mr. Coady, or his office, regarding the IDA-9 paper. In a conversation, he said "it was terrible". What he seems to be concerned about is the inadequate data on performance impact. He acknowledged that the core program concept was working, but that was the only manifestation. Perhaps, we can find out more specifically what the problem might be.

OFFICE MEMORANDUM

TO: Mr. Donald C. Roth, TREVP
Mr. D. Joseph Wood, FPRVP

FROM: Ernest Stern, FINSV 

SUBJECT: Asset and Liability Management

September 17, 1991

The proposed arrangement should permit a more regular and systematic review of our interest rate risk. It does not, however, fully allay my concerns that we are establishing another mechanism which is excessive to actual requirements, and which would use scarce resources to deal at length with non-material aspects of interest risk management. Much, of course, will depend on a firm hand by the Chairman to keep the review to important matters.

I, therefore, suggest you plan for a first meeting of the group in December or early January and that we assess its utility, in light of the issues and the preparatory work. We can then decide whether to establish the group permanently as proposed or amend the terms of reference.

One other point on the current proposal: while Legal need not be a member except when legal issues arise, I would like you to ask Mr. Eccles to designate a member from the CTR staff, necessarily a Director.

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

ERNEST STERN
Senior Vice President
Finance

September 17, 1991

Mr. Rischard o/r

Jean-François -

A couple of items are overdue. I would like to address them as soon as convenient after you get back.

We had intended to have a review of FY91 results by type of investment account, but have not done so yet. I realize that this may not yet exist for all portfolios, but let us review what is there.

Some time ago, we had a checklist of outstanding legal work. We got a promise of additional legal support and you may have, from time to time, reported on progress, but I no longer have a systematic overview. Could we bring this up-to-date, so we can see which markets have been added and what work remains outstanding.

We have, from time to time, discussed the trading functions of the Special Operations Division. Could we have a look at the specific trading accounts which members of the Division now are in charge of.

I would also find it useful to review the current personnel status -- specifically, vacancies, recruitment plans, longer-term prospects, and staff promotion plans for the next six months.

Finally, a review of our current approach to bank deposits would be helpful.



cc: Mr. Roth

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

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

September 18, 1991

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

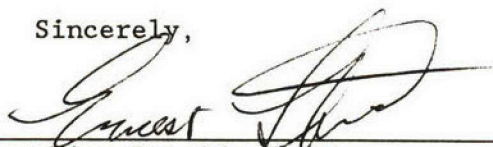
Dear Sirs:

Under date of July 29, 1991, we confirmed by letter certain information and opinions expressed to you. With respect to the financial statements of the International Bank for Reconstruction and Development (IBRD) as of June 30, 1990 and for the three years then ended included in the Information Statement dated March 22, 1991, as incorporated by reference in the Prospectus dated September 18, 1991 relating to the offering of 9.05% Hong Kong Dollar Bonds of 1991, due 1996 (the "Prospectus") in the principal amount of HK\$500,000,000, we confirm that, to the best of our knowledge and belief, the statements made in said letter are correct as of this date. As of September 16, 1991 payments due to the IBRD under loan agreements but unpaid for 30 days or more are as shown in the attached list. There have been no developments since July 29, 1991 which would materially affect the financial statements as of June 30, 1990 and for the three years then ended.

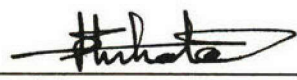
Unaudited financial data furnished to you, consisting of a balance sheet as of July 31, 1991 and a statement of income for the one month then ended, were prepared on a basis consistent with that of the audited financial statements included in the Information Statement.

We know of no event, other than matters disclosed in the Prospectus, since July 29, 1991, which, although not affecting the financial statements as of June 30, 1990 and for the three years then ended, has caused or is likely to cause any material change, adverse or otherwise, in the financial position or results of operations of the IBRD.

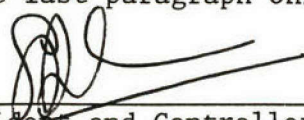
Sincerely,



Senior Vice President, Finance



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



Vice President and Controller

Attachment

International Bank for Reconstruction and Development

Summary of Overdue Service Payments as of 9/16/91

(in Millions of U.S. Dollars)

	----- Days Overdue -----				
	30-44	45-59	60-180	Over 180	Total
	-----	-----	-----	-----	-----
Total	105.8	20.7	104.4	1613.9	1844.8
of which	-----	-----	-----	-----	-----
A : Countries with Overdue Service Payments	74.4	9.8	10.7	0.0	94.9
	-----	-----	-----	-----	-----
Argentina	1.8	0.0	0.0	0.0	1.8
Cameroon	4.2	3.4	0.0	0.0	7.6
Colombia	32.2	0.0	0.0	0.0	32.2
Costa Rica	4.2	0.0	0.0	0.0	4.2
Honduras	5.3	0.0	0.0	0.0	5.3
Jamaica	16.0	0.0	0.0	0.0	16.0
Kenya	2.3	0.0	0.0	0.0	2.3
Senegal	1.2	0.0	0.0	0.0	1.2
Yugoslavia	3.9	0.0	0.0	0.0	3.9
Zambia	3.3	6.4	10.7	0.0	20.4
B : Countries in IBRD Nonaccrual Status	31.4	10.9	93.7	1613.9	1749.9
	-----	-----	-----	-----	-----
* Congo (People's Republic of)	0.0	0.0	4.6	5.7	10.3
* Guatemala	8.3	0.0	11.2	68.0	87.5
* Iraq	0.9	0.0	5.4	9.7	16.0
* Liberia	0.5	0.8	8.6	107.6	117.5
* Panama	1.3	0.1	1.0	211.0	213.4
* Peru	18.5	5.4	42.3	889.1	955.3
* Sierra Leone	0.0	0.0	0.6	7.0	7.6
* Syrian Arab Republic	1.9	4.6	20.0	315.8	342.3

* Disbursements suspended

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

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

September 20, 1991

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

Dear Sirs:

Under date of July 29, 1991, we confirmed by letter certain information and opinions expressed to you. With respect to the financial statements of the International Bank for Reconstruction and Development (IBRD) as of June 30, 1991 and for the three years then ended included in the Information Statement dated September 20, 1991, as incorporated by reference in the Prospectus dated July 12, 1991 relating to the offering of Continuously Offered Longer-Term Securities (COLTS), Series C, varying in term but due not less than 3 years from the date of issue (the "Prospectus") in the amount of US\$2,000,000,000 aggregate proceeds, we confirm that, to the best of our knowledge and belief, the statements made in said letter are correct as of this date. As of September 16, 1991, payments due to the IBRD under loan agreements but unpaid for 30 days or more are as shown in the attached list. There have been no developments since July 29, 1991 which would materially affect the financial statements as of June 30, 1991 and for the three years then ended.

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

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

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

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

September 20, 1991

As of July 31, 1991, there were no increases in the medium- and long-term borrowings of the IBRD except for the issuance of medium- and long-term borrowings in the aggregate dollar equivalent amount of US\$51,100,000 for the period from July 1, 1991 to July 31, 1991 or any decreases in capital stock or capital and reserves as compared with the amounts shown on the June 30, 1991 balance sheet incorporated by reference in the Prospectus except in all instances for increases or decreases which the Prospectus discloses have occurred or may occur.

No financial statement data are available for any date subsequent to July 31, 1991; however, based on information available to us on September 13, 1991, there were no increases in the medium- and long-term borrowings of the IBRD except for the issuance of medium- and long-term borrowings in the aggregate dollar equivalent amount of US\$812,437,000 for the period July 1, 1991 to September 13, 1991 or any decreases in capital stock or capital and reserves as compared with the amounts shown on the June 30, 1991 balance sheet incorporated by reference in the Prospectus except in all instances for changes or decreases which the Prospectus discloses have occurred or may occur.

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

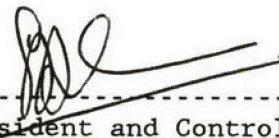
Sincerely,



Senior Vice President, Finance



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



Vice President and Controller

Attachment

International Bank for Reconstruction and Development

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(in Millions of U.S. Dollars)

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of which					
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Argentina	1.8	0.0	0.0	0.0	1.8
Cameroon	4.2	3.4	0.0	0.0	7.6
Colombia	32.2	0.0	0.0	0.0	32.2
Costa Rica	4.2	0.0	0.0	0.0	4.2
Honduras	5.3	0.0	0.0	0.0	5.3
Jamaica	16.0	0.0	0.0	0.0	16.0
Kenya	2.3	0.0	0.0	0.0	2.3
Senegal	1.2	0.0	0.0	0.0	1.2
Yugoslavia	3.9	0.0	0.0	0.0	3.9
Zambia	3.3	6.4	10.7	0.0	20.4
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* Iraq	0.9	0.0	5.4	9.7	16.0
* Liberia	0.5	0.8	8.6	107.6	117.5
* Panama	1.3	0.1	1.0	211.0	213.4
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* Syrian Arab Republic	1.9	4.6	20.0	315.8	342.3

* Disbursements suspended

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

Our informal discussion will cover two subjects. First, we will review the priority objectives endorsed by the Deputies and adopted by IDA's Executive Board at the conclusion of the IDA9 replenishment negotiations as a basis for discussing our approach to IDA10. Second, we will consider, and hopefully agree, on a schedule for the IDA10 negotiations.

As background for the discussion of the first item, I am enclosing a copy of the review, "IDA's Policies, Operations, and Finance in the First Year of the Ninth Replenishment (FY91)." The report will be discussed by IDA's Executive Directors on September 26. We will summarize the Board discussion at the beginning of our meeting on October 12.

I would hope that the comments on the progress of IDA9, and what has gone well and not so well, will have been covered by the Board discussion so that your comments could focus on policy concerns and issues which your authorities consider important to cover in the negotiations for IDA10. From informal contacts I have already had with many of your governments, I know that we will need to address how IDA can respond to the growing list of new IDA claimants. Since the inception of IDA9, seven additional countries--Angola, Cote d'Ivoire, Egypt, Honduras, Nicaragua, the Philippines, and Zimbabwe--have become IDA borrowers. Their entry, which was not foreseen at the time of the IDA9 negotiations, has implications for the allocation of resources for the remainder of IDA9 as well as for IDA10. We would welcome your views on how best to address this topic. In addition, if there are other subjects on which background work should be commissioned, it will be useful to have them identified and the nature of the desired background work outlined at least in general terms.

With regard to the second item, we do not have much flexibility. We will need to conclude the negotiations well before the end of calendar year 1992 so that countries, which need to include IDA10 contributions in their 1993 budgets, are informed of the agreed amounts.

In order to provide a concrete basis for our discussion, I would like your reaction to the following meeting dates and general subject coverage.

First meeting: January 27-28, 1992, on policy issues
Second meeting: April 14-15, 1992, on the size of IDA10
Third meeting: July 1-2, 1992, on burdensharing
Fourth meeting: September 17-18, 1992, on the draft report
[If necessary, a fifth meeting would be scheduled later]

I am faxing a copy of this letter to you now, and sending the original with a copy of the report by express mail.

I look forward to seeing you in Bangkok.

Sincerely,

(Signed) ERNEST STERN 

Ernest Stern
Senior Vice President
Finance

cc: Mr. E. Patrick Coady, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

Our informal discussion will cover two subjects. First, we will review the priority objectives endorsed by the Deputies and adopted by IDA's Executive Board at the conclusion of the IDA9 replenishment negotiations as a basis for discussing our approach to IDA10. Second, we will consider, and hopefully agree, on a schedule for the IDA10 negotiations.

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I would hope that the comments on the progress of IDA9, and what has gone well and not so well, will have been covered by the Board discussion so that your comments could focus on policy concerns and issues which your authorities consider important to cover in the negotiations for IDA10. From informal contacts I have already had with many of your governments, I know that we will need to address how IDA can respond to the growing list of new IDA claimants. Since the inception of IDA9, seven additional countries--Angola, Cote d'Ivoire, Egypt, Honduras, Nicaragua, the Philippines, and Zimbabwe--have become IDA borrowers. Their entry, which was not foreseen at the time of the IDA9 negotiations, has implications for the allocation of resources for the remainder of IDA9 as well as for IDA10. We would welcome your views on how best to address this topic. In addition, if there are other subjects on which background work should be commissioned, it will be useful to have them identified and the nature of the desired background work outlined at least in general terms.

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[If necessary, a fifth meeting would be scheduled later]

I am faxing a copy of this letter to you now, and sending the original with a copy of the report by express mail.

I look forward to seeing you in Bangkok.

Sincerely,

(Signed) ERNEST STERN *ES*

Ernest Stern
Senior Vice President
Finance

cc: Mr. John H. Cosgrove, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

Vice President, Finance

September 19, 1991

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

Dear Mr. Lust:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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I look forward to seeing you in Bangkok.

Sincerely,

(Signed) ERNEST STERN₇

Ernest Stern
Senior Vice President
Finance

cc: Mr. Bernard Snoy, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 1991

Mr. J. P. Arnoldi
Advisor to the Treasury
Ministry of Finance
30 Avenue des Arts
1040 Brussels
Belgium

Dear Mr. Arnoldi:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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[If necessary, a fifth meeting would be scheduled later]

I am faxing a copy of this letter to you now, and sending the original with a copy of the report by express mail.

I look forward to seeing you in Bangkok.

Sincerely,

(Signed) ERNEST STERN *ES*

Ernest Stern
Senior Vice President
Finance

cc: Mr. Bernard Snoy, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN₂₁

Ernest Stern
Senior Vice President
Finance

cc: Mr. Ernest Leung, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

for Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN *ES*

Ernest Stern
Senior Vice President
Finance

cc: Mr. N. F. Potter, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

for Vice President, Finance

September 19, 1991

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

Dear Mr. Vetrovsky:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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(Signed) ERNEST STERN²⁰

Ernest Stern
Senior Vice President
Finance

cc: Mr. Bernard Snoy, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
or Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN

Ernest Stern
Senior Vice President
Finance

cc: Mr. Einar Magnussen, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

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

Dear Mr. Laurile:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Ernest Stern
Senior Vice President
Finance

cc: Mr. Einar Magnussen, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
for Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN ^{yl}

Ernest Stern
Senior Vice President
Finance

cc: Mr. Jean-Pierre Landau, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

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

Dear Mr. Boehmer:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN

Ernest Stern
Senior Vice President
Finance

cc: Mr. Fritz Fischer, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

for Vice President, Finance

September 19, 1991

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

Dear Mr. Kontos:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) **ERNEST STERN**

71

Ernest Stern
Senior Vice President
Finance

cc: Mr. Rosario Bonavoglia, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
for Vice President, Finance

September 19, 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:

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I look forward to seeing you in Bangkok.

Sincerely,

(Signed) ERNEST STERN

Ernest Stern
Senior Vice President
Finance

cc: Mr. Bernard Snoy, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

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

Dear Mr. Thormodsson:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN

Ernest Stern
Senior Vice President
Finance

cc: Mr. Einar Magnussen, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
for Vice President, Finance

September 19, 1991

Mr. Sean P. Cromien
Secretary General
Department of Finance
Upper Merrion Street
Dublin 2
Ireland

Dear Mr. Cromien:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN ⁷¹

Ernest Stern
Senior Vice President
Finance

cc: Mr. N. F. Potter, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

or Vice President, Finance

September 19, 1991

Professor Mario Draghi
Director General of the Treasury
Ministry of the Treasury
Via XX Settembre 97
I-00187 Rome
Italy

Dear Professor Draghi:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN⁷¹

Ernest Stern
Senior Vice President
Finance

cc: Mr. Rosario Bonavoglia, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN ⁷¹

Ernest Stern
Senior Vice President
Finance

cc: Mr. Masaki Shiratori, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 12:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Ernest Stern
Senior Vice President
Finance

cc: Mr. Fawzi Hamad Al-Sultan, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 1991

Mr. Yves Mersch
Government Commissioner
Ministry of Finance
3, Rue de la Congregation
Luxembourg
Grand Duchy of Luxembourg

Dear Mr. Mersch:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Ernest Stern
Senior Vice President
Finance

cc: Mr. Bernard Snoy, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN ⁷¹

Ernest Stern
Senior Vice President
Finance

cc: Mr. Moises Naim, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
for Vice President, Finance

September 19, 1991

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

Dear Mr. de Jong:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN *ys*

Ernest Stern
Senior Vice President
Finance

cc: Mrs. Eveline Herfkens, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

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

Dear Mr. Baas:

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I look forward to seeing you in Bangkok.

Sincerely,

(Signed) ERNEST STERN *ES*

Ernest Stern
Senior Vice President
Finance

cc: Mr. John H. Cosgrove, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa Mr. John A. Wilson, Alternate Executive Director

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

ERNEST STERN
Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN ^{yl}

Ernest Stern
Senior Vice President
Finance

cc: Mr. Einar Magnussen, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

for Vice President, Finance

September 19, 1991

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

Dear Mr. Suraisry:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN₃₁

Ernest Stern
Senior Vice President
Finance

cc: Mr. Ibrahim Al-Assaf, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN *31*

Ernest Stern
Senior Vice President
Finance

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
for Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN 

Ernest Stern
Senior Vice President
Finance

cc: Mr. Moises Naim, Executive Director
Ms. Rocio Alberdi, Advisor

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN *ES*

Ernest Stern
Senior Vice President
Finance

cc: Mr. Einar Magnussen, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 1991

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

Dear Mr. Gerber:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN²¹

Ernest Stern
Senior Vice President
Finance

cc: Mr. Stephan Nellen
Counsellor
Embassy of Switzerland

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

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

Dear Mr. Kudat:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN⁴¹

Ernest Stern
Senior Vice President
Finance

cc: Mr. Bernard Snoy, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

for Vice President, Finance

September 19, 1991

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

Dear Mr. Freeman:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN_{7/1}

Ernest Stern
Senior Vice President
Finance

cc: Mr. David Peretz, Executive Director
Mr. R. Graham-Harrison, Alternate Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN

Senior Vice President, Finance

September 19, 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. Wethington:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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With regard to the second item, we do not have much flexibility. We will need to conclude the negotiations well before the end of calendar year 1992 so that countries, which need to include IDA10 contributions in their 1993 budgets, are informed of the agreed amounts.

In order to provide a concrete basis for our discussion, I would like your reaction to the following meeting dates and general subject coverage.

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Third meeting: July 1-2, 1992, on burdensharing
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[If necessary, a fifth meeting would be scheduled later]

I am faxing a copy of this letter to you now, and sending the original with a copy of the report by express mail.

I look forward to seeing you in Bangkok.

Sincerely,

Ernest Stern
Senior Vice President
Finance

cc: Mr. E. Patrick Coady, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

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

Dear Mr. Kulisic:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN *ES*

Ernest Stern
Senior Vice President
Finance

cc: Mrs. Eveline Herfkens, Executive Director
Mr. Boris Skapin, Alternate Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Vice President, Finance

September 19, 1991

Mr. Hernan Mejia
Head, International Department
Banco de la Republica
Apartado Aereo 22032
Carrera 7a. Numero 14-87
Bogota DE
Colombia

Dear Mr. Mejia:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN *JS*

Ernest Stern
Senior Vice President
Finance

cc: Mr. Ernest Leung, Executive Director

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President, Finance

September 19, 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:

I would like to invite you to the preliminary meeting of the IDA10 Deputies in Bangkok on Saturday, October 12, and to the luncheon preceding the meeting. The luncheon will be held at 12:30 p.m. in the restaurant (Part A) of the Queen Sirikit National Convention Center. Registration will be at 2:30 p.m. and the meeting will begin at 3:00 p.m. in Meeting Room No. 3 at the same Center.

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Sincerely,

(Signed) ERNEST STERN

Ernest Stern
Senior Vice President
Finance

cc: Mr. Rosario Bonavoglia, Executive Director
Mr. Andrzej Ilczuk, Advisor

bcc: Messrs./Mmes. Wood, Kavalsky, Yurukoglu, Yap
Heron, Liebenthal, Ray, Underwood

LYap:sa

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

ERNEST STERN
Senior Vice President
Finance

September 19, 1991

Mr. Roth

Don -

I am getting concerned about the way our position on the Nomura/Nikko matter is developing. Mr. Kemmochi's latest note of September 17 is an example. I believe that little purpose is served by speculating about where a leak originated and even less value in then linking a conclusion to our reputation. We cannot control rumors in Tokyo any more than we can elsewhere. I would be astonished to know that our reputation in Tokyo could be affected by where a rumor started. Our reputation is, and should be, based on our having the highest standards of conduct, requiring a certain minimum standard for people we choose for our financial partners. Our partners' standards must not be limited to mere legal compliance but to a code of conduct set by senior management and enforced by control mechanisms.

As to the MoF, I would only observe that Mr. Chino, in his recent visit, did not broach the subject. I hope that if the MoF has a concern they would feel free to share it with us.



cc: Mr. Kemmochi

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

.E: September 17, 1991 01:36am

TO: Donald C. Roth (DONALD ROTH)

FROM: Nobuaki Kemmochi, TOK (NOBUAKI KEMMOCHI)

EXT.:

SUBJECT: Nomura/Nikko

As to the article of the Nikkei Shinbun and other presses on the Bank's action against both Japanese companies, I regret that such an action has been leaked publicly and this might be affecting their reputations and business against them more than expected. At the same time, MOF is coming to be more serious about spreading the possible adverse effects of this action towards their management of the JGB syndicate as I mentioned in my EM of last week.

I do not believe that this is true, but there is a rumor that this news might have been leaked in U.S. by the reason that the initial news flash was brought by the reporter of the Nikkei Shinbun in New York. I think that this kind of rumor itself, whether it is true or not, would lose our good reputation as a reliable financial institution with the high standard of conduct and specifically seems to be against the Bank in the light of the Bank's activities in the capital markets including the Bank's current effort to develop the JPY new capital market product.

I heard that both companies are to contact you to explain what has happened in the past and what kind of actions they are currently taking to prevent the same problems from recurring in the futures again. Therefore, I would like you to pay attention sincerely to their attitude towards improvement and hope that the relationship could be restored in the near future.

Regards
Nobuaki Kemmochi

CC: Ernest Stern (ERNEST STERN)
CC: Kenneth Lay (KENNETH LAY)

L - I N - 1 N O T E

DATE: 16-Sep-1991 05:51pm

TO: Ernest Stern

FROM: Jon Hitchings, TREVP

EXT.: 80940

SUBJECT: RE: Special Reserves

Your assumptions are both correct as far as the Articles are concerned.

The Articles specify that special reserves will be held corresponding to the amount of commissions earned from loans and guarantees. The Bank has \$292.5 m it received mostly (all?) from guarantee fees. The Articles state special reserves shall be held in liquid form as the Executive Directors may decide (Section 6.)

The Investment Authority constitutes the decision of the EDs on how they shall be held: unconditional obligations of the U.S. government and in dollars. Commercial bank obligations will not do.

It would be useful to liberate special reserves from these restrictions both from a currency management and investment standpoint. This requires an Authority change, not an Articles change. The rationale to hold them in USD since the corresponding risk is in USD is weakened by provisions being held against all loans, but even more by the desire to integrate special reserves with general reserves in the reserves-to-loans ratio and not treat them like provisions (although their links to guarantees makes roots them in a provisions environment). A change for special reserves is on Scott White's list of modifications to bring up in the next round of Authority revisions.

The currencies of provisions have no similar history of legislation and policy. We are free to do as we wish, but the rating agencies find matching them to all loans quite sensible if they are held against all loans. If we believe that there are two components to provisions--specific risk or non-accruals, and general risk, then my personal view is that the Bank would be well advised to move to specific and general provisions as most commercial banks do, and as I feel PW and the rating agencies expected. At that point, we could consider different currency alignments for the two components.

Jon
Please get Scott
to get on with this
ASAP. I didn't realize
we had left this
unattended. Although
I'd figure the \$290
could easily be handled
within the \$ total.
In any case, the
objective ought to
be that all
reserves/provisions/
Special Reserves
be kept in
currencies
matched to
the outstanding

9/20/91

we specifically
moved away
from that
and PW
signed off on
it. So I don't
think they
expected
anything else
If the
underwrites had
different expectations
they did not get
them from me.
(2)

OFFICE MEMORANDUM

9-141
a/18/91

September 18, 1991

cc CS

Cindy
OK
ES
9/20/91

TO: Mr. Ernest Stern, FINSV

FROM: D. Joseph Wood, ^{SEV}FPRVP

EXTENSION: 80602

SUBJECT: Information Technology Support

1. In my budget memorandum for FY92, I noted the mounting requests I was getting for resources to develop, operate and maintain new information systems. Prior to responding to these requests I wanted to get an expert view from outside the Vice Presidency on the nature and scope of the gaps in the support currently provided, as well as advice on how best to plug the gaps. I asked Clem Steyer to take on this task. His report is attached for your background information.

2. In essence he concluded that

"dramatically increased use of IT...and the rapidly increasing complexity of the technology employed cannot be adequately supported by the ad hoc arrangements of the past, and...[this] strongly argues for increased resources and high-level technical skills to be focussed on IT support in FPR."

The management team in FPR has reviewed his assessments and feels that, if anything, he may have slightly understated the inadequacies of the current arrangements.

3. We have agreed that the appropriate first step in remedying this situation is to appoint an IT support manager in my office. A detailed job description is being prepared. It will cover liaison with ITF and Finance technical staff, advice to managers on IT strategy, planning and budgeting, and technical supervision of IT consultants. At the moment the consultants on board are concentrated on FRM efforts to complete the Capital Management System and develop an MIS for Trust Fund data, but the focus of attention will obviously change over time. We have, for instance, important unmet needs related to the use of multiple data sources to support analytic work, and we intend to devote some additional consultant resources to these problems this year.

4. I would hope this is sufficient basis for you to release the position which I understand was provided for in FINCOM's FY92 budget allocation. We want to move ahead quickly to get the position graded and to recruit someone to fill it.

cc: Messrs. Steyer, Kavalsky, Stoutjesdijk

INFORMATION TECHNOLOGY SUPPORT IN THE FPR VICE PRESIDENCY

BACKGROUND

1. FPR units (and their predecessors) have long been innovative users of *Information Technology* (IT); particularly in the use of personal computers for analytical work. They are also the largest single user of the Financial Database (FDB), and played a pivotal role in the FDB's development. Historically, the FPR units have had no formal IT support structure or staff, relying instead on the IT knowledge, skills and personal interest of their analysts as well as on support from other FINCOM units such as the FDB group (now the Financial Information Center (FIC)).

2. These ad-hoc arrangements for IT support in FPR units have worked reasonably well as long as the level of IT sophistication was at the relatively simple level of standalone personal computers. However, during the past two years, events have caused a dramatic increase in both the **quantity** of IT support required in FPR units and in the **level of complexity** of the IT to be supported. These events include:

- an increased scope and complexity of the analyses conducted requiring more powerful and complex hardware and software tools, and an increased need for high quality analytical data from multiple sources;
- the need to design and implement integrated analytical databases that draw their information from Operations, PRE, and external sources as well as from FINCOM data stored in the FDB;
- the need to make those databases easily and reliably available to FPR staff at their local workstations using advanced networking concepts and tools;
- the decentralization of IBRD and IDA capital accounting from CTR to FRM resulting in the need to implement, operate and maintain the Capital Management System (CMS);
- the division of FINCOM's Trust Fund operations into two separate functions (Trust Fund Administration and Trust Fund Accounting) with the Trust Fund Administration function being transferred to FRM. This coupled with significant changes in the methods and procedures used to process and control Trust Fund activities led to the need to implement, operate, and maintain a Trust Fund MIS in FRM;
- in order to accomplish the new and expanded activities in FPR, significant upgrades in workstation hardware and software, the installation of local area networks, and the development of new databases and systems is now underway.

3. This situation of dramatically increased use of IT to accomplish FPR business processes and the rapidly increasing complexity of the technology employed cannot be adequately supported by the ad-hoc arrangements of the past, and strongly argues for increased resources and high-level technical skills to be focused on IT support in FPR.

THE CURRENT SITUATION

4. The following table portrays the IT support activities (based on discussions with FPR chief officers) that need to be accomplished in FPR units, an indication of the relative importance of each activity to FPR units, and a judgement as to the degree of support currently provided. Some of these activities are global in scope to FPR as a whole, and others are specific to one or both Departments. An indication of this scope is also shown in the table. **Note that with only a few exceptions, the estimated current levels of IT support are lower than the perceived need.**

FPR INFORMATION TECHNOLOGY SUPPORT

	Scope	FPR		FRS		FRM	
		Need	Current Support	Need	Current Support	Need	Current Support
1. IT Strategy, Planning and Budgeting	G	H	L	H	L	H	L
2. Tool and Technology Evaluation	G	M	L	H	L	H	M
3. OT Coordination and Support	G	H	L	H	L	H	L
4. Liaison with ITF and Other Bank and FINCOM Technical Staff	G	H	L	H	L	H	L
5. Coordination with Data Providers	L	NA		H	M	H	M
6. Network/LAN Administration	L	NA		H	L	H	L
7. Database Development	L	NA		H	L	H	M
8. Database Administration	L	NA		H	L	H	M
9. Data Presentation Tools Administration	L	NA		M	L	M	L
10. Data Accessibility Support	L	NA		H	L	H	L
11. Analytical Tools Administration	L	NA		H	M	M	L
12. Analytical Model Maintenance	L	NA		H	M	M	L
13. IT Project Management	L	NA		H	L	H	M
14. Technician Recruiting	L	NA		M	L	M	L
15. Systems Development	L	NA		NA		H	H
16. Systems Maintenance	L	NA		NA		H	M
17. Systems Operation	L	NA		NA		H	M

SCOPE: G = Global; L = Local.

NEED (IMPORTANCE)/ DEGREE OF CURRENT SUPPORT

H = High; M = Medium; L = Low; NA = Not Applicable.

5. At present, there are only four FPR staff (all in FRM) who are technology professionals and dedicated full time to these activities, and three of those are consultants. These staff are primarily dedicated to the development, operation, and maintenance of the CMS (three staff) and the Trust Fund MIS (one staff). FRS has employed consultants for short periods to do specific IT tasks, but the results have been largely unsatisfactory. FRS currently relies on the diversion of their analytical staff's time and on assistance from the FIC for IT support.

6. All the FPR chief officers concur that the current level of IT support is **not** adequate in terms of quantity, skill availability, backup of critical skills, cost effectiveness, and responsiveness. There is simply more support work to be done than resources available, and those resources are fragmented. Relying on support from external units such as the FIC is not viewed as a viable long-term solution.

THE DIMENSIONS OF THE PROBLEM

7. The options available for addressing the FPR IT support question can best be discussed in terms of the dimensions that affect a solution. Those dimensions are:

- technical skills and skill mix
- staffing levels
- organization
- leadership and management
- budget.

TECHNICAL SKILLS

8. The estimated current inventory of IT skills in FPR units is shown in the following table.

CURRENT FPR TECHNOLOGY SKILLS

(# of Staff Possessing)

	FPR		FRS		FRM	
	Tech Staff	Other Staff	Tech Staff	Other Staff	Tech Staff	Other Staff
1. IT Strategic Planning	0	0	0	0	0	0
2. Technology Evaluation	0	0	0	1	2	1
3. Office Technology	0	0	0	2	3	3
4. Network	0	0	0	1	1	0
5. Database Design	0	0	0	1	2	1
6. Database Administration	0	0	0	0	2	1
7. Database Tools	0	0	0	3	4	1
8. Analytical Tools	0	0	0	11	0	5
9. Model Building and Maintenance	0	0	0	5	0	2
10. Systems Development and Maintenance.	0	0	0	0	4	1
11. Systems Operation	0	0	0	2	3	1
12. IT Management	0	0	0	1	1	1

9. There are a number of conclusions that can be derived about the current technical skill inventory in FPR units.

- There is no capability for IT strategic planning and very limited capability for IT management which is confined to the area of technical project management.
- Although there is a broad range of skills embodied in the FRM technical staff, those skills are distributed over only four people who must spend the majority of their time in the areas of systems development, operation, and maintenance. Any time spent exercising other skills is at the expense of their primary assignments and care must be exercised not to compromise the integrity of the CMS and TFMIS systems.

- Aside from office technology and analytical skills, the skills possessed by non-technical FRM staff are embodied in a single manager (the Trust Fund Administrator). The distribution of IT skills and resources is uneven within FRM.
- FRS has no staff dedicated to IT support functions and all technology skilled work must be done by diverting analyst's time from their normal duties or by retaining short term consultants for specific tasks. Additionally, the technology skills of the FRS analysts are limited in breadth and depth since they are acquired as a result of either necessity or personal interest rather than through a long term purposeful program of professional development in the IT area.

STAFFING LEVELS

10. As indicated earlier, the discussions with FPR senior staff form a unanimous body of opinion that the level of dedicated IT support staffing is too low. Based on an understanding of the workload to be done (gathered from these same discussions); it is estimated that FPR units need about three additional staff dedicated to IT support (including the manager/leader of such support). Assuming that the current four FRM staff who are currently dedicated to IT support functions are also included, this results in a total FPR IT support staffing level of seven.

11. The staffing requirement estimate is derived from the wide difference between the levels of need and current capabilities shown in the table in paragraph 4, specific unmet IT support requirements cited by the senior staff, and a judgment as to level of effort required to meet those needs by the author. Some of the unmet needs that illustrate the situation are:

- FRS and FRM need to complete their planned programs to install and operate local area networks; and to upgrade their workstations. In FRS, this work has been underway during FY91, but progress has been slow due to a lack of technical support and technical management. In FRM, the work is just beginning.
- The FRS project to design and implement an analytical database was scheduled to begin in FY91, but no progress has been made due to difficulties in recruiting appropriate consultants and technically managing such a project.
- FRM needs to adapt current FRS models and introduce other tools to support IDA analytical work. This will require consultant assistance as well as technical coordination and management.

12. The estimated level of additional staffing needs is judged by the author to be conservative and should be more thoroughly validated by developing a detailed IT support work program as a basis for planning needed IT staffing.

ORGANIZATION

13. The two obvious alternatives for organizing the FPR IT support function are:
 - at the FPR level supporting both departments; and
 - at the departmental level.
14. The model for locating IT support at the FPR level includes the following features:
 - The unit would report to the FPRVP and have a senior level manager capable of independent action and of working closely and cooperatively with the department managers. The unit manager would be part of the FPR management team.
 - The unit would provide the complete spectrum of IT support to all FPR units.
 - Although teams formed for systems development, operation, maintenance, and other IT project work would report administratively and technically to the IT unit manager; they (as well as the IT unit manager) would be accountable to the sponsoring department manager for the quality, timeliness, and functionality of all project deliverables.
 - The unit manager would be accountable to the FPR management team for IT strategic planning, budgeting, and support delivery within FPR.
 - Business unit managers would play a strong sponsorship and monitoring role in all projects and activities conducted by the IT unit.
 - The FPR management team, with the advice and assistance of the unit manager, would set the work program priorities of the IT unit and monitor the progress of the unit's work program.
15. The alternative model for locating IT support at each of the two departments includes the following features:
 - The units would each report to the individual department directors and each would require a working leader capable of managing the IT support activities needed in each department.
 - Each departmental IT support unit would provide those IT support services required by its department.
 - The IT unit managers would be accountable to their department directors for IT planning, budgeting, and support delivery within the department.
16. Given the relative small size of the FPR departments and the envisaged IT staffing level, **the centralized FPR model would seem more appropriate** because:
 - Departmental IT support units would be too small to provide sufficient technical skill backup and the effective use of multi-skilled people for the accomplishment of the range of IT support needed.

- There is a reasonable degree of synergy between the support needs of the two departments that could be met cost effectively by a central unit.
 - The assignment of two departmental IT managers would be somewhat duplicative and uneconomical, and it would be difficult to justify and recruit two IT managers.
 - The opportunities for professional development of the IT staff would be greater under the centralized FPR model.
 - Resources could be applied more flexibly, when necessary, to a particularly critical IT support problem under the centralized FPR model.
17. Experience in CTR from 1985 through 1990 has demonstrated that the model of VP level IT support is viable given:
- Excellent leadership and management of the IT support unit and a proactive and client-oriented attitude on the part of the IT staff.
 - Good cooperation and active involvement on the part of the business managers and staff.
 - Support and guidance on the part of the VP management team.
 - IT support needs that have a reasonably large degree of commonality across the business units.
18. All these elements are either already in existence or attainable in FPR.

LEADERSHIP AND MANAGEMENT

19. The key to establishing and providing a proper level of IT support is the selection and empowerment of an accomplished and effective IT manager and leader. The success of the IT support effort in FPR will depend on recruiting an individual with excellent managerial, negotiating, communication, and interpersonal skills as well as the obvious requirement for broad and comprehensive technical knowledge.

20. The grade range for such an IT leadership position is Level 24 or 25.

BUDGET

21. The budget/position implications of establishing a FPR IT support unit are straightforward.

- A Level 24/25 position is necessary for the IT support unit manager and such a position has been made available.
- The current four FRM IT staff (one regular and three consultants) would be transferred to the new unit.
- Resources for two additional staff (initially funding for consultants) would be reallocated from within FPR.

- The budget resources currently allocated to the departments for IT including capital, internal computing, FSDF, and possibly a portion of equipment budgets would be transferred to the IT unit or, in the case of capital and FSDF, managed jointly by the IT unit and the sponsoring department. Methods for the allocation of Trust Fund resources for IT support would need to be worked out as would the details of capital, depreciation, and FSDF budget management.
- Secretarial support for the IT unit would be provided from current resources.

22. The resulting staffing of the IT unit (2 regular and 5 consultant staff) would be heavily dependent on consultants. This is not a healthy situation over the long term and the FPR management team should strive to achieve at least a 60/40 mix of regular to consultant staff in the IT support unit in the near future.

23. It will be essential to protect the integrity of IT work programs currently underway, particularly for CMS and TFMIS, so that momentum is maintained, products are delivered as scheduled, and quality is not compromised.

CONCLUSIONS AND RECOMMENDATIONS

24. The recommended course of action for providing improved IT support in FPR is:

- Establish a VP level FPR Information Technology Support Unit.
- Recruit a highly capable IT Support Unit Manager/Leader.
- Realign FPR and Departmental resources to staff and fund the IT Support Unit.
- Develop a comprehensive IT support work plan for the new unit with assistance from FPR management in identifying work tasks and setting priorities.
- Maintain close cooperation and awareness by the IT staff with the ongoing work of the FPR business managers and units.

TRANSITION AND IMPLEMENTATION

25. Recognizing that there may be some reluctance to immediately make a change of the magnitude suggested, it would be completely feasible to begin the process on a modest scale and to then, as experience is gained, decide on the extent and pace of moving toward the recommended configuration. The appropriate first steps would be:

- Select and get on board the Level 24/25 Information Technology Manager at the FPR level to provide IT strategy, planning, budgeting, and liaison support, as well as technical advice and counsel to FRS and FRM management.
- Allocate funding for and recruit two consultants who would provide office technology, network administration, and data access support to FPR units under the direction of the IT Manager.

- Retain the current FRM systems staff in their units but establish a matrix-management arrangement between FRM managers and the IT Manager so that the IT Manager's technical and management skills could be blended with the FRM managers' oversight of the systems development products and priorities of the systems staff.
- On a case-by-case basis, determine the appropriate role of the IT Manager in FRS technology projects.



Record Removal Notice

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Correspondents / Participants From : Scott B. White LEGFI To: Jean-Francois Rischard		
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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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The World Bank
Washington, D.C. 20433

Office of the Senior Vice President, Finance

Fax: (202) 477-6658
Phone: (202) 458-2004

Facsimile Transmittal Form

DATE: September 22, 1991

No. of Pages: 2
(including this page)

TO : Mr. Nobuaki Kemmochi
Director
Tokyo Office

FAX #: (81-3) 3214-3657

FROM: Ernest Stern *ES.*

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

ERNEST STERN
Senior Vice President
Finance

Confidential

September 23, 1991

DECLASSIFIED

AUG 04 2025

WBG ARCHIVES

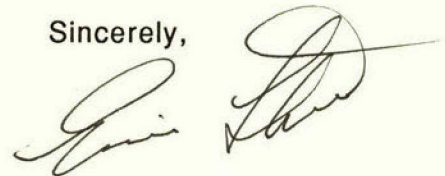
Mr. Nobuaki Kemmochi
Director
World Bank Tokyo Office
Tokyo, Japan

Dear Mr. Kemmochi:

I would like to acknowledge your question of September 19, although I do not yet have a definitive answer. I expect to be able to answer your question early this week. The uncertainty which has been created will, therefore, be short.

Best regards.

Sincerely,

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

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

TE: September 19, 1991 01:51am

TO: Ernest Stern

(ERNEST STERN)

DECLASSIFIED

FROM: Nobuaki Kemmochi, TOK

(NOBUAKI KEMMOCHI)

AUG 04 2025

EXT.:

WBG ARCHIVES

SUBJECT: The Organizational Changes (CONFIDENTIAL)

Dear Mr. Stern,

With regard to the organizational changes announced by Mr. Preston on Bank News Release No.92, I'm very much interested in the possible effects of the changes on the situation of our Tokyo Office after December 1, 1991.

We understand that existing three Senior Vice Presidencies are being eliminated, and an office of the President with three Managing Directors will be established. We heard that the Managing Directors will have no administrative or line responsibilities. I would appreciate it very much if you could let me know your views, even if preliminary ones, on the function / the status of Tokyo Office, and to whom we should report our activities in the future, etc.

Thank you very much in advance.

Best regards
Nobuaki Kemmochi

The World Bank
Washington, D.C. 20433

Office of the Senior Vice President, Finance

Fax: (202) 477-6658
Phone: (202) 458-2004

Facsimile Transmittal Form

DATE: September 23, 1991

No. of Pages: 2
(including this page)

TO : Ms. Bahar Sahin
Ankara
Turkey

FAX #: 90-4-118-2154

FROM: Ernest Stern

ES.

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

ERNEST STERN
Senior Vice President
Finance

September 23, 1991

Ms. Bahar Sahin
Acting Deputy Undersecretary
Treasury and Foreign Trade
Ankara, Turkey

Dear Bahar,

It was nice to hear from you, and I appreciated your note very much. I am hopeful that we can make the new structure work as intended---to provide more efficient services to our members.

I hope to see you in Bangkok next month.

Best regards.

Sincerely,

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

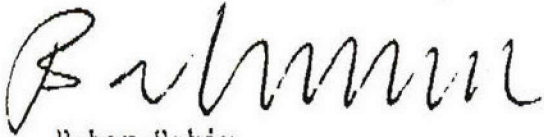
T.C.
BAŞBAKANLIK
HAZINE VE DIŞ TİCARET MUSTEŞARLIĞI

Sept. 20, 1991

Mr. E Stern,
Senior Vice President, Finance
The World Bank
Washington D.C. USA

Dear Mr. Stern,

I just heard the news about the establishment of an Office of the President with three Managing Directors, and your appointment as one of them, with great happiness. I have no doubt that the Bank with the new structure and management will operate much better and will be more efficient, as long as you are a part. I wish you the best and I want you know that I am ready for any kind of assistance, when needed.



Bahar Sahin
Acting Deputy Undersecretary of
Treasury and Foreign Trade

L - I N - 1 N O T E

DATE: 22-Sep-1991 02:04pm

TO: K. Tanju Yurukoglu

(KADIR YURUKOGLU)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Allocation Shares

Could you please fax up the current shares of the following,
based on allocations (not actual subscriptions): U.S., Japan,
Germany, France, U.K.. Thanks.

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 23, 1991

Ms. Anne O. Krueger
Arts and Sciences Professor
of Economics
Duke University
Durham, NC 27706

Dear Anne,

It is, indeed, astonishing that we were never able to get-together while you were in Washington. Maybe I will have better luck on one of your visits.

As you may have noted, we are doing one of our reorganization things again. But this one is modest in scale and sensible. We will have to see whether it can be made to work here, since the concept is quite different from the existing cultural practices.

This means that things are hectic here, and I read your draft Chapter 4 quickly. Rather than write out all my comments, I enclose the chapter with my marginal comments (unlaundered, unbuffered and in red ink). I will also send you, under separate cover, the Annual Reports for 1990 and 1991, since there is no need to use 1989 data in 1991.

To the marginal comments, I would add two general points:

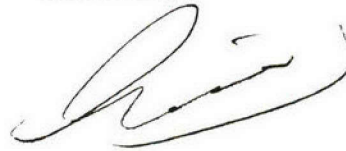
- The writing is very zippy and the treatment very aggregative. Maybe the reader will have gotten the necessary perspective in previous chapters but, if not, the narrative needs to slow down or you risk writing only for the cognoscenti.
- I should have thought that the basic point is one of missed opportunities for positive leadership. You seem to approach the topic as if all influence is bad and most of the examples are portrayed as cases of "bad" influence. But, surely, shareholders are supposed to influence the institution (that is why the Board, not the management or staff, is the Bank's policy body), and the question is, has the U.S. done this well? (It is also worth noting that other owners also influence the institution -- e.g., the French on Africa; the Nordics on Women in Development and earlier on Basic Needs; the Japanese on Debt; the Europeans on Poverty, etc., etc.). My assessment would be that the U.S. missed a lot of opportunities to lead; that its influence was too

frequently focussed on narrow issues; and that its manner often was so contentious and confrontational that even on very legitimate issues it found itself less effective than it could have been.

If I can be of help in reading the rest of the manuscript as it evolves, feel free to send it along as it emerges.

Best regards.

Sincerely,

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

Ernest Stern
Senior Vice President
Finance

The World Bank

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

ERNEST STERN
Senior Vice President
Finance

September 23, 1991

Mr. Preston

Lew -

Attached is an article which appeared in a Rotterdam paper, together with a quick personal translation. Aside from the quotes, it is, of course, hard to know what Eveline said and how much was in the mind of the journalist.

The new President of the World Bank, American banker Lew Preston, created immediately after his arrival a considerable upheaval. Mr. Preston, who took office September 1 this week, announced a basic change in the management of the World Bank. In addition, he established a new Region which will be responsible for Eastern Europe and the Soviet Union.

The reorganization has not been well-received by developing countries and by a number of West European members. A top functionary of the Netherlands MoF, who is responsible for the Netherlands' participation in the World Bank, was said yesterday to be unhappy with the developments but added that Mr. Preston had a free hand to reorganize the management of the Bank.

Under the two previous Presidents, the Senior Vice Presidents attained great authority. Stern, an American of German birth, and the Pakistani Qureshi, for many years formed the management of the Bank which annually lends \$20 billion for development projects. Stern is the intellectual father of the macro-economic adjustment program of the World Bank; Qureshi is more the advocate of poverty-alleviation. They exchanged positions in 1987 and since then Stern has been responsible for Finance and Qureshi for projects. For several years, the German heavyweight, Thalwitz, has been Senior Vice President for Research and Policy.

Preston has eliminated the function of Senior Vice Presidents and has added, under his direct office, three Managing Directors. One is Stern who herewith reaffirms his powerful position in the Bank. The other two are Sandstrom, a Swede, and Karaosmanoglu, a Turk.

Qureshi has been sent off with a pension and Thalwitz has been named to head the new Region. The departure of Qureshi and the downgrading of Thalwitz displeased the Executive Directors of a number of member countries. According to Eveline Herfkens, the Dutch ED, Preston shows with these moves his disdain for the Board. "The countries of continental Europe have great difficulties with this step" said Herfkens. According to her, Preston thinks that he can run the World Bank, a multilateral institution with about 150 members, as a private bank with shareholders. Moreover, it is, according to her, an ideological confrontation where the US, via Preston and Stern, is expanding its influence on the World Bank. According to expectations, Stern will guide the World Bank which, in the last two years, shifted its attention from fighting poverty back to an emphasis on macro-economic adjustment. The question of the World Bank support to the private sector in the developing countries and Eastern Europe is also involved in this.

The new Region of the World Bank for Eastern Europe and Soviet Union was given great emphasis. The creation of this Region was intended to foil the ambitions of the EBRD under the leadership of Attali. Attali has long said that his Bank is the most important channel for assistance to the reform process in Eastern Europe, and that the role of the World Bank is limited, as far as he is concerned. The World Bank has \$3 billion in projects in place in Eastern Europe and expects to lend a further \$5 billion.

Preston is a 64 year old banker from the famous New York Bank of JP Morgan. He was nominated this summer by President Bush as a candidate to succeed Conable as President of the World Bank.

When Conable started at the World Bank, he knew nothing about development. Shortly after he arrived there, he implemented a far-reaching reorganization which people who were critical at the time now say with hindsight serves to make the Bank function better. Conable left the Bank this summer as a passionate advocate for new assistance, fight against poverty, protection of the environment, and reduction of the military expenditure of developing countries.



Ernest Stern

Ingrijpende reorganisatie bij Wereldbank

van onze redacteur
EL JANSSEN

N HAAG, 20 SEPT. De nieuwe president van de Wereldbank, de Amerikaanse bankier Lewis Preston, heeft direct na zijn aantreden grote opschudding gezorgd. Deze week maakte Preston, die in september in functie is gegaan, een ingrijpende verandering in de leiding van de Wereldbank bekend. Bovendien heeft hij een nieuwe afdeling opgezet die wordt belast met steun aan landen in Oost-Europa en de Sovjet-Unie. De reorganisatie heeft tot ergernis geleid bij de ontwikkelingslanden en bij een aantal Westeuropese lidstaten van de Wereldbank. Een topfunctionaris van het Nederlandse ministerie van financiën, dat verantwoordelijk is voor het Nederlandse beleid inzake de Wereldbank, zei gisteren ongelukkig met de gang van zaken te zijn, maar voegde er aan toe dat Preston volledig de vrije hand heeft om de leiding van de bank te reorganiseren.

Onder de twee vorige presidenten van de Wereldbank hebben de senior-vice presidenten grote invloed naar zich toegetrokken. Eerst Stern, een Amerikaan van Joodse afkomst, en de Pakistaan Qureshi vormen al jaren de leiding van de organisatie die jaarlijks 20 miljard dollar aan ont-

wikkelingsprojecten financiert. Stern is de geestelijk vader van het macro-economische aanpakingsbeleid van de Wereldbank; Qureshi is meer voorstander van armoedebestrijding. Zij wisselden in 1987 van positie en sindsdien is de als uiterst bekwaam beschouwde Stern verantwoordelijk voor financiën en Qureshi voor projecten. Sinds enkele jaren is de Duitse zwaargewicht Wilfried Thalwitz als senior vice-president belast met onderzoek en beleid.

Preston heeft de functie van senior vice-president in de organisatie geëlimineerd en direct onder zijn leiding drie uitvoerende directeurs benoemd. Een daarvan is Stern, die hiermee zijn machtige positie in de Wereldbank bestendigt. De andere twee zijn een Zweed, Sandstrom, en een Turk, Karaosmanoglu.

Qureshi is niet vervroegd pensionen gestuurd, Thalwitz is benoemd tot hoofd van een nieuwe afdeling belast met Oost-Europa. Zowel het vertrek van Qureshi als de degradatie van Thalwitz zijn bij de vertegenwoordigers van een aantal lidstaten in de raad van bestuur van de Wereldbank slecht gevallen. Volgens Eveline Herfkens, de Nederlandse vertegenwoordiger, toont Preston hiermee minachting voor het bestuur. „De landen van het Westeuropese vasteland hebben grote moeite met

deze stap”, aldus Herfkens.

Volgens haar meent Preston dat hij de Wereldbank, een multilaterale instelling met ruim 150 landen als lidstaten, kan leiden als een particuliere bank met aandeelhouders. Bovendien is volgens haar sprake van een ideologische confrontatie, waarbij de Verenigde Staten via Preston en Stern hun invloed op de Wereldbank vergroten. Naar verwachting zal Stern het beleid van de Wereldbank, dat de laatste twee jaar verschoof richting armoedebestrijding, weer terugbrengen naar nadruk op macro-economische aan-

*Nieuwe president
zorgt voor grote
opschudding*

passingen. Daarbij speelt ook de vraag of de Wereldbank directe steun moet geven aan de particuliere sector in ontwikkelingslanden en Oost-Europa.

De nieuwe afdeling Oost-Europa van de Wereldbank heeft ove-



Topman Lewis Preston van de Wereldbank. (Foto AFP)

rigens een zware status gekregen. De oprichting van deze afdeling zou zijn bedoeld om de ambities van de Ontwikkelingsbank voor Oost-Europa onder leiding van de Fransman Jacques Attali te dwarsbomen. Attali heeft onlangs

gezegd dat zijn bank het belangrijkste kanaal voor steun aan het hervormingsproces in Oost-Europa is en dat de rol van de Wereldbank wat hem betreft beperkt is. De Wereldbank heeft 3 miljard dollar aan projecten in Oost-Europa in uitvoering en verwacht de komende twee jaar nog eens 5 miljard dollar aan Oosteuropese landen te zullen toelaten.

Lewis Preston is een 64-jarige bankier afkomstig van de beroemde New Yorkse bank J.P. Morgan. Hij werd deze zomer door president Bush naar voren geschoven als kandidaat om Barber Conable, een gepensioneerde Republikeinse politicus, op te volgen als president van de Wereldbank. Het is gebruikelijk dat de Verenigde Staten de president van de Wereldbank leveren en een Europeaan de zusterinstelling IMF leidt.

Toen Conable aan zijn baan bij de Wereldbank begon, wist hij niets van ontwikkelingsvraagstukken af. Kort na zijn aantreden voerde hij een omstreden reorganisatie door, waarvan toenmalige critici achteraf zeggen dat deze het werk van de bank verbeterd heeft. Conable verliet deze zomer de Wereldbank als een gepassioneerde pleiter voor meer hulp, armoedebestrijding, bescherming van het milieu en vermindering van de wapenuitgaven door ontwikkelingslanden.

OFFICE MEMORANDUM

TO: Members, President's Council

September 23, 1991

FROM: Ernest Stern, FINSV 

SUBJECT: Designation of Authority

I will be away from the office from October 8 through October 25, and have asked the following to act for me:

October 8-21	-	Mr. Michael Ruddy, Director Accounting Department
October 22-25	-	Mr. D. Joseph Wood, Vice President Financial Policy & Risk Management

Pursuant to paragraph 3 of Annex C to the Administrative Manual Statement No. 1.30, they are hereby designated to sign, on the dates they will be acting for me, in the name and on behalf of the Bank/Association, any written instrument which I have been designated to sign.

cc: Mr. Ruddy
Mr. Wood
Mr. Scott, LEG
Senior Finance Managers

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

ERNEST STERN
Senior Vice President
Finance

September 23, 1991

Mr. Stoutjesdijk

Ardy -

I want to draw your attention to the attached article, which appeared recently in International Economy.

I realize that ambassadors may not fully represent governmental views, but, by the same token, they are not wont to express views which are completely at odds with those of the government. I think we need to have an explanation from the Government of Jamaica, since it would indeed be odd for us to continue to lend to a government which has put us on notice that it does not intend to honor its debts as defined in current loan agreements and the ones to be negotiated in the near future.

Should the Government confirm these views, I think we need to discuss our approach internally and then, probably, consult with the JAC.

cc: Mr. Wood

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

Next Stop: Caribbean Debt Relief?

by Richard L. Bernal

One of Jamaica's Key Economic Strategist Says "What's Good for Poland is Good for Us"

CURRENT ECONOMIC SITUATION AND OUTLOOK

At this time the Caribbean is at the most important crossroads in its history. It is faced with the serious dilemma of formulating and implementing a strategy to ensure development and avoid economic decline and social distress which can spawn crime, corruption and extremist political movements. The origins of this dilemma can be traced to the unprecedented disequilibrium in the balance of payments, caused primarily by adverse external events such as (1) the escalation in the price of oil during most of the 1970s and continuing into the 1980s, (2) the decline in demand for bauxite and traditional exports, and (3) natural disasters. Large and persistent deficits and the concomitant process of adjustment initially resulted in economic decline. This is evident in the low and fluctuating rates of economic growth

in the face of rapid population increase (1.3% per annum in 1970-80 and 1.4% since 1980) and persistent high unemployment (over 20% in Jamaica, Trinidad and Tobago, Guyana, St. Vincent, Grenada and St. Lucia).

The resuscitation of economic growth in the Caribbean is imperative if countries are to extricate themselves from the stifling economic deprivation which engulfs the majority of people and threatens the social stability and peace in which democracy can flourish. The vulnerability and fragility of democracies is evident in Haiti and in the recent attempted coup in Trinidad and Tobago, following the disastrous events in Grenada in the past decade. Furthermore, if the stranglehold of the debt burden on development is not broken, these societies could gradually become overwhelmed by widespread unemployment, increased crime levels, and other activities resulting from poverty.

The United States government is cognizant of this and has attempted to respond by launching the EAI (Enterprise for the Americas Initiative). The economic plight of the Caribbean has and will reflect itself in declining markets for U.S. exports, fewer investment opportunities, increasing susceptibility to involvement in drug trafficking, burgeoning migration, the necessity for increased development assistance and political instability. While U.S. exports to the region have expanded under the Caribbean Basin Initiative, this trend may be reversed because of a reduction in demand for U.S. goods and services.

ECONOMIC VULNERABILITY AND ADJUSTMENT

The process of economic growth is heavily dependent on imports and capital inflows in the case of small, open Caribbean economies. The volume of imports is, therefore, a principal determinant of the level of economic growth. Imports have to be paid for in foreign currency. The major sources of foreign exchange are: (1) export earnings, including tourism and (2) foreign capital inflows in the form of (a) foreign investments and/or (b) loans, either on commercial or concessionary terms. Traditionally, Caribbean economies have experienced adverse trade balance. However, the gap was financed by net inflows of foreign capital up to the mid-1970s, and therefore growth was sustained. During the mid 1970s, foreign investment in the bauxite/alumina industry, export agriculture and petroleum declined, reducing the

Dr. Bernal is Ambassador of Jamaica to the United States.

ability to sustain an excess of imports over exports.

Since the late 1970s countries like Jamaica, Guyana, Trinidad and Tobago and the Dominican Republic have adhered to a series of IMF stabilization programs and World Bank adjustment programs to increase growth, reduce the balance of payments deficit, and control inflation. Due to the paucity of foreign investment, loans from multilateral institutions, in particular, the IMF and the World Bank, and bilateral development assistance agencies like USAID became vital for the economy as sources of financing essential imports and funding development projects.

BURDEN OF DEBT

Several Caribbean countries have become heavily indebted during the last decade. They account for most of the region's US\$14.5 billion external debt. The largest debtors are Jamaica with US\$4.3 billion, the Dominican Republic with US\$3.9 billion, Trinidad and Tobago with US\$2.0 billion and Guyana with US\$1.6 billion. For many countries their debt is large in relation to their total output and productive capacity. In Guyana the debt/GNP ratio is 522% which means that the debt outstanding is 5-1/4 times larger than the economy's total output of goods and services. Put another way, it would take five and a quarter years to pay off the amount if the output of all economic activity was devoted exclusively to this purpose.

The servicing of the external debt has become the single most sustained impediment to economic growth. The debt service ratio, i.e. the share of foreign exchange earnings from exports of goods and services required for debt repayment is high (e.g. in 1988 it was 16.3% in Belize, 16.1% in the Dominican Republic and 17.4% in Haiti). In Jamaica it was 39.3% which means just under half of every US dollar earned is not available to the economy to purchase essential imports such as oil, food, spare parts, capital goods and medicine.

These high debt servicing ratios are made more onerous by the fact that the highly indebted countries are simultaneously encountering a net transfer of resources.

In Jamaica in 1988, the net transfer was negative, i.e. repayment exceeded new loan inflows and amounted to US \$406 million or 23% of exports of goods and services. The net negative transfer was US\$56 million in the Bahamas, US\$20 million in Haiti, US\$199 in the Dominican Republic and US\$13 million in Belize. This is extremely debilitating to these developing countries which on the contrary should aim to receive a new inflow of resources to reinforce the process of economic growth and facilitate structural transformation.

In many countries debt repayment is the major factor preventing

(1) reduction of fiscal deficits and

(2) the increased capacity of the government to provide infrastructure, health, education, and security. Debt repayment consumed 40% of government expenditure and 54% of revenue in Jamaica in 1988-89. It required 26.3% of government revenue in Antigua, 24% in Grenada, and 34% in St. Kitts

In Jamaica every US dollar earned is not available to the economy to purchase essential imports such as oil, food, spare parts, capital goods and medicine.

WORSENING DEBT CRISIS

The debt of the Caribbean region has more than doubled, from approximately US\$6.1 billion in 1980 to US\$14.3 billion in 1988. During the 1980s debt has more than doubled in Haiti, Jamaica, Guyana and Trinidad and Tobago. In Barbados the debt has increased by 450% and in Antigua by 515%. The debt/GNP ratio for Guyana jumped from 139% in 1980 to 521.8% in 1988, while in Jamaica it moved from 76.5% to 154.1% and in Antigua it leaped from 69.4% to 354.6%.

The worsening situation is also evident in the increase in debt repayment by 50% during the years 1980 to 1988, from US\$1.07 billion to US\$1.56 billion. The most dramatic increases have been in Barbados, Jamaica, Haiti and the Bahamas with increases of 352%, 215%, 258%, and 217% respectively. Negative net transfer of resources has increased in the last few years. During 1985 to 1988, Jamaica transferred overseas more than it received in each year totalling US\$1.2 billion for the four-year period. Countries which traditionally were net recipients

have witnessed a change to negative net transfers, namely the Dominican Republic, Guyana, and Trinidad and Tobago.

CARIBBEAN DEBT IS A SPECIAL CASE

The crisis of Caribbean debt is unique and is therefore a special genre of the debt problem. This is because the bulk of outstanding debt is owed largely to official creditors.

This type of debt situation has not received sufficient attention. Debt relief has focused primarily on the commercial bank debt of developing countries and socialist countries of Eastern Europe and on the bilateral debt of low-income countries, particularly those in Africa. The issue of debt owed to multilateral institutions such as the International Monetary Fund, the World Bank and the Inter-American Development Bank has not been tackled because these institutions do not reschedule debt. Bilateral or inter-governmental debt has been the subject of numerous and repeated rounds of rescheduling through the Paris Club mechanism.

Debt to official creditors (i.e. multilateral institutions and bilateral agencies) is extremely high for nearly all Caribbean countries. The share of official debt in public and publicly guaranteed long-term debt is 91.1% in Haiti, 85.9% in Jamaica, 78.8% in Guyana and 75.4% in the Dominican Republic.

Debt due to multilateral institutions is 65.2% in Haiti, 45.3% in Guyana, 39.9% in Jamaica, and 25-30% in Barbados, the Dominican Republic and the OECS countries of the Eastern Caribbean. Bilateral debt is a particularly large share in the Dominican Republic and Jamaica where it accounts for 47.4% and 46.4% respectively.

The predominant share of official debt in the long-term debt of Caribbean countries indicates that the debt was accumulated in the quest for economic development through projects and infrastructure and/or stabilization cum adjustment.

One of the dilemmas of the debt crisis is that there seems to be no reward for good behavior. In other words,

countries which make strenuous efforts to achieve stabilization and adjustment and pursue sound economic management, and which are reliable in their debt repayment, do not receive more favorable treatment in terms of debt rescheduling from commercial banks, governments of creditor countries and multilateral institutions, in particular, the IMF. The inconsistencies in the secondary market also seem to reward those debtors which do not honor their obligations, instead of rewarding countries which abide by their repayment schedules and conduct their fiduciary affairs responsibly. This is illustrated by the fact that countries which are reliable in their debt servicing find that their debt is sold in the secondary market at a higher price than the debt of countries which are in arrears.

DEBT RELIEF IMPERATIVES

Reduction of the stock of outstanding debt and the complimentary reduction of repayment on a meaningful scale must commence immediately. All three types of debt must be addressed, namely, commercial bank debt, multilateral debt and bilateral debt.

*Debt repayment consumed
40% of government expenditure
and 54% of revenue in
Jamaica in 1988-89.*

I. COMMERCIAL BANK DEBT

Commercial bank debt will have to be subjected to rescheduling on much more generous terms, i.e., terms which realistically reflect the debtor countries' repayment capacity rather than the portfolio management and loan-loss considerations of the banks.

II. MULTILATERAL DEBT

The multilateral institutions cannot simultaneously urge reduction measures on other creditors while eschewing any form of rescheduling. The argument that the viability and credit rating of these institutions would be jeopardized is not credible since their soundness derives not from their operations but from the backing of the developed countries. If supplementary resources or charter changes are required to enable these institutions to undertake debt restructuring then this must be done and quickly.

III. BILATERAL DEBT

Consider the following:

(a) The rescheduling of bilateral or inter-government debt must be on more realistic terms, involving longer repayment and grace periods, and lower interest rates of both interest and principal. The futility of rescheduling on terms granted to date is demonstrated by the perpetual cycle of debt restructuring. Since 1980, the United States government has negotiated and signed over 140 Paris Club debt rescheduling agreements totalling US\$15 billion owed by 60 countries. Many countries have had more than one rescheduling, seven countries have had four or more and one country has had nine. In the eleven years between 1968 and 1979 there were 12 agreements but in the ten years 1980 to 1989 there have been 116 reschedulings. There were 23 in 1989 and 9 in the first four months of 1990. The amount of debt involved has increased significantly, from US\$2.2 billion during 1980-1985 to US\$11.7 billion since 1985.

(b) There comes a point where creditors recognize that debt owed to them is unpayable and uncollectable. The debt of many developing countries, including some Caribbean countries, can only be paid at the detriment of both the debtor and creditor country. The cancellation of inter-government debt has been advocated in the case of the poorest countries, but has been implemented on a small scale by a few creditor countries including France, the Netherlands, Sweden, Switzerland, West Germany, Canada and the Soviet Union. The cancellation of debt is not new nor unprecedented as there are several examples involving the debt of both developing and developed countries. At the end of World War I the Allies owed the United States over US\$12 billion. After several interruptions in repayment and the accumulation of substantial arrears, these debts were rescheduled, the repayment periods extended, principal sums reduced or cancelled and the interest rate reduced. Only US\$2.6 billion was repaid between 1918 and 1931, less than quarter of the original sum. In 1940 the British Treasury wrote off 11.2 billion pounds Sterling owed by the colonies.

(c) Significant debt relief could be afforded Caribbean economies if inter-government debt could be repaid in local currency and these funds recycled as grants to be applied to approved development projects or programs. This would provide relief in two important respects: (1) it would save on foreign exchange for debt repayment, increasing uniform capacity and thereby increasing economic growth; and (2) it would replenish fiscal resources with what would otherwise be lost to government.

DEBT RELIEF NOW

In conclusion, the United States cannot be an oasis of well being in a sea of poverty. The debt crisis of Caribbean countries, which has not been adequately addressed in terms of tangible debt relief, has adverse implications for the economy and society of both the United States and the Caribbean. Given the small size of the debt and given that debt reduction for reconstruction and development is not

The inconsistencies in the secondary market also seem to reward those debtors which do not honor their obligations, instead of rewarding countries which abide by their repayment schedules and conduct their fiduciary affairs responsibly.

unprecedented, the U.S. could take steps to afford debt relief. One practical measure is to allow debt owed to the U.S. to be repaid in local currency and to recycle these funds as grants to be applied to approved development projects. Such debt relief would have a significant impact because it would save foreign exchange which could then be used for development projects leading to economic growth. Debt relief provided now would impact on the Caribbean at a critical juncture and could obviate the need for much larger development assistance and debt relief at a later date.

The U.S. has taken an initial small step through its Enterprise for the Americas Initiative (EAI) towards providing relief to heavily indebted countries in Latin America and the Caribbean. However, the EAI provides long-term relief through a write-down in the stock of debts owed to the U.S. Because of the decision that debt relief should be "budget neutral" for the U.S. Federal budget, payments would remain at the existing level, thereby affording no cash flow relief in the short term. ♦



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/19/1991	Document Type Report			
Correspondents / Participants To: Ernest Stern, FINSV				
Subject / Title Minutes of the Meeting on Staff Retirement Plan - Pension Finance Committee				
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
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The World Bank
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

September 24, 1991

Mr. Mihail M. Cernea
The World Bank
1818 H Street, N.W.
Room N-8059
Washington, D.C. 20433

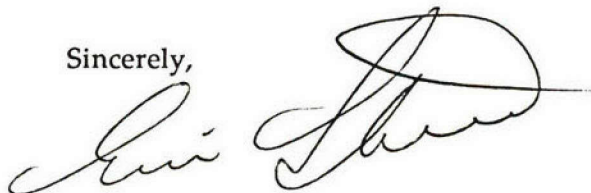
Dear Mr. Cernea:

I deeply appreciated your sending me your book with its very nice inscription, and the covering note. It was a real pleasure to learn that our approach to resettlement gave such an impetus to our work on a broader range of social issues. We continue to learn that understanding the causes of implementation at the very lowest operational level is fundamental and provides a powerful basis for success.

The book will, I am sure, help to disseminate this further.

I look forward to reading the book.

Sincerely,

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

FORM NO. 75

THE WORLD BANK/IFC

9-127
9-24

ROUTING SLIP		DATE: 09/24/91	
NAME		ROOM NO.	
Mr. E. Stern, FINSV		E-1227	
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CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
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INITIAL		SIGNATURE	
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Exception(s) Information Provided by Member Countries or Third Parties in Confidence Deliberative Information				
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The World Bank

ERNEST STERN
Senior Vice President
Finance

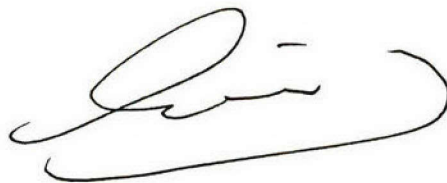
9/27

Wilfried

This is relevant for your
future incarnation.

Would you pass it along
or handle as you like

(of course keeping our
gender recruitment objectives
in mind).



HARVARD UNIVERSITY
RUSSIAN RESEARCH CENTER

ADAM B. ULAM, *Director*

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19 September 1991

Dr. Jessica Einhorn
2861 Brandywine St., N.W.
Washington, D.C. 20008

Dear Dr. Einhorn:

Thank you for taking the time to talk with me today about employment opportunities at the World Bank in the area of Soviet economics. As I indicated, a position at the World Bank would afford me the opportunity to participate first-hand in the Soviet transition to a market economy. With my background in Soviet economics, I would be able to offer considerable knowledge and experience to the Bank.

As you suggested, I have enclosed a cv with a bibliography of my publications attached. Also enclosed is a reprint of my latest publication. I am currently collaborating on a study of spontaneous privatization in the Soviet Union with Dr. Simon Johnson, an economist who teaches at the Duke University Fuqua School of Business. I would be happy to provide you with letters of reference from economists who are familiar with my work. I know from past experience that Professor Abram Bergson of the Harvard Russian Research Center would be willing to write a letter on my behalf.

I appreciate your offer to show my cv to your colleagues at the World Bank. As I told you on the phone, I am interested in consulting as well as a full-time position. I have been to the Soviet Union twice in the past two years, both times during the winter, and am willing to travel on a regular basis and even live there for a period of time.

My office number at Harvard is (617) 495-5389. I look forward to hearing from you.

Sincerely,

Heidi Kroll
Heidi Kroll



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Monopoly and Transition to the Market

Heidi Kroll¹

Abstract: An American economist describes recent Soviet thinking on monopoly and traces its impact on the reform process up until 1991. After an overview of industrial concentration in the Soviet economy, the study proceeds to examine the content of Gorbachev's antimonopoly policy, focusing on policy toward dominant firms, mergers, and entry of firms. Drawing on this background and antitrust experience in Western countries, it concludes by analyzing the role of antitrust policy and import competition in the transition to the market. *Journal of Economic Literature*, Classification Numbers: P20, L40.

In the past Soviet planners viewed monopoly as a purely capitalist affliction. They now contend that the monopolistic structure of Soviet industry is a key reason for the failure of Mikhail Gorbachev's initial enterprise reforms and the deterioration of the economy since 1988. The reforms aimed to induce enterprises to produce what buyers wanted by allowing them greater freedom to set their own production targets and by linking bonuses and wages to income from sales. Instead, enterprises have used their increased autonomy to cut production targets, to shift their output mix in favor of higher-priced products, to avoid concluding disadvantageous delivery contracts, and to impose conditions on buyers such as requirements for barter exchange, payment in hard currency, or delivery of unwanted goods. By many Soviet accounts, producers owe their power to dictate the terms of contracts to a complete or virtual monopoly on the supply of their products (Amurzhuyev and Tsapelik, 1989, p. 7; Charkin and Korovina, 1990, p. 15). According to the director of Goskomstat, the output of key industries declined or fell short of plan targets in 1989 largely because of shortfalls in the delivery of critical parts by monopolists and near-monopolists (Kirichenko, 1990, p. 3).

The recognition of the virtues of competition marked a significant step forward in Soviet reform debates (Hewett, 1989, pp. 50–51). The new Soviet thinking on monopoly, however, is not without pitfalls. For example, the structural problem of high industrial concentration is often

¹Research Associate, Center for Foreign Policy Development, Brown University, Providence, RI 02912, and Fellow, Russian Research Center, Harvard University, Cambridge, MA 02138. The author is grateful to Boris Rumer for suggesting the topic.

conflated with the macroeconomic problem of excess demand. The behavior ascribed to monopoly is attributable in large part to the disequilibrium created by large budget deficits and an accommodating expansion of money and credit, coupled with the retention of administrative control over prices. More disturbing is the impact of the new thinking on economic policy. Instead of pushing the reform process in the direction of marketization, the growing awareness of monopoly quickly became an impediment to market reforms by furnishing the government with yet another excuse to defer the lifting of price controls.

This paper examines the new Soviet thinking on monopoly and traces its impact on Gorbachev's economic reforms. Using new data on concentration in Soviet industry, the paper first examines the level and causes of industrial concentration and evaluates its importance, relative to excess demand, in contributing to the general economic crisis. It then examines the evolving policy on dominant firms, mergers, entry of new firms, and import competition. Drawing on this background and the antitrust experience of capitalist economies, the concluding section offers an analysis of antitrust policy as a means of creating competition among domestic producers and discusses the implications for the role of import competition during the transition from central planning to a market economy.

INDUSTRIAL CONCENTRATION: EVIDENCE, CAUSES, AND SIGNIFICANCE

Data released since the advent of *glasnost*² reveal an exceptionally high degree of horizontal concentration in Soviet industry. What is distinctive about the implied industrial structure is the prevalence of monopolies in the strict sense of a single producer in the country of a particular good. According to Goskomstat SSSR, more than one-third of the most important types of machine-building products are produced by a single enterprise, and approximately the same share is produced by only two enterprises (Gurevich, 1990, p. 5). A 1988 survey by Goskomstat counted 166 machine-building enterprises that were absolute monopolists, and 180 monopoly plants.² According to Gossnab, 80 percent of the volume of output in machine building is manufactured by monopolists, and 77 percent of machine-building enterprises are monopolists (Gurevich, 1990, p. 5). The Gossnab data show a higher level of concentration in machine building because they are less aggregated than the Goskomstat

²See *The Economist* (August 11, 1990, p. 67) for a table of more disaggregated data on industrial concentration from Goskomstat. The table shows the share of output of selected products produced by a single enterprise or plant, and also two or more plants under a single ministry. Of the sixteen producers listed in the first category, six are absolute monopolists (for locomotive cranes, tram rails, sewing machines, coking equipment, hoists for coal mines, and sucker-rod pumps), and six of the remaining producers account for more than 85 percent of the total output of their respective products. The author is grateful to Peter Rutland for this reference.

data. Another statistic from Gosstab is that about 2,000 enterprises in the country are the sole producers of a specific type of product (Amurzhuyev and Tsapelik, 1989, p. 7).

A study of industrial concentration was conducted in Gosstab in connection with the transfer of over 7,500 producer goods to "direct unlimited orders," a form of wholesale trade. The results are reported in Table 1 below as the percentage of products in each industrial branch manufactured by 1, 2-3, 4-6, 7-10, and 11 or more producers.

The percentage of machine-building products manufactured by a single producer is even higher than that cited above for the entire machine-building complex. Although the other branches are less concentrated than machine building, they are still highly monopolized. It is noteworthy, however, that many products do have multiple producers.³ Another study of 239 products in virtually the same branches found that 34 percent were manufactured by a single enterprise, 37 percent by two enterprises, 18 percent by three enterprises, and 11 percent by four enterprises (Bogdanov, 1990, p. 9).⁴

Concentration tends to be relatively low in consumer-oriented industries.⁵ Branches with a non-monopolized structure include building materials, light industry, food, woodworking, and certain consumer-oriented branches of machine building (Tsapelik and Yakovlev, 1990, p. 68). Nationwide concentration levels, however, may be misleading. Regional decentralization of control over enterprises manufacturing consumer goods has created an artificial geographical division of the market that negates the effect of low concentration levels nationwide (Tsapelik and Yakovlev, 1990, pp. 63-64). As shortages of consumer

Table 1. Concentration of Selected Products (in percent)

Branch	Number of products	Number of producers				
		1	2-3	4-6	7-10	> 10
Machine building	5885	87.0	7.8	2.7	1.0	1.5
Metallurgy	208	27.9	28.4	20.7	9.6	13.4
Chemicals and wood	1225	46.7	27.6	13.1	5.1	7.5
Construction	90	30.0	28.9	12.2	17.8	11.1
Social sphere	256	44.9	20.7	12.9	9.0	12.5

Sources: Amurzhuyev and Tsapelik, 1989, p. 7; Yasin and Tsapelik, 1990, pp. 38-39.

³The authors of the study warn that aggregated product classes were used to compile the data, and that concentration is even worse for specific types of products, including bearings, construction technology, and semiconductors (Yasin and Tsapelik, 1990, p. 38).

⁴The sample covered 11 branches of the machine-building complex, ferrous metals, chemicals and wood products, and home appliances.

⁵The watch industry is reported to have a competitive structure (*Izvestiya*, January 18, 1990, p. 2), and there are more than 500 enterprises in the shoe industry (Tsapelik and Yakovlev, 1990, p. 64).

goods have intensified and local authorities have responded by restricting the sale of locally produced goods to other localities, the impact of geographical divisions in raising effective concentration levels for consumer products may have increased (Schroeder, 1991, p. 11).

Both enterprises and ministries are highly integrated vertically as well as horizontally. Machine-building plants typically satisfy most of their own requirements for prefabricates,⁶ and branch ministries generally produce a large share of products outside their main line of specialization.⁷ Ironically, Soviet economists used to complain that vertical integration leads to excessive duplication among enterprises in different ministries and insufficient specialization and concentration, especially for intermediate products (Subotskiy, 1981).⁸ A related problem is the low level of standardization of machinery and component parts (Subotskiy, 1981, p. 19).⁹

In capitalist economies, data on industrial concentration overstate monopoly power because they ignore foreign competition. That problem does not yet arise with the Soviet economy. The monopolization of industry is compounded by a foreign trade system that, despite recent decentralizing reforms, serves to protect domestic producers from foreign competition.

Two explanations dominate Soviet discussions of the causes of industrial concentration. One stresses that enterprise production profiles are narrowly specialized for final products. According to this explanation, the belief that economies of scale could be realized through increased specialization led to a policy that concentrated the production of a particular product in one or two enterprises in an effort to eliminate "wasteful duplication and parallelism" of production facilities (Shcherbakov and Yasin, 1989, p. 7; Figurnova, 1989, pp. 101-102).¹⁰ Concentrating the production of each type of product in a single place also facilitates central control of the economy (Tsapelik and Yakovlev, 1990, p. 63).

⁶A frequently cited survey by the Central Statistical Administration (now Goskomstat) found that out of every 100 machine-building enterprises, 71 produced their own iron castings, 27 their own steel castings, 84 their own forgings, 76 their own stampings, and 65 their own hardware (Yefimov, 1987, p. 29). As of 1980, less than 5 percent of the total output of billets and castings was produced in specialized plants, and there were no specialized plants for forgings and stampings (Kheyman, 1980, p. 46).

⁷A 1983 study estimated that one-fifth of the output produced by the ministries was outside their main line of specialization, and for certain ministries the share was much higher (Karagedov, 1983, p. 57). For seven particular industries, the same study found that the share of total output produced under the specialized ministry nominally in charge of the product ranged from a high of 67 percent of forge and press equipment to a low of 32 percent of plastic products.

⁸Different levels of aggregation may partly account for the discrepancy. The data on vertical integration by ministries are reported at an industry-wide level, whereas the data on horizontal concentration are based on less aggregated product classes. The more broadly the industry is defined, the lower the resulting measure of concentration.

⁹Since the lack of standardization limits possibilities for substitution, this is another reason the data on vertical integration may overstate the extent of duplication among ministries.

¹⁰It is recognized, however, that vertical integration has had the opposite effect.

The alternative explanation focuses on the large average size of state enterprises. Soviet enterprises are much larger on average than enterprises in industrialized capitalist economies. In a pioneering study, Pryor (1973, pp. 187-195) compared measures of enterprise size in socialist economies to those predicted by regression equations derived from data for 10 capitalist economies.¹¹ For the Soviet Union, he estimated that the average number of workers employed by state enterprises in 1964 was 610, as compared with a predicted value of 178, and that 59.6 percent of the labor force worked in enterprises employing more than 1,000 workers, as compared with a predicted value of 40.8 percent (Pryor, 1973, pp. 192-193). Since the 1960s, the size of Soviet enterprises has grown even larger. The average number of employees per enterprise rose to 813 in 1987-1988,¹² and 73.4 percent of the labor force now work in enterprises employing more than 1,000 workers; indeed, enterprises with 10,000 workers or more employ 21.6 percent of the labor force, while those with 500 workers or fewer employ only 14.9 percent of the labor force (Kholodkov, 1989, p. 16).¹³

From an economic standpoint, large enterprise size is justified in industries where technology allows large producers to manufacture products at lower unit costs than smaller producers.¹⁴ The availability of technological economies of scale, however, does not fully explain the size structure of Soviet enterprises. Enterprise size in the Soviet economy has been artificially inflated by several factors (Pryor, 1973, pp. 161, 187-188; Ehrlich, 1985, pp. 293-294). One was the nationalization of industry and the suppression, for ideological and political reasons, of small-scale private and cooperative production. Prior to Gorbachev, private enterprise was permitted, usually subject to licensing, in a narrowly restricted range of fields, and employment of hired labor was prohibited (Grossman, 1977, pp. 26-27). Apart from collective farms, which are nominally producer cooperatives, the cooperative survived chiefly in rural areas as a nominally independent, but *de facto* state-controlled, branch of retail trade. A second factor was the Stalinist penchant for large enterprises, often termed "gigantomania," which equated large size with efficiency.

¹¹Belgium, France, West Germany, Greece, Italy, Japan, the Netherlands, Portugal, Switzerland, and the United States.

¹²According to the author's own calculations, the average number of employees per enterprise rose continuously in the period 1972-1980 from almost 650 to 835, then leveled off, and eventually declined slightly after 1980 (Narkhoz, various years).

¹³Further confirmation that the size distribution of Soviet enterprises became more skewed in favor of large units in the 1970s comes from a study conducted by Goskomstat (Mal'tsev, 1990, pp. 21-23). The study found that the share of the industrial labor force employed at small enterprises (defined as enterprises that employ 100 workers or fewer, produce one million rubles of output or less, and have capital assets valued at 0.5 million rubles or less) declined from 6.4 percent in 1971 to 2.4 percent in 1983, and then again to 2 percent by 1987.

¹⁴Cost savings also can be realized by producing two or more products jointly (economies of scope). Although the relationship between economies of scope and Soviet industrial structure is uncertain, excessive specialization at the level of final products may result in a sacrifice of economies of scope.

Finally, the complexity and cost of coordinating the economy from the center create a systemic bias toward large enterprises (Tsapelik and Yakovlev, 1990, p. 63). To put it simply, it is easier for central planners to control a small number of large enterprises than a large number of small ones. Likewise, vertical integration of successive stages of production saves on the cost of centralized management by reducing the number of inter-firm transactions coordinated by the center.

The increase in the average size of enterprises in the 1970s is largely the result of the merger movement ordered by Brezhnev in 1973. Thousands of formerly separate enterprises were absorbed into large industrial conglomerates (*ob'yedineniya*, usually translated as associations) of two types: production associations (POs) and scientific-production associations (NPOs), which included branch R&D establishments. The associations were predominantly horizontal mergers combining producers of similar products (Tsapelik and Yakovlev, 1990, p. 67). The formation of associations was expected to raise efficiency through increased specialization and concentration, and to lower administrative costs by reducing the number of production units and streamlining the bureaucracy (Gorlin, 1976, pp. 164, 170). The NPOs also were supposed to promote technical progress by placing R&D facilities and enterprises under a common management, thus facilitating coordination of R&D with production. By many accounts, however, the ministries implemented the mergers in a formalistic manner, and the expected benefits of the associations in promoting efficiency or technical progress never materialized (Hewett, 1988, pp. 247-248). As discussed below, these results have implications for merger policy under *perestroika*.

Another structural condition required for competition is the absence of barriers to entry of new firms. The theory of contestable markets posits that free entry can constrain incumbent firms to behave efficiently, even in markets dominated by a small number of producers (Bailey and Baumol, 1984).¹⁵ In the Soviet economy, however, monopolization of production is compounded by artificial impediments to entry. The traditional restrictions on entry into the private and cooperative sectors already have been described; as discussed below, Gorbachev's reforms have progressively eased these restrictions, but stopped far short of removing them altogether. Within the state sector, competition among enterprises is precluded by barriers to entry that are fully institutionalized by the planning mechanism used to control their activities. Under the traditional system of output planning and its counterpart, the centralized distribution of inputs, producers are restricted to a narrow range of final products by mandatory production targets set from above, and buyers are assigned to specific suppliers by supply planning agencies.

¹⁵ Technically, a market is contestable if entry does not require investment in relatively immobile capital (sunk costs), so that firms can enter and then exit without losing any of their investment. In a contestable market, if incumbent firms earn excess profits or fail to minimize costs, new firms can profitably enter and take away their business, then exit without cost if conditions turn unfavorable.

As a result, enterprises have virtually no freedom to enter or exit any industry, or to choose from which suppliers to purchase inputs. Soviet sources often stress the centralized distribution of supplies and its corollary, the centralized attachment of buyers to suppliers, as a cause of what they call the *diktat* of the producer (Kholodkov, 1989, p. 16; Figurnova, 1989, p. 102).

Problems of industrial structure, while severe, are not primarily responsible for the deterioration of industrial conduct and performance since 1988. Even before the reforms, the sellers' market allowed producers to ignore the demands of buyers, while forcing buyers to accept what is offered or go without.¹⁶ Under *perestroika*, the expansion in the flow of money and credit available to enterprises, combined with declines in production, has greatly exacerbated the disequilibrium in the producer sector (Ofer, 1989, p. 149). As the purchasing power of the ruble has become more uncertain, enterprises increasingly have tried to protect themselves by demanding payment in real goods or hard currency. Repressed inflationary pressure and the consequent loss of confidence in the ruble, not the monopolistic structure of production, are the driving forces behind the rise of barter trade among enterprises and the flight to dollars. Yet demands for payment in kind or hard currency are among the "monopolistic practices" prohibited by new Soviet antimonopoly legislation described below.

Soviet economists and officials frequently express concern about the power of monopolists to raise the price of their output. The resulting fear that lifting price controls would trigger a burst of uncontrolled inflation appears to have influenced the decision to defer price liberalization. Western economic theory teaches, however, that the power of a monopolist to set the price of its output is constrained by a downward-sloping demand curve. Continuous inflation from the supply side is possible only with an accommodating policy of monetary expansion. To the extent that market power arises from excess demand rather than the fewness of firms, a tightening of monetary and fiscal policy, combined with the decontrol of prices, could prevent much of the dysfunctional enterprise behavior that Soviet sources often attribute to monopoly.

THE CONTENT OF ANTIMONOPOLY POLICY UNDER PERESTROYKA

Dominant Firms

In the United States, policy toward dominant firms is distinguished by the use of a "structural remedy." The U.S. government has aimed to reduce concentration by breaking up dominant firms into smaller units.

¹⁶ The asymmetry between buyers and sellers in socialist economies is a central theme of Kornai's (1980) work on the economics of shortage.

With the exception of deconcentration measures imposed by the occupying forces on German and Japanese industry after World War II, the United States stands alone in the use of this policy. Although a few other countries now have laws permitting the forced breakup of firms, the remedy has not been employed except to reverse prohibited mergers. Instead, capitalist countries in Western Europe rely on regulation to prevent "abusive conduct" by firms with a dominant market position (Scherer and Ross, 1990, p. 484). Under the regulatory remedy, a government agency is assigned to monitor and control the prices of dominant firms and also to enforce regulations prohibiting or restricting certain practices, such as "refusals to deal."

Initial press reports about the preparation of a draft Soviet antimonopoly law implied that the structural solution might be rejected in favor of regulation. In March 1990, for example, TASS reported that an antimonopoly law was being drafted based on the West European concept of protecting the rights of the consumer, rather than competition as in the United States (Moscow TASS in English, 1155 GMT, March 16, 1990). By August 1990, when the USSR Council of Ministers adopted an interim antimonopoly decree "On Measures for Demonopolizing the Economy," Soviet policy had shifted in favor of a more concerted effort to break up dominant firms, if only on paper (O merakh po demonopolizatsii, 1990, pp. 2-3). Indeed, the policy shifted course in midstream. Originally the decree was to be titled "On Measures for Preventing Monopolistic Activity," but in the course of preparing the draft the government decided to promote deconcentration rather than merely preventing monopoly conduct (Rytov, 1990, p. 3).

The draft of a permanent law (*zakon*) on demonopolizing the economy has been prepared (*Pravda*, February 21, 1991, p. 3).¹⁷ The likely content of the new law can be surmised from the interim antimonopoly decree and two other draft antimonopoly laws that were circulated previously. One was prepared under the auspices of Gossnab, and published in the April 1990 issue of Gossnab's house journal (*O razvitii*, 1990, pp. 35-44). The second, the draft law of the Russian republic, was included in the package of legislation prepared for the 500-day reform plan (*Transition*, 1990b, pp. 172-187).¹⁸ While differing in details, the two drafts and the decree share much in common in their overall approach to dominant firms. In particular, all of them build in flexibility by providing for both regulatory and structural remedies.

On the regulatory side, the decree and the two draft laws have as a main goal the prevention of abuse of a dominant market position. To this end, they restrict the freedom of dominant enterprises to set their own

¹⁷The draft is scheduled to be submitted to the Supreme Soviet in the second quarter of 1991.

¹⁸A third draft, titled "On the Fundamentals of Antimonopoly Legislation in the USSR," was prepared under the supervision of the State Commission on Economic Reform, but has not been published to the author's knowledge (Gnidenko, 1990b, p. 4). This draft is probably the precursor of the government's draft law on demonopolizing the economy.

prices. The Gosnab draft and the RSFSR draft prohibit "the groundless raising of free prices." The antimonopoly decree calls for a phased transition from centrally controlled prices to freely determined market prices for most products, but stipulates that the prices of goods produced by dominant enterprises are to remain subject to state controls. In addition to price controls, a number of "monopolistic practices" are prohibited, including:¹⁹ limiting or ceasing production, and removing goods from circulation, with the aim of creating or maintaining a deficit or raising prices; refusing to conclude a contract if the enterprise has a real capability of producing or selling the products; and imposing contract terms unrelated to the subject of the contract, such as requirements for the transfer of materials or goods not applicable toward fulfillment of the order (payment in kind), inclusion of goods not needed by the buyer, or groundless requirements for payment of monetary means, including foreign currency.

The danger is that such restrictions will prevent not only monopolistic activity, but also the development of a market economy altogether.²⁰ Not all enterprises, however, would be subject to controls. Under the antimonopoly decree, any enterprise with more than 70 percent of the market is considered to have a dominant market position and is subject to price controls and other restrictions. Conversely, enterprises whose market share is 35 percent or less are free of any restrictions. For enterprises whose market share ranges from 35 to 70 percent, the decree calls for a differentiated, case-by-case approach based on a determination of the enterprise's ability to exert a "decisive influence" on the market in a given instance. Similarly, the RSFSR draft defines dominant firms as those with a market share of from 35 to 70 percent or more.

There are also restrictions aimed at preventing "unfair competition." To this end, the draft laws and the decree prohibit practices like the dissemination of false or misleading information damaging to the reputation of another firm, the unauthorized use of a trademark, the unauthorized use or disclosure of confidential technical or trade information, and so forth.

A third set of restrictions is designed to prevent anticompetitive bureaucratic interference by "organs of economic power and management." Under the Gosnab and RSFSR drafts, prohibited administrative acts include impeding the establishment of new firms in any activity and ordering the priority delivery of goods to certain customers. In general,

¹⁹The wording used here is based on the Gosnab draft and the antimonopoly decree, which have virtually identical restrictions; the restrictions in the RSFSR draft are worded somewhat differently, but there is still considerable overlap and the content is basically the same.

²⁰This danger was highlighted in an interview with L. Yakovlev, the Gosnab official in charge of the working group that prepared the Gosnab draft (Gnidenko, 1990a, p. 9). When the interviewer questioned the use of restrictions on the ground that prohibition is a form of administrative control, Yakovlev replied that although such measures will provoke criticism from "circles of society" opposed to resolving economic problems through administrative methods, they must nonetheless resort to such measures.

these restrictions can be viewed as an attempt to control departmentalism and localism. The antimonopoly decree goes a step further. In an effort to remove the incentive for bureaucratic interference, Article 6 frees central economic organs and ministries from the functions of operative management of enterprises and direct supervision over the fulfillment of current economic tasks. It expressly provides that ministries are not accountable for the fulfillment of contracts concluded by enterprises. Article 6 is suspended, however, until the economy is stabilized and legislation on the functions and competence of central management organs is in place.

The two drafts and the decree call for the creation of an Antimonopoly Committee to enforce compliance with the law and to implement the government's antitrust policy. The Committee is empowered to issue orders to cease any violation of the laws proscribing monopolistic activity or unfair competition, and to restore conditions to their original state. Violations are punishable by the confiscation of "unjustified income" obtained as a result of monopolistic activity or unfair competition, and also by the imposition of liability for damages caused by the violation. Under both the Gossnab and RSFSR drafts, stiff fines are established for evasion of, or late compliance with, an order issued by the Committee. Enterprises are subject to fines of up to 500,000 rubles, and responsible officials in the enterprise or higher management organs are personally subject to fines of up to 1,000 rubles. Curiously, the fines are omitted from the interim antimonopoly decree, effectively depriving it of any teeth.

On the structural side, the Antimonopoly Committee also is empowered to order the breakup of dominant enterprises for engaging in monopolistic activity, or more generally for actions that lead to a substantial restriction of competition or otherwise disrupt the proper functioning of the market.²¹ Article 7 of the antimonopoly decree directs ministries and other government organizations to start the selective breakup of "highly monopolized enterprises" in 1990. It stipulates that the proposals of labor collectives must be taken into account, and that restructuring should be carried out where "production and technological conditions permit," and where "the economic expediency of such a reorganization is evident." Article 10 calls for combining the de-statization (*razgosudarstvleniye*) of enterprises with the demonopolization of production, in other words, dividing up state enterprises before they are privatized.

By putting the ministries in charge of carrying out the demonopoliza-

²¹ Under the RSFSR draft, the Committee's power to order the forced breakup of enterprises is subject to certain conditions. For example, the organizational or territorial isolation of the enterprise's units is required, and the units must not be closely interdependent in production. The Gossnab draft does not spell out analogous conditions for dividing enterprises, but certain industries or activities are exempt from the law as a whole, including electric power, construction, communications, and railroad and pipeline transportation. The exemptions for electric power, communications, and transportation may be justifiable on natural monopoly grounds, but not the one for construction.

tion of their own enterprises, the decree seems designed to ensure that little headway will be made in reducing concentration. One prominent Soviet jurist, writing in February 1991, judged the August 1990 anti-monopoly decree to be little more than a dead letter (Khalfina, 1991, p. 14).

The compromise reform plan approved on October 19, 1990 repeatedly calls for measures to demonopolize and develop competition in both the national economy and specific sectors. In Soviet usage, however, the term "demonopolization" is much debased. In the text of the reform program, demonopolization is used to mean not only the breakup of enterprises, but also regulatory restrictions to prevent abuse of a dominant market position (*Pravda*, October 18, 1990, p. 3). Shatalin's 500-day plan, from which much of the compromise plan was drawn, called for the complete and rapid dismantling of the branch ministries and the forced breakup of monopolies and large enterprises (*Transition*, 1990a, pp. 54-57). Even under the Shatalin plan, however, state-controlled prices would have been retained for wholesale markets dominated by one or a few sellers (Hewett, 1990/91, p. 159).

In sum, while an attempt to introduce competition into the Soviet economy by dividing large enterprises cannot be ruled out, neither does a far-reaching demonopolization seem very likely at the moment, especially given the present state of confusion in the economy and the consistency with which the present government has backed away from radical economic reforms. The government's current plans to regulate the pricing and trading practices of monopolies and dominant enterprises amount to a misguided effort to retain traditional administrative-command methods under the guise of antimonopoly measures.

Mergers

Like the breakup of dominant firms, merger control is an aspect of structural antitrust policy. Controlling mergers can promote competition by preventing the development of industrial concentration. In the past, U.S. antitrust policy has been marked by vigorous enforcement of anti-merger laws at the federal level, but federal enforcement relaxed considerably in the last decade. By contrast, enforcement of merger control laws in Western Europe and Japan traditionally has been lax relative to U.S. policy (Scherer and Ross, 1990, pp. 194-198). Indeed, mergers have often been promoted rather than discouraged outside the United States, especially in France and Japan.

The promotion of mergers was a prominent feature of Soviet industrial policy before 1985. Ironically, despite the shift to a market-oriented reform, merger policy under *perestroika* has so far shown a marked continuity with the past. Since assuming power Gorbachev has, like Brezhnev, supported or at least acquiesced in efforts to promote mergers. The most prominent new merger form is the socialist concern

(*kontsern*).²² The initial wave of concerns began in May 1988 when 33 Leningrad enterprises and other organizations withdrew from their respective ministries to form two interbranch state associations (MGOs), Energomash and Tekhnokhim (*Sotsialisticheskaya industriya*, May 31, 1988, p. 2). A third MGO based in Moscow, Kvantemp, was founded shortly thereafter (Romanyuk, 1989, p. 10; Gudilin, 1989, pp. 14-15). Over a year later, in the summer and fall of 1989, the liquidation and consolidation of a number of ministries led to a second wave of concerns merging enterprises from the same industrial branch. Prominent examples are the gas concern, Gazprom, and the nonferrous metals concern, Noril'sk Nickel.

In theory, the socialist concern is designed to increase the independence of its constituent enterprises by freeing them from subordination to their respective branch ministries. To this end, component enterprises join the concern voluntarily, and they remain legally and economically independent units operating on the basis of full economic accountability and self-financing. The economist Boris Mil'ner (1990b, p. 6), a prominent proponent of concerns, has claimed that approximately one-third of the functions previously performed at the ministry level have been completely eliminated, while others have been delegated to the member enterprises. Most of the functions that remain centralized are purportedly provided on a contractual basis as a service to member enterprises.

Critics charge, however, that concerns differ little from ministries. Two shortcomings of concerns are emphasized. First, the central administrative apparatus of the concern takes over many of the former functions of the ministry, leaving component enterprises with little or no more autonomy than before (Levchuk, 1989, p. 12). The Moscow MGO Kvantemp, for example, created a specialized firm to manage the allocation of supplies to its enterprises (*Izvestiya*, October 22, 1989, p. 2). The pressure for centralization of functions comes from Gosplan and Gossnab, which prefer to treat concerns as they would a ministry rather than dealing with member enterprises individually (Mil'ner, 1990c, p. 6; *Sotsialisticheskaya industriya*, September 3, 1989, p. 2).²³

Second, by merging enterprises engaged in similar lines of production, the concerns perpetuate, if not exacerbate, the monopolization of industry. Since the first concerns combined enterprises from different branches, their impact on horizontal concentration is uncertain. MGOs can be integrated vertically as well as horizontally. Energomash, for example, has a vertically integrated structure designed to unify successive stages in the manufacture of equipment for electric power. Soviet

²²Another merger form, the state production association (GPO), enjoyed an abbreviated existence in the early stages of *perestroika*. See Aslund (1989, pp. 118-119) for an account of the rise and subsequent demise of the GPOs.

²³For example, Energomash and Tekhnokhim encountered opposition from Gossnab when they tried to avoid centralizing the distribution of supplies by having Gossnab distribute supplies to their enterprises directly through its territorial supply organs (Levchuk, 1989, p. 12).

sources report, however, that the first MGOs or their member enterprises are the country's only producers of a range of products, and that their formation increased the degree of monopolization of certain products (Amurzhuyev and Tsapelik, 1989, p. 7; Levchuk, 1989, pp. 12-13; *Sotsialisticheskaya industriya*, May 31, 1988, p. 2).

The two drawbacks are more obvious in the case of concerns formed by merging enterprises from a single branch. The reorganization of the former Ministry of Building Materials is a blatant example. After the ministry was liquidated, seven socialist concerns were formed from 250 of its former subordinate enterprises (*Izvestiya*, October 10, 1989, p. 1). The seven concerns combine enterprises producing the same building materials, such as cement, asbestos, and glass.²⁴ The administrative structure and functions of the former ministry were resurrected under a new guise, the "association" (*assotsiatsiya*) of the building materials industry, which was established to represent the interests of the concerns with the Council of Ministers and various central administrative agencies (*Sotsialisticheskaya industriya*, August 9, 1989, p. 1). The association is projected to wither away as wholesale trade develops and contractual relations are established between the concerns and construction organizations.

The enterprises of the former Ministry of the Gas Industry (Mingazprom) were absorbed into a single state gas concern, Gazprom (*Sotsialisticheskaya industriya*, August 13, 1989, p. 1). The reorganization preserved the centralized management of the gas industry and the limited decision-making autonomy and financial independence of component enterprises. Similarly, the USSR Council of Ministers allowed five enterprises to withdraw from the Ministry of Metallurgy to form the nonferrous metals concern, Noril'sk Nickel (*Izvestiya*, November 12, 1989, p. 2). The decision was criticized for creating an absolute monopoly and the world's largest supplier of nickel (Gnidenko, 1989, p. 4).

Another of the new merger forms that has emerged under *perestroyka* is the consortium (*konsortsium*). Primary among these are the 23 interbranch scientific-technical complexes (MNTKs) established to accelerate the development of key technologies (Mil'ner, 1990c, p. 6). The MNTKs combine scientific research institutes, design bureaus, experimental production facilities, and pilot plants from different industrial branches in an effort to overcome departmental barriers to technological progress. Like the concerns and MGOs, the formation of MNTKs has the potential to create monopolies. In practice, however, the effectiveness of the MNTKs has been frustrated by the departmental barriers they were designed to overcome. The member enterprises remain subordinate to their respective ministries, and are dependent on the ministries for supplies of materials and equipment, financing, and other resources. By many ac-

²⁴The cement concern absorbed all cement enterprises, and the asbestos concern likewise merged all the asbestos combines in the country (Yasin and Tsapelik, 1990, p. 36; *Sotsialisticheskaya industriya*, August 18, 1989, p. 1).

counts, departmental barriers have been preserved, and branch priorities and tasks continue to take precedence over the goals of the MNTKs (*Sotsialisticheskaya industriya*, July 31, 1987, p. 2, December 30, 1988, p. 1, February 28, 1989, p. 1). As a result, the MNTKs may have a negligible impact on monopoly as well as on technical progress.

By the end of 1990, there were more than 120 concerns, about 50 MGOs, 1,420 associations (*assotsiatsii*), and 102 consortia (*Ekonomika*, 1991, p. 9). Such mergers are likely to continue in spite of controls aimed at preventing anticompetitive mergers. The August 1990 antimonopoly decree stipulates that mergers should not lead to the formation of associations with a dominant market position, and it charges the Antimonopoly Committee with conducting an investigation of existing concerns, MGOs, and associations with the aim of unmasking latent forms of monopoly (*O merakh po demonopolizatsii*, 1990, p. 2). The force of these provisions is diluted, however, by conflicting measures. The decree itself expressly endorses the new merger forms as a method of breaking the monopoly of the branch ministries. There also is a potential conflict with the merger provisions of the new 1990 law on enterprises. The law expressly permits enterprises to join together into concerns, associations, and other merger forms for the purpose of coordinating their activities (*O predpriyatiyakh*, 1990, p. 19).

The Gossnab draft law aims to build flexibility into Soviet merger policy by establishing a "rule of reason." The draft empowers the Antimonopoly Committee to prohibit mergers and other organizational changes that could restrict competition or create a dominant market position. Exemptions are allowed, however, where the merger would contribute substantially to savings in production or distribution costs, a decrease in unprofitable production, technological progress, an expansion in exports, or the "optimization" of purchasing on foreign markets (*O razviti*, 1990, pp. 37-38). In effect, the Antimonopoly Committee would be required to weigh the social benefits and costs of mergers in deciding whether to allow mergers to go through.

Under ideal circumstances, the flexibility of a rule of reason can result in an optimal merger policy. Economic analysis suggests that even modest savings in unit costs can rapidly outweigh the deadweight losses resulting from monopoly pricing (Williamson, 1968). To judge from West European experience, however, the likely result of a rule of reason in Soviet practice is a lax policy on mergers. Brezhnev's associations were rationalized as a means of reducing costs and promoting technical progress, but these benefits never materialized. A rule of reason would simply perpetuate the merger policy of the past.

Entry of Firms

An alternative to breaking up incumbent firms as a means of reducing industrial concentration is promoting the entry of new firms. According

to the theory of contestable markets, barriers to entry often arise from efforts to regulate markets, since regulatory agencies are inclined to create artificial impediments to entry (Bailey and Baumol, 1984, p. 111). The implication for policy is that competition often can be promoted by removing existing restrictions on entry.

Gorbachev's reforms have included measures that had the purpose and effect of promoting entry. Primary among these was the revival of the cooperatives, which had been largely dormant since the 1920s.²⁵ Soviet policy on cooperatives had as one of its key objectives the promotion of competition on consumer goods markets both among the cooperatives and between the cooperatives and state enterprises. The 1988 law on cooperation (*O kooperatsii*, 1988, p. 22) exhorted cooperatives to compete with state enterprises for state orders by striving to raise the quality of their products and to reduce their costs and prices. After the law was adopted, the cooperative movement mushroomed. There were 14,100 cooperatives at the beginning of 1988 (Jones and Moskoff, 1989, p. 29). By the end of 1990, the number of working cooperatives had grown to 260,000, and they employed over 6 million people (Ekonomika, 1991, p. 9).

Despite rapid growth in the number of cooperatives, the development of competition has been frustrated by two major factors. The most important is the progressive destabilization of the economy, especially in the consumer goods market. The growth of money incomes accelerated, while most retail and wholesale prices remained controlled. The resulting excess demand ensured that the prices charged by cooperatives were much higher than the prices of comparable goods in the state sector, and all but eliminated competitive pressure to raise the quality of their goods and services.²⁶ The combination of fixed state retail prices and mounting inflationary pressure also created countless opportunities for cooperatives to profit from speculation. The perception that cooperative members and employees earn relatively high incomes largely as a result of speculative activity fueled public resentment and hostility toward the cooperatives.

The second factor is the existence of barriers to entry and other restrictions on cooperative activity. By past Soviet standards, the original 1988 law on cooperation was remarkably free of formal legal restrictions on the formation of cooperatives, the fields of activity open to them, their size and ability to hire labor and set prices. Cooperatives were allowed to engage in any field of activity not proscribed by law. Although the original law required cooperatives to register with the local authorities, it

²⁵The discussion of cooperatives draws generally on the excellent survey on cooperatives by Jones and Moskoff (1989).

²⁶One poll of public opinion found that only one-third of the persons who patronize cooperatives considered the quality of their goods and services to be higher than that of analogous ones sold in state stores, 45 percent did not notice a difference, while the remaining 21 percent considered quality to be even worse in the cooperative sector (Golovachev, 1990, p. 12).

stipulated that the formation of cooperatives was not conditional on the permission of government agencies. Despite this safeguard, local officials obstructed the registration of cooperatives from the outset (Jones and Moskoff, 1989, pp. 30-31). Reports also abound of cooperatives being arbitrarily closed down by local officials, and of bureaucratic interference to prevent cooperatives from competing with state enterprises.²⁷ Entry into the cooperative sector has also been impeded by the great difficulty of obtaining access to operating premises, credit, and supplies of materials and equipment, the bulk of which have remained subject to centralized rationing. The lack of access to the official supply system forced cooperatives to rely on the black market, adding to their unsavory reputation with the public.

Compounding the above obstacles, subsequent additions and amendments to the original law on cooperation have been largely retrogressive. Under the amended law, cooperatives are prohibited from engaging in a range of activities, including certain types of medical treatment and also middleman activity (*Ekonomicheskaya gazeta*, No. 1, January 1989, p. 4; *Izvestiya*, October 21, 1989, p. 1). The most recent amendments, adopted in June 1990 and effective from October 1, 1990, authorize federal and republic legislatures to license cooperatives for the right to engage in certain activities (*Izvestiya*, June 24, 1990, p. 2). The June 1990 amendments also empower local officials to approve the formation of cooperatives, rather than merely registering them, thus legitimizing the obstructionism that had already been taking place (*Izvestiya*, April 9, 1990, p. 1). Earlier revisions tightened control over cooperative pricing by granting local officials greater authority to impose ceilings on the prices charged by cooperatives (*Izvestiya*, October 21, 1989, p. 1). Finally, the government's policy on taxation of cooperatives discouraged their development by allowing republics and local authorities to use their taxing authority to squeeze the cooperatives (Jones and Moskoff, 1989, pp. 36-37; *The New York Times*, March 2, 1990, pp. 1, 8).

In contrast with the original law on cooperation, the 1986 law on "individual labor activity" provided for only a modest relaxation of traditional restrictions on private enterprise (The Law, 1986, pp. 6-8). Opportunities were restricted to the range of activities listed in the law, and the permission of local authorities was required to open up a private business in permissible fields of activity. The law left intact the traditional prohibition on employing hired labor, and full-time participation was restricted to housewives, disabled persons, pensioners, and students. The new property law adopted in March 1990 paved the way for private ownership of small-scale factories and other small businesses by allowing

²⁷To cite one example, when the cooperative Orion underbid a state enterprise on an order to supply clothing labels to the association Trikotazh, the state enterprise complained to local state and Party authorities. Significantly, the state enterprise was forced to lower its price to Orion's bid, and Orion retained about 25 percent of the order. The members of Orion claimed that they could have offered an even lower price, but refrained for fear of being put out of business (Kozlov, 1989, pp. 18-19).

Soviet citizens to own means of production in order to conduct "individual and other economic activity" (*O sobstvennosti*, 1990, p. 14). Details were left to be hammered out in future legislation. After a long delay, the decree, "On Measures for Creating and Developing Small Enterprises," was adopted by the USSR Council of Ministers on August 8, 1990 (*O merakh po sozdaniyu*, 1990, p. 4).

The decree on small enterprises allows the independent founding of small enterprises by citizens, family members, and other individuals. Judged against the benchmark of the law on individual labor activity, the decree liberalizes Soviet policy on the private sector in several ways. First, it relaxes the traditional prohibition on employing hired labor by imposing ceilings on the number of workers private firms can hire. The maximum employment size is differentiated by sector: 200 in industry and construction, 100 in science and scientific services, 50 in other branches of production, 25 in the nonproductive sphere, and 15 in retail trade. The ceilings are liberal, but nonetheless arbitrary.²⁸ Second, the decree expands the fields of activity open to private businesses. It allows small enterprises of any ownership form to be created in all branches of the economy, and to conduct all forms of activity not prohibited by federal or republican legislation. Like the cooperatives, however, private businesses must obtain licenses to conduct activities subject to licensing. Third, the permission of local authorities is no longer required to start a private business, though private businesses are required to register with local authorities. Applications for registration of small businesses must be processed within two weeks, as opposed to the 30-day period for cooperatives. Although the decree does not empower local officials to approve the creation of small businesses as does the amended law on cooperatives, neither does it place precise limits on their ability to deny registration. Denial of registration on the ground of "inexpediency" is not allowed, but the same is true of the amended cooperative law. Complaints already have surfaced of local officials obstructing the registration of small private businesses.²⁹

Independent private businesses, like cooperatives, are evidently denied access to the central distribution of supplies (*Izvestiya*, August 9, 1990, p. 1). The decree merely admonishes Gosplan, other government agencies, and enterprises to ensure the sale of materials and equipment to small enterprises through "commercial centers" and small wholesale bases. There are, however, tax concessions aimed at stimulating the development of a small-business sector. The law on enterprise taxation, effective January 1, 1991, establishes special tax breaks and incentives for small

²⁸A loophole in the decree empowers republics to set comparable limits on the size of small enterprises in terms of their sales volume, and also to set lower ceilings on employment than those fixed in the decree. An earlier draft would have limited the number of workers private firms could hire to 10 (*Izvestiya*, April 1, 1990, p. 2).

²⁹See the letter from A. Lysenkov (*Ekonomika i zhizn'*, No. 51, December 1990, p. 7 of supplement).

enterprises (O nalogakh, 1990, p. 12).³⁰ Also, in an apparent effort to "jump-start" the small-business sector, the decree totally exempted newly created small enterprises from taxes on profits until the start of 1991. Significantly, cooperatives were excluded from the exemption.

In addition to establishing a legal basis for the development of a private small-business sector, the decree on small enterprises extends an earlier pair of measures aimed at promoting the formation of a sector of small state enterprises. Under a decree on the organization of the activity of small enterprises adopted in June 1989, large state enterprises and associations were allowed to create small subsidiary enterprises from individual shops, subdivisions, and other separable production units (*Sotsialisticheskaya industriya*, September 29, 1989, p. 2; Aleksandrov and Matveyev, 1990, p. 16). Local government organs and social organizations also were allowed to found small enterprises. In addition, under a set of amendments to the original law on the state enterprise adopted in August 1989, structural units and autonomous enterprises belonging to an association were granted the right, by a decision of their labor collectives, to withdraw from the association, provided that they observe the "contractual procedure" and other obligations established during the association's formation (*Izvestiya*, August 11, 1989, p. 1).

The small-enterprise reform grew out of an experiment conducted since 1987 in Estonia at enterprises engaged primarily in light industry and construction. The small state enterprise has been characterized as a "symbiosis" of a state enterprise and a cooperative (*Izvestiya*, January 2, 1990, p. 2). The small enterprise is subordinate to its founder and enjoys the privileges of state enterprises, notably access to centrally distributed supplies. Like a cooperative, however, the small enterprise is not subject to compulsory plan assignments, and is supposed to enjoy greater freedom to set prices and wages and greater financial independence than a state enterprise, while being subject to greater financial discipline. According to supporters, small state enterprises are more compatible with the existing economic mechanism than the cooperatives have been (*Izvestiya*, July 23, 1990, p. 2).

The aim of the small-enterprise reform is to reverse the Stalinist legacy of gigantomania. The Soviet press now extols small firms for their innovativeness, flexibility, responsiveness to consumers, and other putative economic virtues (*Izvestiya*, January 22, 1990, p. 1; Mil'ner, 1990a, p. 5). The inspiration for this shift in policy comes from the small business sector in capitalist countries, especially the United States, Italy, and Japan. The Soviets point to success stories like California's Silicon Valley and Apple Computer, and they want to transplant this experience to the

³⁰The concessions include: (1) tax allowances on profits channeled into capital improvement, the introduction of new technology, and training; (2) a two-year tax holiday for new small enterprises engaged in prescribed activities, including food processing, consumer goods production, construction, and innovation; and (3) tax deductions of 75 percent in the first year of operation and 50 percent in the second year for new small enterprises in other lines of activity.

Soviet economy (Yakutin, 1990, p. 12). Small enterprises also are seen as a way of combating monopoly.

Initial reports on the reform were upbeat (*Izvestiya*, January 2, 1990, p. 2). The Estonian experiment was touted as a successful demonstration of the efficiency of small state enterprises and their ability to promote demonopolization (*Sotsialisticheskaya industriya*, September 29, 1989, p. 2). Subsequent reports complained of slow growth in the number of small enterprises and of delays and red tape in registering small enterprises with local authorities (*Izvestiya*, July 23, 1990, p. 2). Attempts by enterprises and especially structural subdivisions to exercise their new right to withdraw from associations were impeded by the obstructionism of ministries and association directors, partly out of fear that the most profitable sub-units will withdraw, leaving only loss-making operations (Kornev, 1990, p. 10; Gnidenko and Ul'yanov, 1990, p. 12).

Building on the two 1989 measures, the decree on small enterprises provides for the creation of spin-offs from incumbent state enterprises in two ways: at the initiative of a state enterprise or other government agency or as a result of the separation of one or more structural units or subdivisions from an existing enterprise at the initiative of the unit's work collective. As before, separation of a sub-unit is conditional on the consent of the "owner" of the enterprise's assets, or an authorized representative, and also on the fulfillment of contractual obligations already accepted by the parent enterprise. The decree designates the parent enterprise from which the small enterprise separates as its founder. Directors of large enterprises and associations can, and reportedly do, exploit these conditions to retain partial control over units that are converted into small enterprises (Ul'yanov, 1990, p. 9; Berg, 1991, p. 9). Unlike independently founded small businesses, small enterprises created from subdivisions of existing enterprises are entitled to have access to allocations of centrally distributed materials through the founder. On the other hand, they are excluded from the tax concessions instituted for newly created small enterprises (O nalogakh, 1990, p. 12).

Subsequent measures aimed at stabilizing the economy may well undercut the impact of the decree in encouraging small business. The withdrawal of 50 and 100 ruble notes from circulation, and the decree authorizing the KGB to search the premises of businesses and inspect their records in order to combat "economic sabotage," are bound to undermine the confidence of would-be entrepreneurs (Schroeder, 1991, p. 8). Tax breaks will not persuade Soviet citizens to start new businesses if they are unable to accumulate wealth without fear of punishment.

In sum, Soviet policy on small business has been marked by glaring contradictions: on the one hand, the government institutes tax concessions and other incentives to encourage the development of small business and entrepreneurship, while on the other it imposes arbitrary restrictions that inhibit their development. The effort to promote the creation of small state enterprises is a futile attempt to simulate the

private small-business sector in the West. The thinking behind the decree on small enterprises was illustrated by an April 1990 interview with V. Vologzhin, then the chair of the USSR Supreme Soviet Committee for Economic Reform Questions. Having recently returned from a trip to study small business in the United States, Vologzhin described the dismay of the Soviet delegation when they realized how far the Soviet Union lags behind. According to Vologzhin, they asked themselves the question, "what is it that drives them?," and came to the conclusion: powerful government support (*Izvestiya*, April 1, 1990, p. 2).

Foreign Trade Reforms

Under the traditional foreign trade system, the state monopoly on foreign trade protected domestic producers from foreign competition. Despite reforms that have progressively delegated the right to conduct foreign trade transactions to enterprises and allowed them to participate in limited foreign currency auctions, domestic enterprises are still protected from import competition by a combination of import licensing and foreign exchange controls. Support for the idea of exposing domestic enterprises to foreign competition has been slow to develop (Hewett, 1989, p. 51). On paper, the antimonopoly decree adopted in August 1990 is a breakthrough. The decree exhorts central administrative agencies and governments at the federal, republic, and local levels to activate the use of foreign trade as a mechanism for stimulating competition on the domestic market (*O merakh po demonopolizatsii*, 1990, p. 3). To this end, it specifically recommends a strategy of targeting imports at raising competition in highly monopolized domestic markets. Like the provisions on competition among domestic producers, however, those on foreign competition have yet to be implemented.

Joint ventures were initially seen as a way to transfer Western technology, know-how, and quality control to the Soviet economy and thus expose other domestic enterprises to competition from products meeting world-class quality standards. But the growth of joint ventures is constrained by the inconvertibility of the ruble, combined with the great difficulty of obtaining access to reliable domestic sources of supply. The number of joint ventures is too small to have an appreciable impact on competition, and the vast majority of registered joint ventures have located in the service sector, as opposed to manufacturing (Vanous, 1990, p. 12).³¹ It is conceivable that quality control by the Western partner can assure that world standards are met on the venture's internal production line, but the quality of the final product also depends on the quality of incoming materials. In a sellers' market, it is difficult to get suppliers to

³¹About 3,000 joint ventures had been created by the end of 1990. However, only 42 percent of the total number of registered joint ventures actually carry out production activity or provide services (*Ekonomika*, 1991, p. 9).

meet customer specifications.³² According to one Soviet source, the goods produced by most joint ventures do not match the quality of foreign products (Rodina, 1990, p. 100). Excess demand also negates the effect of competition from joint ventures, since domestic enterprises have little difficulty selling what they produce on the domestic market regardless of quality. Further, because state enterprises can still generally expect to be protected from financial failure, loss of business to joint ventures would not necessarily induce them to improve the quality of their products. Joint ventures can make an appreciable difference in promoting competition only if the rest of the economy is liberalized.

THE ROLE OF ANTITRUST POLICY IN THE TRANSITION

Drawbacks of Antimonopoly Regulation

Economic theories of regulation suggest that regulation of pricing and other aspects of market conduct has inherent drawbacks as a means of inducing firms to behave efficiently. Asymmetric information is the root of the problem. The firm's managers are better informed than the regulator about cost conditions, and the regulator can monitor the firm's behavior only imperfectly. Price regulation under asymmetric information leads to imperfect incentives and consequently to inefficient outcomes (Vickers and Yarrow, 1988, pp. 92-101).

Despite the drawbacks, regulation to prevent "abusive conduct" by dominant firms is a standard antitrust remedy in Western Europe. This prompts the question: if capitalist countries use regulation to control monopoly conduct, what is wrong if the Soviet Union emulates this policy?

The West European approach is inappropriate for the Soviet economy for several reasons. First, the standard economic justification for West European antitrust policy generally does not apply to the Soviet Union. The regulatory solution may have some justification in smaller capitalist economies as a means of exploiting technological economies of scale. Most other capitalist countries have smaller domestic markets than the United States, and higher concentration levels may be required fully to exploit technological economies of scale. Historically, plant sizes abroad have tended to be much smaller on average, and the incidence of sub-optimal scale plants higher, than in the United States. In contrast, Soviet enterprises are already much larger on average than firms in the United States or other advanced capitalist economies. As emphasized earlier, enterprise size in the Soviet economy has been artificially inflated by

³²Andrew Rafalat, the executive who opened the two Pizza Hut restaurants in Moscow, reports that Soviet meat suppliers are "incredulous" when he asks them to meet his specifications: "They say, 'We're giving you a scarce product. We're doing you a favor'" (*The New York Times*, March 17, 1991, p. 2 of business section).

gigantomania, the suppression of private enterprise, and by the systemic bias toward large enterprises arising from the high cost of coordinating the economy from the center. To the extent that Soviet enterprises owe their large size to such artificial forces, rather than to technological economies of scale and market size, the efficiency justification for regulating dominant firms does not apply to the Soviet economy.

Second, the Soviet economy is far more concentrated than the capitalist economies of Western Europe; and Soviet enterprises, unlike firms in Western Europe, are not only completely sheltered from foreign competition, but they also operate in a sellers' market. As a result, the domain of price controls and other antimonopoly restrictions, and consequently their attendant drawbacks, would be much greater in the Soviet economy than in the West European economies.³³ Further, the inherent drawbacks of antimonopoly regulation are likely to be compounded by the incompetence of the existing Soviet bureaucracy.³⁴

Finally, whereas the West European countries already have functioning market economies, the Soviet Union has yet to make the transition from central planning to a market economy. Extensive price controls will impede the development of markets and competition. In this regard, the most compelling argument against price controls comes from Lipton and Sachs (1990, p. 101), who point out that a transitory period of monopoly prices can promote competition by attracting entry into the private sector. If monopolies are subject to price controls, the proper price signals will be absent. Use of regulation to prevent monopolies from charging excessive prices not only fails to create competition, but may actually prevent competition from developing and thus perpetuate the structural conditions that give rise to monopoly power.

Trustbusting and Demonopolization of the State Sector

In theory, the structural remedy is more effective than regulation in promoting competition because it eliminates the incentive for anti-competitive behavior, barring collusion among the units (Vickers and Yarrow, 1988, p. 238). The breakup of large state enterprises into smaller units is widely viewed as a promising method of introducing competition into socialist economies of the Soviet type. According to one common variant of this view, large state enterprises should be broken up, and then privatized, before prices are decontrolled in order to create a "critical mass" of competition that will induce enterprises to exercise their

³³This may partly explain Leonid Abalkin's puzzling assertion, in April 1990, that even more bureaucrats would be needed to oversee a regulated market economy than were used to run the old system of central planning (*The New York Times*, April 10, 1990, p. 1).

³⁴As Lipton and Sachs (1990, p. 88) put it, "it is naive to think of the existing bureaucracy as equipped, professionally or temperamentally, to implement sophisticated policies based on Western-style theories of the welfare economics of the 'second best'."

decision-making freedom efficiently (*The Economist*, April 28, 1990, special survey, pp. 21-22). Nikolay Petrakov has advocated a similar strategy.³⁵

Introducing competition prior to the freeing of prices is without question a desirable strategy. Whether the strategy is practicable, however, is dubious. Implicit in the proposed strategy is the premise that breaking up state enterprises can introduce competition into the Soviet economy without difficulty.

The antitrust experience of capitalist economies does not support that premise. As the earlier comparison of U.S. and West European policy toward dominant firms suggests, the structural remedy of breaking up incumbent firms is rarely used in capitalism. That in itself may be an indication that breaking up firms is not easy to do. The little experience there is with the structural remedy is not encouraging. In Japan, large industrial conglomerates (*zaibatsu*) were broken up by occupying forces after World War II, but they were restored in the form of the modern *keiretsu*, which now play a key role in protecting Japan's domestic market from foreign competition. Even in the United States, the one capitalist economy with a tradition of breaking up dominant firms, the impact of structural remedies in reducing concentration has been modest (Scherer and Ross, 1990, p. 480).

Analogies with capitalist experience can be misleading. Consider the British privatization program. After an initial wave of privatization in competitive industries, the program was extended to industries long regarded as natural monopolies, in which introducing competition by breaking up incumbent firms is impractical. That is not the problem in the Soviet economy, since the domain of monopolies and near-monopolies encompasses industries capable of operating under competitive conditions. More generally, the previous section suggested that the possible loss of scale economies made the structural remedy difficult to apply in many capitalist countries, whereas the artificially inflated size structure of Soviet enterprises does not present the same difficulty.

Nevertheless, introducing competition into the Soviet economy by breaking up state enterprises is bound to be difficult. In part, this is because industrial concentration is so high to begin with. The sheer number of enterprises that would have to be broken up in order to create a competitive industrial structure is a formidable obstacle to success.

Compounding the immensity of the task is the indivisibility of many industrial monopolies. Multiplant enterprises or production associations formed from geographically dispersed enterprises are easily divided into separate parts. As Petrakov has pointed out, however, heavy industry is

³⁵Petrakov asserted that "... the first thing to do before unrestricting prices is to create the right conditions for competition, without which there can be no price freedom. One of the first measures to be taken is therefore to demonopolize our economy, which is the most highly monopolized in the world because, in addition to technological monopolies, there are organizational monopolies—the ministries and very big enterprises, such as Intourist and Aeroflot which are well known abroad. However, to split Aeroflot into several companies, for instance, all we need is the political will. It is very easy to break organizational monopolies" (*Le Monde*, March 25, 1990, pp. 1, 41).

densely populated with what he calls "technological monopolies," that is, giant producers that are physically impossible to break up because they comprise a single giant plant or an enterprise situated on a single site (*Rabochaya tribuna*, April 24, 1990, p. 2).³⁶

Further, the existing system of bureaucratic coordination is likely to reject efforts to break up enterprises before the lifting of price controls. As noted earlier, the high cost of coordinating the economy from the center creates a systemic bias toward high concentration. As long as central controls on production and supply remain in place, the systemic bias toward high concentration will persist, and will tend to frustrate efforts to reduce concentration. The continuation of mergers in the initial stage of *perestroyka* is a manifestation of the link between central planning and high industrial concentration.

Finally, there are formidable political obstacles to the breakup of monopolies. The British experience with privatization is instructive on this point. British Telecom (BT) was not broken up before it was privatized, even though long-distance service is no longer regarded as a natural monopoly because of changing technology. One explanation is that selling BT with its monopoly intact raised its sales value and allowed the government to accomplish its major objectives of rapid privatization (which requires that shares be underpriced) and maximizing the proceeds from the sale (Vickers and Yarrow, 1988, pp. 235-236). Thus, privatization benefited shareholders and taxpayers at the expense of consumers. In addition, the contrast between the treatment of BT and the breakup of AT&T by U.S. antitrust authorities suggests that the lack of a national precedent or tradition for breaking up monopolies also weighed into the decision.

If politics and national tradition are important in shaping antitrust policy, that does not bode well for Soviet policy on trustbusting. Traditional Soviet attitudes and views on firm size and concentration are much closer to the West European antitrust tradition than to the procompetitive stance of U.S. antitrust policy. Notwithstanding the new rhetoric on the advantages of small firms, the view that large size promotes efficiency is still dominant and influential.

The sobering reality is that there is no historical precedent for the kind of far-reaching demonopolization that would be required to make the structure of the state sector competitive. Trustbusting has made an important difference in certain sectors and industries of the U.S. economy, but the United States is an outlier in its structural policy even

³⁶Petrakov further observed that "the second type of monopolism is technological. This is our notorious gigantomania. We always thought that a large plant is bound to be better than a medium or small one. We artificially propagated monopolists. An industrial giant that has already been built is impossible to break up into parts. This means that it will long remain a technological monopoly. . . . Fortunately, there are not so many of them in the light and food industries. Here it is easier to organize competition. But if you are talking about heavy industry, it is chock-full of such monsters—monopoly producers. And to speak about some kind of competition here is impossible. We will have to introduce price controls and antimopoly legislation" (*Rabochaya tribuna*, April 24, 1990, p. 2).

among other advanced capitalist economies. Although the breakup of large enterprises into smaller units may be able to produce some reduction in industrial concentration and could make an important difference in certain economic sectors, it is hard to believe that this policy could create a "critical mass" of competition in the Soviet economy, especially prior to the creation of a market. Indeed, in light of the obstacles to demonopolization noted above, postponing the liberalization of prices until after the state sector is demonopolized is likely to delay the creation of a market indefinitely.

Entry and the Expansion of the Private Sector

Given that no capitalist country except for the United States relies on the breakup of dominant firms to promote competition, and indeed that industrial policy outside the United States historically has tended to tolerate, and even actively support, monopolies, mergers, and cartels, what accounts for the development and survival of competition in capitalism? The answer lies in systemic features that advanced capitalist countries share in common. Primary among these is a sizeable private sector with large numbers of small- and medium-sized firms, in which entry and exit of firms is relatively free of state interference. As noted above, monopoly profits act as a signal to attract entry of new firms into the private sector, thereby promoting demonopolization. The lesson from capitalist experience is that the expansion of the private sector as a result of the entry of new firms may ultimately prove more effective than the restructuring of state enterprises as a method of promoting competition in the Soviet economy.

Support for this view comes from the strategy for the transition to a market economy proposed by Janos Kornai (1990, p. 36), based on the example of Hungary. Kornai focuses his analysis more on ownership than competition, and argues that the grass-roots development of independently founded private businesses is more important in creating a private sector than the privatization of state enterprises. As evidence of the vitality of the private sector, Kornai points to the way the Hungarian private sector, unlike the state sector, spreads spontaneously, without directives issued from above, and in spite of a multitude of arbitrary government restrictions, the hostility of the surrounding climate, and a historical legacy of suppression. Kornai stresses that people do not have to be coerced to enter the private sector. The mere removal and relaxation of state restrictions on private activity is sufficient to encourage its development.

Conventional wisdom holds that the Russian cultural tradition is hostile to private enterprise, or that seven decades of socialism have extinguished the entrepreneurial drive. Nevertheless, just like the private sector in Hungary and Poland, the Soviet cooperative movement has mushroomed, despite restrictive government policies and a hostile social

climate. With all their shortcomings, the cooperatives remain the only bright spot in Gorbachev's economic reforms to date.

The revival of the cooperatives had little if any influence in promoting competition, despite rapid growth in their numbers. That failure is attributable to the halfway nature of reforms in the rest of the economy, which loosened control over financial flows without creating markets. The resulting excess demand extinguished competitive pressure and made it difficult for cooperatives to obtain inputs. To promote competition, the lifting of restrictions on the private sector must be combined with effective macroeconomic stabilization measures and the decontrol of prices. The stabilization package should include the elimination of most subsidies and the tightening of credit to state enterprises, so that state enterprises face a real threat of financial failure if private firms enter and take away their business.

Additional measures may be necessary to ensure that small private businesses have access to the credit they need to get started. In Poland, rapid stabilization and liberalization were successfully carried out, but the amount of credit given to the private sector by the banking system is disturbingly low (Lipton and Sachs, 1990, p. 131). Western aid could play a useful role in encouraging the private sector by providing entrepreneurs with start-up capital.

The above considerations further undermine the proposition that demonopolization of the state sector is a prerequisite for the liberalization of prices. Postponing the transition to the market until after the breakup of state enterprises would actually inhibit competition by impeding the development of the private sector. Encouraging the expansion of the private sector is by no means an easy way of introducing competition into the Soviet economy, but it seems to me a far more promising approach than trying to restructure and deconcentrate the state sector.

Implications for the Role of Import Competition

Some analysts have suggested that import competition is not an essential method of promoting competition in the Soviet economy in particular or in reforming socialist economies in general. Two versions of this argument will be considered here. One rests on the difference in size between the Soviet economy and the economies of Eastern Europe. According to this view, whereas import competition is essential to the success of reforms in the East European countries because of their small size, the Soviet economy is sufficiently large and diverse to reform successfully without first opening up to foreign trade (Hewett, 1990, p. 79). The alternative version is based on the infant-industry argument for protecting domestic industries from foreign competition, particularly as exemplified by the postwar experience of Japan (Whitesell, 1990, pp. 2-3). According to this view, since all sectors of both the Soviet economy and the East European economies have an absolute disadvantage relative to

world standards, the entire economy should initially be protected from foreign competition with a deliberately undervalued exchange rate to make imports artificially expensive and a ban on almost all direct foreign investment. A necessary complement to this protectionist trade policy is a strong antitrust policy to promote competition in the domestic economy.

This author is sympathetic to the concern that a sizeable share of the state sector would not long survive competition from foreign producers. It may be unrealistic to suppose, however, that competition can be stimulated rapidly without opening up the economy to imports. Even though the Soviet economy is much larger than the individual East European economies (and will remain so even if most of the non-Russian republics secede), at present it is just as concentrated and monopolized as the smaller East European economies, if not more so. In that sense, it is hard to see why it will be any less difficult to promote domestic competition in the Soviet Union than is the case in Poland, Hungary, or Czechoslovakia.

As for the infant-industry argument, postwar Japan may be a misleading role model for the Soviet Union. Japan's industrial structure was far more conducive to domestic competition to begin with. Japanese industry has a "dual structure," comprising a highly oligopolized sector of large firms and a much larger sector of smaller firms. An international comparison of the size structure of firms concluded that the size structure in Japan is much smaller even than that in capitalist countries with a small-type size structure (Ehrlich, 1985, pp. 275, 284). Even within the oligopolized sector, despite a high propensity toward cartelization that has been encouraged by industrial policy, large firms are prone to intense rivalry and competition for market share (Yamamura, 1986). As a result, Japan did not have to supplement its protectionist trade policy with a strong antitrust policy to promote domestic competition.

The complement to Japan's protectionism was not a strong antitrust policy, but rather an export-promotion strategy that pressured domestic producers to compete on foreign markets. Critics justifiably charge that the combination of protectionism and oligopolistic collusion gave Japanese producers an unfair advantage over foreign rivals by allowing them to charge high prices on the domestic market while offering low prices on competitive foreign markets. Apart from protectionism, however, Japan's competitive edge derives from innovative manufacturing techniques, such as just-in-time inventory control, which permit Japanese producers to produce high-quality products at a low cost. Even allowing for the fact that Japanese manufacturing once had a reputation for producing shoddy products, it may be optimistic to suppose that the Japanese strategy is transferable to the Soviet Union.

Both versions of the argument share the common premise that antitrust policy can promote domestic competition in reforming economies in a rapid and effective manner. Contrary to this assumption, the considerations outlined in the two previous sections suggest that domestic com-

petition may well develop at a relatively slow pace in the early phase of the transition to a market economy. In part, this follows from the contention that breaking up incumbent state enterprise is not likely to prove very effective in promoting competition. In addition, although it was argued that the expansion of small- and medium-sized firms in the private sector will ultimately prove very effective in promoting competition, this process could take a long time. The implication is that import competition, along with competition from joint ventures and wholly foreign-owned companies, may be necessary to constrain the market power of domestic enterprises in the interim.

Also implicit in both versions is the premise that antitrust policy is a good substitute for import competition. The historical experience of capitalist countries casts doubt on the validity of this assumption. Consider, for example, the U.S. auto industry. U.S. automakers operate under the most procompetitive antitrust policy in the world, but casual observation suggests that competition from Japanese automakers has been far more effective than antitrust policy in pressuring U.S. automakers to cut costs and improve quality. Many other examples could be cited. In capitalism, as in socialism, real market competition cannot be simulated by artificial regulations.

If there is a role for antitrust policy in the transition from central planning to a market economy, it is one of secondary importance. Macroeconomic stabilization, the liberalization of prices and private enterprise, and the creation of a convertible ruble are far more promising methods of promoting competition than either regulatory or structural antitrust remedies. The Soviet government's current reform strategy calls for demonopolization to precede the transition to the market. That sequence looks good on paper, but in reality it is putting the cart before the horse. In a recent critique of the notion that Western antitrust law is transferable to the Soviet economy, the Soviet jurist R. Khalfina (1991, p. 14) warned that an attempt to graft antitrust law onto the present system, without solving the real organizational and legal problems of creating a functioning market economy, can only divert attention from those problems and create an illusion of progress toward the market. It can only be hoped that Khalfina's criticism foreshadows a reevaluation of the new Soviet thinking on monopoly and the painfully slow transition strategy the new thinking has been used to justify.

Afterword

As this study goes to press, the Supreme Soviet has just approved a program for bringing the economy out of the crisis. The draft of the program issued by TASS includes a mix of regulatory and structural antitrust remedies (Moscow TASS International Service in Russian, 1445 GMT, April 9, 1991). After expressing the intention of completing the staged transition to primarily free price formation by October 1, 1992,

the draft calls for the introduction of a special mechanism for regulating and limiting prices for output from monopoly producers. On the structural side, the draft calls for multiplying the number of producers both by breaking up monopolies "where expedient" into smaller units, and by measures aimed at promoting the expansion of cooperatives, family businesses, and other non-state economic entities, and also small enterprises. Support for the development of competing firms is supposed to come in part from the confiscation of "unlawfully obtained" profits from monopoly producers. In common with earlier measures, the program is based on the premise that a competitive industrial structure can be created by bureaucratic fiat, rather than developing as a consequence of market forces.

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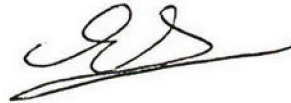
ERNEST STERN
Senior Vice President
Finance

September 24, 1991

Mr. Underwood

I am writing to you because you are the one noted as the contact person regarding the Board paper on "Comparison Between Fiscal Year and Calendar Year IBRD Disbursements Data". If by chance my comments are misdirected, please pass them along to the right person.

I was surprised that the paper cites the World Debt tables as the source of IBRD net disbursements. It seems to have escaped attention that Finance issues, in July and January of each year, 5-year time series on disbursements, amortization and net disbursements on a fiscal and calendar year, respectively. These documents are distributed widely in the Bank and to the Executive Directors, and they should represent the definitive source on these data.



cc: Mr. Kavalsky
Mr. Eccles

TRANSMISSION CONFIRMATION REPORT

No.=000463

DATE/TIME	SEP 25, 1991 2:12PM
DURATION	1m 6s
TRANSMITTER (FROM)	WB FINSV 202 477 6658 202 477 6658
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RESULT	OK
COMM. MODE	G3
RESOLUTION	NORMAL

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The World Bank
Washington, D.C. 20433

Office of the Senior Vice President, Finance

Fax: (202) 477-6658
Phone: (202) 458-2004

Facsimile Transmittal Form

DATE: September 25, 1991

No. of Pages: 2
(including this page)

TO : Mr. Gazi Ercel
Managing Director
Turkiye Tutunculer Bankasi AS
Istanbul, Turkey

FAX #: (90-1)172-4110

FROM: Ernest Stern

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

ERNEST STERN
Senior Vice President
Finance

September 25, 1991

Mr. Gazi Ercel
Managing Director
Turkiye Tutunculer Bankasi AS
Yildiz Posta Caddesi No. 21
Istanbul, Turkey

Dear Mr. Ercel,

Your good wishes are very much appreciated as were the lovely flowers.

The changes in the World Bank's senior management structure are intended to streamline the processes by removing one layer, so that we can respond more effectively to the needs of our borrowers. I believe we can make this work successfully.

Again, many thanks.

Sincerely,

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

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

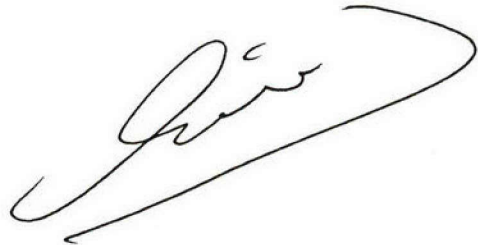
ERNEST STERN
Senior Vice President
Finance

September 25, 1991

Mr. Eccles
Mr. Wood
Mr. Roth
Mr. Koch-Weser
Mr. Santiago
Mrs. Scherr
Mr. Steyer
Mr. Mossop

FINCOM IT Function

Regarding Clem's September 19 memo and subsequent correspondence, he and I have spoken and I would appreciate it if you would take no further action on this matter until after the Annual Meetings. We will take up the issue then and decide on a mutually agreeable locations(s) for this function.

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

OFFICE MEMORANDUM

DATE: September 25, 1991

TO: Messrs. Moeen A. Qureshi, OPNSV, and Wilfred Thalwitz, PRESV

FROM: Ernest Stern, FINSV - *ES*.

EXTENSION: 82004

SUBJECT: IDA Reflows -- Proposed Policy for Eligibility in the Fifth Dimension

This was approved on an no objection basis by the FPC. It is proposed that this policy will be incorporated in a memorandum to the Board on FY92 annual allocations which OPS is preparing. A small change has been made in paragraph 5(d) in response to comments received. This allows for contingent allocations for countries which are not yet eligible.

cc: Messrs. Shihata, Wood

BKavalsky:ml

IDA REFLows

PROPOSED POLICY FOR ELIGIBILITY IN THE FIFTH DIMENSION

1. The Executive Directors approved, on September 23, 1988, a set of recommendations which enabled the Association to make credit commitments against resources expected from future reflows.¹ Such commitments were to take the form of "advance commitments" or "annual allocations". The first form of commitment would be made as normal IDA credits to supplement resources provided by IDA donors under the regular replenishments. The second form of commitment, also known as the "Fifth Dimension", was to supplement existing adjustment credits to IDA-only countries with outstanding IBRD debt and disbursed for the same purposes as the underlying credit.

2. Since September 1988, the only country with IBRD debt which has entered into the "IDA-only" status is Nicaragua. The LAC region has raised the possibility of moving Honduras out of the blend category and into IDA-only status. This would permit Honduras to receive a substantial amount of Fifth Dimension resources because of its sizeable IBRD debt. When the Fifth Dimension was designed, the approach toward new entrants was not considered. The purpose of this note, therefore, is to review the policy for eligibility of annual allocation (Fifth Dimension) credits.

3. Background: When the use of IDA reflows was first discussed by the Board, there were 17 countries in the IDA-only category with outstanding IBRD debt. At the end of FY88, the outstanding IBRD debt of these countries stood at \$2.9 billion. The Fifth Dimension scheme was expected to cover 43% of the interest payments on this debt. It was also seen to be self-limiting as the bulk of the IBRD loans to those IDA-only countries was scheduled to be repaid by the end of the 1990s. In fact, by FY99, the IBRD interest payment was projected to be only \$38 million. (Attachment 1 shows the original IBRD interest projections).

4. During the FY89-91 period, IDA made supplementary credits under the Fifth Dimension to 14 countries amounting to SDR 273 million. (Attachment 2 shows the details by country and fiscal year.) Because not all IDA-only countries met the criteria for obtaining funding under the Fifth Dimension, the scheme covered almost 60% of the IBRD interest payments of countries eligible for the credits in FY89-90.² Coverage increased to 95% in FY91 because of a substantial increase in the total Annual Allocation for that year. For FY92, a total of SDR 118 million has been approved by the Board for overall Annual Allocations. In FY90, Sri Lanka, which was already an IDA-only country, put in place an adjustment program thereby making it eligible for

¹ The Use of IDA Reflows, IDA/R88-106, dated September 16, 1988.

² This supplementary allocation is extended only to countries that (a) are current in their debt service payments to both IBRD and IDA; and (b) have IDA-supported adjustments programs.

Fifth Dimension credits in that year. Sri Lanka's eligibility was conditioned on dropping the IBRD loans which were in the lending program at that time.

5. Proposed Policy Framework: The possible decision to make Honduras IDA-only has raised the issue of how to treat new entrants into the Fifth Dimension for which the Bank has recently approved or planned future IBRD loans. Since the Fifth Dimension policy went into effect, Honduras has had one IBRD loan (SAL II for \$90 million, approved on September 17, 1990). To avoid the appearance of having undertaken new IBRD obligations with a view that part of these obligations could be refinanced under the Fifth Dimension, we recommend adopting the following framework for establishing eligibility:

- (a) First, limit the IBRD debts included in the scheme to those approved by the Board prior to the adoption of the Fifth Dimension policy (September 23, 1988). Thus, Fifth Dimension credits would only cover interest on loans approved prior to this "cut-off" date. This would have no effect on existing recipients.
- (b) Second, supplementary credits under the Fifth Dimension would not be made within [twelve] months of the most recent IBRD loan.
- (c) Third, to be eligible, a country's lack of creditworthiness for IBRD lending must be satisfactorily demonstrated. The Fifth Dimension is intended for countries which remain IDA-only for an extended period of time.
- (d) Fourth, where a country is expected to become eligible in the course of the fiscal year, it is the practice to make a contingent allocation for that country. If the annual allocations have been approved and no contingent allocation has been made, a newly eligible country will have to wait until the following fiscal year to commence receiving Fifth Dimension credits.

6. Application of the Proposed Policy: The allocation of funds for the supplementary credits is a two-step procedure. The total allocation for the fiscal year is approved by the Executive Directors at the beginning of the year. Individual country level allocations are approved subsequently. They depend upon the size of the total allocation and the number of eligible claimants in that given year. The current practice is to allocate the total funds to the eligible countries in proportion to the interest due on their outstanding IBRD loans for that year.

7. For FY92, the approved total allocation is SDR 118 million. The individual country allocations have not yet been determined. If Honduras becomes an IDA-only country in FY92, it would be eligible to obtain a part of the FY92 total Allocation with respect to interest payments due on its IBRD loans made prior to September 23, 1988. To illustrate, if all eligible countries received a Fifth Dimension allocation in proportion to outstanding IBRD interest the interest due on IBRD loans, the projected interest payment due from Honduras of \$39 million (SDR 30 million) would translate into a Fifth Dimension allocation of SDR 22 million. In this illustrative case, the

percentage coverage of IBRD interest in FY92 for the likely recipients would decrease to about 75% if Honduras joins the Fifth Dimension group. Attachment 3 details the likely allocations by country with and without Honduras in the group.³

8. Apart from Honduras, other countries with significant amount of IBRD debt are unlikely to qualify for the Fifth Dimension unless their present macroeconomic conditions change considerably. The most likely candidate is Cote d'Ivoire. The potential impact of Cote D'Ivoire's entry into Fifth Dimension is discussed in Attachment 4. If countries, like Cote D'Ivoire, become eligible for Fifth Dimension funds, then the allocation criteria may have to reconsidered to preserve an equitable distribution among all recipients.

Attachments

³ The allocations have to be cleared by the Regional offices. Eligibility is also dependent on having adjustment credits in place and being current in payments to the Association.

IBRD DEBT OF IDA-ONLY COUNTRIES a/
Interest Projections
(US\$ million)

COUNTRY	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Bangladesh	4.2	4.0	3.8	3.7	3.5	3.3	3.1	2.8	2.6	2.3	2.0
Bolivia	19.9	18.0	16.1	14.2	12.3	10.4	8.5	6.7	4.8	3.2	2.1
Ethiopia	2.9	2.3	1.9	1.4	0.9	0.5	0.3	0.2	0.1	0.0	0.0
Ghana	11.1	10.2	9.2	8.3	7.3	6.3	5.2	4.3	3.3	2.6	1.9
Guyana	6.3	5.6	5.0	4.4	3.9	3.4	3.0	2.6	2.1	1.7	1.3
Kenya	90.2	86.0	79.8	72.3	64.4	56.1	47.3	38.9	31.0	23.4	16.5
Ken., Tanz., Uga.	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liberia	7.7	7.0	6.3	5.6	4.9	4.2	3.5	2.7	2.0	1.3	0.7
Madagascar	2.3	2.1	1.9	1.7	1.5	1.3	1.0	0.8	0.5	0.2	0.1
Malawi	8.8	8.8	8.6	8.1	7.5	6.8	6.0	5.2	4.4	3.5	2.7
Senegal	9.2	8.3	7.4	6.5	5.5	4.6	3.6	2.7	1.9	1.2	0.7
Sierra Leone	0.7	0.6	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.1
Sri Lanka	8.4	8.8	9.0	8.9	8.5	8.0	7.4	6.6	5.8	5.0	4.1
Sudan	2.2	1.6	1.1	0.7	0.4	0.3	0.2	0.2	0.2	0.1	0.1
Tanzania	21.0	18.7	16.4	14.1	12.0	9.7	7.5	5.5	3.9	2.7	1.9
Togo	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Uganda	2.9	2.6	2.2	1.8	1.4	1.0	0.6	0.3	0.2	0.1	0.0
Zambia	38.0	34.9	31.4	27.5	23.4	19.3	15.4	11.9	8.7	5.9	4.0
Total Interest	236.3	219.8	200.7	179.6	157.7	135.5	112.9	91.6	71.7	53.3	38.2

Memo:

Total Debt Outstanding and Disbursed	2,876.3	2,640.1	2,374.3	2,100.5	1,819.4	1,530.9	1,257.0	998.5	756.5	548.0	385.5
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a/ Excluding loans with special security arrangements for ensuring debt service

Note: Extracted from Annex 2 of "The Use of IDA Reflows", IDA/R88-106,
dated September 16, 1988

Attachment 2

ANNUAL ALLOCATIONS FINANCED BY REFLWS

	FY89	FY90	FY91
Approved Allocations As Approved by Board	-----	-----	-----
SDR million	78	73	130
IBRD Interest Coverage (%)	43	43	90
Countries that met criteria	10	12	14
Committed amounts	SDR m	SDR m	SDR m
-----	-----	-----	-----
Bangladesh	1.9	1.8	2.5
Bolivia	9.2	7.3	10.4
Ghana	5.1	4.6	6.0
Guyana		2.6	3.1
Kenya	41.4	35.3	48.2
Madagascar	1.1	0.9	1.2
Mauritania (enclave)			2.9
Malawi	4.0	3.8	5.1
Senegal	4.2	3.5	5.1
Sri Lanka		3.5	5.0
Tanzania	9.7	8.3	11.5
Togo	0.1	0.2	0.0
Uganda	1.3	1.2	1.5
Zambia			19.4
	-----	-----	-----
	78.0	73.0	121.9
Actual interest coverage	59.7%	58.3%	95.0%

Reserve funds set aside but not used (in FY91):	SDR m
-----	-----
Nicaragua	7.7
Sierra Leone	0.4

	8.1

Eligible IDA-only countries that did not have IDA-supported adjustment programs:		
7 in FY89	5 in FY90	3 in FY91
-----	-----	-----
Ethiopia	Ethiopia	Ethiopia
Guyana		
Liberia	Liberia	Liberia
Sierra Leone	Sierra Leone	
Sri Lanka		
Sudan	Sudan	Sudan
Zambia	Zambia	

POTENTIAL ALLOCATION OF FIFTH DIMENSION CREDITS IN FY92

	Projected Interest Payments to IBRD in FY92 \$ m	Annual Allocations Without Honduras				Annual Allocations With Honduras			
		Eligible		Ann. Alloc. Credits (92.9%) SDR m	% of Total Allocation For FY92	Eligible		Ann. Alloc. Credits (75.4%) SDR m	% of Total Allocation For FY92
		IBRD Interest				IBRD Interest			
		\$ m	SDR m	\$ m	SDR m	\$ m	SDR m		
Ethiopia	1.3	1.3	1.0	0.9	0.8%	1.3	1.0	0.7	0.6%
Ghana	7.6	7.6	5.8	5.4	4.5%	7.6	5.8	4.3	3.7%
Kenya	60.8	60.8	46.1	42.8	36.3%	60.8	46.1	34.7	29.4%
Liberia a/	6.0								
Madagascar	1.6	1.6	1.2	1.1	1.0%	1.6	1.2	0.9	0.8%
Malawi	6.5	6.5	4.9	4.6	3.9%	6.5	4.9	3.7	3.1%
Mauritania	3.1	3.1	2.3	2.2	1.8%	3.1	2.3	1.8	1.5%
Senegal	5.5	5.5	4.2	3.9	3.3%	5.5	4.2	3.1	2.7%
Sierra Leone a/ b/	0.4	0.4	0.3	0.3	0.2%	0.4	0.3	0.2	0.2%
Sudan	0.7	0.7	0.5	0.5	0.4%	0.7	0.5	0.4	0.3%
Tanzania	13.8	13.8	10.5	9.7	8.2%	13.8	10.5	7.9	6.7%
Uganda	1.7	1.7	1.3	1.2	1.0%	1.7	1.3	1.0	0.8%
Zambia	24.9	24.9	18.9	17.5	14.9%	24.9	18.9	14.2	12.1%
Others c/	1.0								
TOTAL AFRICA	134.9	127.9	96.9	90.0	76.3%	127.9	96.9	73.1	61.9%
Bangladesh	3.6	3.6	2.7	2.5	2.1%	3.6	2.7	2.1	1.7%
Sri Lanka	6.5	6.5	4.9	4.6	3.9%	6.5	4.9	3.7	3.1%
TOTAL ASIA	10.1	10.1	7.7	7.1	6.0%	10.1	7.7	5.8	4.9%
Bolivia	12.9	12.9	9.8	9.1	7.7%	12.9	9.8	7.4	6.2%
Guyana	3.9	3.9	3.0	2.7	2.3%	3.9	3.0	2.2	1.9%
Honduras	43.0					39.0 d/	29.5	22.3	18.9%
Nicaragua a/ b/	12.8	12.8	9.7	9.0	7.6%	12.8	9.7	7.3	6.2%
TOTAL LAC	72.6	29.6	22.4	20.8	17.7%	68.6	52.0	39.2	33.2%
ALL REGIONS	217.6	167.6	127.0	118.0	100.0%	206.6	156.5	118.0	100.0%

a/ -- In non-accrual as of July 31, 1991.

b/ -- Assumes that Nicaragua and Sierra Leone settle their arrears in FY92.

c/ -- Includes loans to EAC, Ivory Coast/Upper Volta, IVC/Ghana/Togo.

d/ -- Based on interest due IBRD for loans approved prior to September 23, 1988.

22-Aug-91

FRMRP

FILENAME:REFLOWS/AAFY92

**IMPACT OF OTHER COUNTRIES ENTERING INTO IDA-ONLY STATUS
ON COUNTRY LEVEL ALLOCATIONS OF FIFTH DIMENSION FUNDS**

Among the countries with large outstanding IBRD debt which could qualify for Fifth Dimension credits, Cote D'Ivoire's is the most likely candidate, provided it undertakes the necessary macro-economic adjustment and reform programs. Its entry into IDA-only status will introduce significant distortions in the allocation of Fifth Dimension funds to individual countries if it is done on a proportionate basis to the total amount of qualified IBRD interest outstanding. To illustrate, Cote D'Ivoire has a total of about \$141 million IBRD interest due in FY92 for all loans committed through June 30, 1991. Of this amount, about \$107 million applies to all loans made before the cut-off date of September 23, 1988. If Cote D'Ivoire enters IDA-only status, this \$107 million of IBRD interest would be eligible for Fifth Dimension financing. Should this materialize, Fifth Dimension coverage of IBRD interest, based on a proportionate allocation of the total allocated SDR 118 million for FY92, would decline considerably in terms both aggregate and individual country level coverage. Without Honduras, the coverage would be about 93%; with Honduras, about 75%; and, with Honduras and Cote D'Ivoire, about 50%. In that case, the allocation criteria may have to be reviewed.

The other less likely candidates are Egypt, Philippines and Zimbabwe. The amounts of IBRD interest due for these countries in FY92 are: Egypt - US\$ 141 million; Philippines - US\$ 307 million; and Zimbabwe - US\$ 34 million.

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

ERNEST STERN
Senior Vice President
Finance

September 26, 1991

Mr. Yavuz Canevi
Euro Turk Bank
Büyükdere
Cad. Yap 1 Kredi Plaza
C Blok Kat No.8
Levent 80620
Istanbul
TURKEY

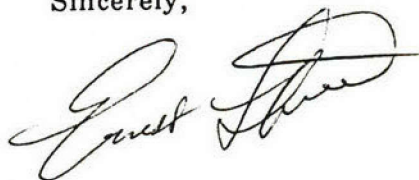
Dear Mr. Canevi:

I very much appreciated your good wishes and the lovely flowers accompanying them.

The restructuring of our senior management is intended to streamline our operations, delegate authority and, thus, permit more rapid decisions. It will be an exciting challenge to try and make this work.

With best personal regards.

Sincerely,

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

OFFICE MEMORANDUM

9-173
9-24-91

DATE: September 23, 1991

TO: Files

FROM: Michael E. Ruddy, ACTDR

m e r

EXTENSION: 81664

SUBJECT: September 5, 1991 Meeting with FAC on Outstanding Invoices

✓ Mr. Ruddy
I certainly
concur with
E.
9/26/91

1. On September 5, 1991, Mr. Lafourcade and I met with Mr. O'Quin (Sous Director des Affaires Multilaterales), two members of his staff, and an Accountant for the Ministry of Finance responsible for clearing payments authorized by FAC. At the outset of the meeting, I explained to Mr. O'Quin that when I came to my current position one year ago, it was brought to my attention that our books showed approximately \$1 million in outstanding receivables from FAC, going back to 1989, and the Bank had not been paid anything for over one year. I told Mr. O'Quin that on investigation we found that FAC had raised billing issues on a number of items billed (i.e., issues of amounts, or dates, or number of days billed being at variance with what FAC had approved in correspondence), and where an item was at issue the whole bill had been held. In a number of cases, the issue was that FAC had not received a copy of the Consultant's final report.

2. I explained that the Bank had taken a number of steps in the fall of 1990 to resolve these issues. Specifically:

- o a number of processing changes, that would better link FAC's authorization to subsequent Bank billing, had been put in place;
- o the Accounts Receivables staff had been instructed to bill FAC only for what had been authorized by them in the clearance cables, not the actual cost of the Consultant as approved by the Region, the Region to absorb any amounts over what had been authorized by FAC; and
- o Mr. Birnbaum made a significant effort to locate and provide copies of reports identified by FAC as "missing documentation." In most cases this meant providing, according to Bank records, duplicate submissions to FAC.

3. Notwithstanding this substantial effort, and the extensive correspondence on the specifics of this issue over the past year, we now (one year later) find ourselves with receivables due from FAC of \$1.6 million (plus \$400,000 in advance payments to pre-fund FY91 charges). A second year has gone by without any payments from FAC on its account. I asked Mr. O'Quin if he could explain why the French Government was not paying its bills and noted that the current situation is untenable to the Bank.

4. Mr. O'Quin said that substantial improvements in the billing had been made in the past year and that FAC had approved some \$800,000 in payments on 1990 and 1991 bills several months ago but, unfortunately, because of a change in senior personnel, the documentation had to be reprocessed and resubstantiated by FAC. He said the Bank would receive this \$800,000 by the end of September 1991. I said that while I appreciated the \$800,000, it represented less than half of all outstanding bills and made no allowance for the advance payment of \$400,000 for 1991 I understood had been agreed. Mr. O'Quin responded that the French

version of the agreement does not make the advance payment obligatory, but a revised agreement (currently being finalized) provides for advance payment of 90% of the estimated cost of the agreed program. He promised to send a draft of this new agreement to me by the end of September 1991.

5. We returned to the discussion of the \$800,000 in 1989 and early 1990 bills that had not been paid. Mr. O'Quin said these bills predated his administration and that if documents had been sent to substantiate these claims, they had been lost. I said I could understand if a few documents had not been supplied, but it was inconceivable that we were unable to supply the documentation required on over half of our bills. I said, I had discussed this issue with Mr. Birnbaum and had his assurance that the documents at issue had been sent, often more than once. I asked Mr. O'Quin to do two things to help resolve the problem of the old bills:

- o first, I asked him to review the list of transactions at issue to see if the documentation available to FAC, together with executive judgment, could not be used to approve payment and in this way reduce the number of cases to be resolved; and
- o to send me a list of the specific transactions where the documentation required is so faulty that further substantiation by the Bank is required.

6. I asked for this list of specific transactions by the end of September a/ and told Mr. O'Quin that, if necessary, once we had pulled the missing documents together, I was willing to fly to Washington the person in the French Government who had authority to decide if the documentation we provide resolves this issue. Where the Bank cannot substantiate the claims, I said I would write off the receivables. No agreement was reached on this offer, but Mr. O'Quin said he would send the list of transactions at issue, with a notation on each as to what is missing, by the end of September.

7. With respect to future billings, I asked Mr. O'Quin to let me know exactly what information our invoice had to carry and what documentation was required to have them paid by the Government of France on a businesslike and timely manner. He said he would review their requirements and provide this information. One thing, he said, that is causing a problem is that FAC agree to dollar Consultant appointment figures, assuming a certain exchange rate, and when the actual bill is received, the exchange rate is at variance with their commitment figures. I said they should approve a FF figure, and we would bill them in FF at the rate they approve, even if we have to contract a Consultant in dollars.

8. In conclusion, I told Mr. O'Quin that if the past billing problem cannot be fully resolved over the next two months, I will recommend to Mr. Eccles and Mr. Stern that we suspend operations under this program, until the amounts due are resolved.

a/ A list of issues was received the week of September 16, 1991 and is being reviewed.

cc: Messrs. Eccles, CTRVP
Stern, FINSV
Jaycox, AFRVP
Lafourcade (Paris Office)
Birnbaum, AFRVP
Deshpande, ACTAB
Ms. Summers, ACTAB

The World Bank

ERNEST STERN
Senior Vice President
Finance

9/26

Steve

The proposed changes look fine. I would also opt for a single "start of fiscal year" column. I'd keep the split of the Loans & Guarantees line, because of its link to the balance sheet. To demonstrate that I'm not a slave to consistency I'd drop the breakdown of the "Accumulated Provision". Then, do we need a "calculated" and a "rounded" line? Why not simply 2.5% less Special Reserve equals Accumulated Provision (including the monthly accretion and the translation adjustment)?

Σ

The World Bank

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

STEPHEN D. ECCLES
Vice President and Controller

Mr Stern

9/25/91

Ernie:

As you will know from my comments on last month's MFR, I was confused by the ~~loan~~ loan loss provisioning table, as several figures seemed to conflict with balance sheet and income statement items elsewhere in the report.

The attached alternative presentation has been prepared, on which I have made some additional comments.

Please let us know what you would like to see in the September MFR.

Thanks.

A handwritten signature in dark ink, appearing to read 'SDE', followed by a long horizontal flourish line.

IBRD Loans Outstanding

Accumulated Provision for Loan Losses (USD Million)

[Highest as main title.]

Item	July 31, 1991	August 31, 1991
Total Loans and Guarantees Outstanding	92,409	92,493
Loans Outstanding	91,801	91,885*
Present Value of Callable Guarantees	608	608
2.5% of Total Loans and Guarantees Outstanding	2,310	2,312
Special Reserve	293	293
Accumulated Provision for Loan Losses Calculated	2,017	2,019
Accumulated Provision [Rounded to USD 10 million]	2,020	2,020
Provision for Loan Losses	5	5
Translation Adjustment	25	25
Accumulated Provision, Beginning of Fiscal Year	1,990	1,990

Could be dropped, but useful to tie-in with balance sheet item.

Could be dropped in favor of footnote 21

Could be dropped, but the '5' figure in the one that appears in the Income Statement

Excludes inclusion of Special Reserve (\$293 million) and rounding to nearest USD 10 million.

IBRD Overdue Service Payments

Total Overdues of Countries with Overdues over 30 Days (USD Million)

Since we are dealing with Balance Sheet items, this column should better be 'Start FY92' or 'As of June 30, 1991'.

Country	July 31, 1991	August 31, 1991
Total	1,947	2,070
Nonaccrual Countries	1,890	1,932
Other Countries	57	138
Cameroon	-	8
Congo (Disb. suspended 12/4/90 *)	10	10
Côte d'Ivoire (Disb. suspended 7/19/91)	35	43
Turkey	-	16
Zambia	-	20
Others	12	41

Alternatives?

3 columns:

1) Start FY92.

2) End of previous month

3) End of current month.

[But I prefer just the two columns.]

a. On September 3, 1991, the country was placed in nonaccrual status.

A L I N - 1 N O T E

DATE: 26-Sep-1991 11:20am

TO: Ernest Stern

(ERNEST STERN)

FROM: Stephen Eccles, CTRVP

(STEPHEN ECCLES)

XT.: 81674

SUBJECT: Net transfers

By luck rather than judgment, my briefing on the FIC took place just before they were about to release new FDB reports which responded to user requests for net transfer information. As you will see from the attached exchange, the reports have been modified (as have some produced by Loan Accounting).

Have you anything to add to my substantive response to Avivah's request for a rationale?

Nope. Quite complete.



9/26/91

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: September 26, 1991 11:15am EST

TO: Avivah Litan

(AVIVAH LITAN)

FROM: Stephen Eccles, CTRVP

(STEPHEN ECCLES)

EXT.: 81674

SUBJECT: RE: Release of data on net transfers

I could put the question back to you: why should one want "net transfer" figures in the first place? What do they represent? If a borrower was in an absolutely desperate situation, such that it would be seriously considering jeopardizing its long-term relationships to solve short-term problems, such a borrower might be interested in "net transfers" because those figures would tell the borrower whether closing down the relationship would be in its short-term interest or not. None of our borrowers are in that position.

The implication of seeking "net transfer" figures is that, somehow, they ought to be positive; or that, if negative, this means that the Bank is not fulfilling its role as a provider of capital. This is, indeed, how net transfer figures are actually used. Let us look at the consequences of such an approach. If one wanted to avoid negative net transfers, the stock of debt outstanding would have to increase each year by an amount at least equal to service charges, ie over 8%. Which borrower, in its right mind, would want its stock of debt (net of capital repayments) to increase at such a rate on an indefinite basis? Which lender would be able to provide? Assuming capital repayments of, say, 8% per annum, and interest charges for another 8% per annum, gross new lending would have to increase by 16% per annum, compund! This would be like a Ponzi scheme, ensuring that your borrowers all paid you their debt service because you'd always lend them enough new money to meet those debt service payments. Eventually, this house of cards has to collapse.

What, then, is theoretically "wrong" with net transfers? Simply put, we are throwing in to the computation the cost of capital supplied without, at the same time, including the benefits which accrue from the use of that capital. If one wanted net transfers to mean anything, then we should also include the incremental earnings made by the borrower as a result of the investments we have financed. The result then would mean something, representing the net financial effect of the borrowing/lending. Such a computation is, of course, difficult to make, so it isn't done. But taking out the benefits alone, while leaving the costs in, produces you absolutely nothing meaningful at all.

Net flows (or net disbursements), on the other hand, do show you something interesting: are we still a net provider of capital? If the answer is no, there is a legitimate series of questions to be asked. Is the reason for the negative answer just that the borrower in question has "graduated" from borrowing from the Bank? This is a positive reason, though a projection of how fast

we should be drawing back our capital can be useful in deciding just when to stop lending, or, more appropriately, what is a sensible rate of fade out of new lending. Another reason for the negative answer could be the precise opposite, ie lack of borrower performance to a point where additional lending has to be severely constrained, if not stopped altogether. The third reason is the one with most policy impact: ie perhaps the Bank does not have the financial strength to remain a net lender, or is otherwise failing to "produce" - in that case, one needs to seek increased financial strength (eg capital increase) or risk becoming irrelevant. BUT you can't answer any of these questions from net transfer figures.

Any problems with the above, ask more questions. Feel free to distribute the above as needed.

CC: Luisita Guanlao
CC: Fayezul Choudhury

(LUISITA GUANLAO)
(FAYEZUL CHOUDHURY)

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

DATE: September 26, 1991 10:31am EST

TO: Stephen Eccles (STEPHEN ECCLES)

FROM: Avivah Litan, ACTFI (AVIVAH LITAN)

EXT.: 82744

SUBJECT: RE: Release of data on net transfers

The day after our FIC briefing (which actually only covered the FDB), we modified the FDB reports on net transfers to comply with your request. By the way, these reports and the online version of the Statement of Loans will be put into production this weekend, and will then be accessible by all users with All-in-One accounts.

Since this a "revolutionary" (and welcome) change for the Bank, I would appreciate if you could jot down a sentence or two describing the rationale for this change. This will give all of us an official and clear response we can provide to the many users who are likely to be taken aback by this.

Thanks.

CC: Fayezul Choudhury
CC: Luisita Guanlao

(FAYEZUL CHOUDHURY)
(LUISITA GUANLAO)



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/27/1991	Document Type Letter			
Correspondents / Participants To: Mr. Bong-Hee Won, Advisor to the Executive Director, the World Bank From: Ernest Stern, Senior VP Finance				
Subject / Title [Meeting Invitation]				
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			

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

DATE: 27-Sep-1991 03:38pm

TO: Ernest Stern

(ERNEST STERN)

FROM: Robert Picciotto, CPBVP

(ROBERT PICCIOTTO)

EXT.: 84569

SUBJECT: Contingency

Ernie:

Believe it or not we will receive contingency requests to set up field offices in Romania, Czechoslovakia and Bulgaria on Monday.

From your perspective, should this be put on the fast track -- or can we wait for the first quarter review results ?

Any news on the draft Prestongram to Moeen Qureshi re: Egypt and other goodies ?

Bob

I think Romania and Bulgaria should go on hold for sure, till WT has a chance to review the program and the deployment of his resources. Czech. is more problematical but also could wait till Q1 review.

I've passed your draft note along; it represents the understanding.

Ernie
9/27

L - I N - 1 N O T E

DATE: 27-Sep-1991 05:36pm

TO: Bilsel Alisbah

(BILSEL ALISBAH)

TO: Sven Sandstrom

(SVEN SANDSTROM)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: Tokyo Office

For announcement purposes, all is clear for assigning the Tokyo Office to the VP-Treasurer.

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

TE: 27-Sep-1991 12:22pm

TO: Bilsel Alisbah

(BILSEL ALISBAH)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: PRE Front Office

We have been discussing the PRE front office as if there were no budget units in the two Vice Presidencies. PPD thinks this is wrong. Could you please double check and confirm this by cob today?

CC: Ian Scott

(IAN SCOTT)

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

DATE: 29-Sep-1991 08:42pm

TO: Sven Sandstrom (SVEN SANDSTROM)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Meeting on Tuesday

Can you, Attila and Bilsel meet at 9:30 a.m. on Tuesday to do an update on where we stand before Bilsel leaves? We will also need to discuss what to do with OPNIS. I would suggest that we ask Eccles (Ruddy) and Picciotto to sit down with Moore and see what can be unscrambled. We would need a proposal in by October 15. We also need to decide on EXT. Could you have a word with Lew on this on Monday?

CC: Attila Karaosmanoglu (ATTILA KARAOSMANOGLU)

CC: Bilsel Alisbah (BILSEL ALISBAH)

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

DATE: September 27, 1991 09:27am

TO: Ernest Stern (ERNEST STERN)

FROM: Barbara Oppen, FRSFP (BARBARA OPPER)

EXT.: 80572

SUBJECT: DFI Risk Management

As part of our homework on borrowers' needs for loan terms tailored to their debt servicing risk management, we would like to learn more about the currency and rate basis of their debt servicing capacity. There is usually a DFI session hosted by EDI at the annual meetings. We could circulate among the DFI's a page of questions on currency and rate basis in their assets and non-Bank liabilities just for information -- without necessarily saying that we are thinking about offering some choice.

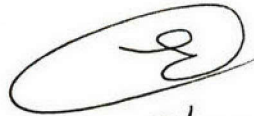
If that would be OK with you, we could put together a few questions and ask Nicholas Bruck to distribute them and collect the responses. OK?

CC: Everardus Stoutjesdijk (EVERARDUS STOUTJESDIJK)

Barbara

I have no objection.

Equally, if the program is not set yet, a couple of hours discussion devoted to the issue (and how they handle it now) might be productive


9/29



Record Removal Notice

File Title Senior Vice President Chronological Records - Ernest Stern - September 1991		Barcode No. 30265365		
Document Date 09/23/1991	Document Type Memorandum			
Correspondents / Participants To: Mr. Robert Picciotto CPBVP From: Ibrahim Shihata, LEGVP				
Subject / Title Redesign of regions				
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/IFC/MIGA
O F F I C E M E M O R A N D U M

TE: September 29, 1991 08:38pm

TO: Everardus Stoutjesdijk (EVERARDUS STOUTJESDIJK)

FROM: Ernest Stern, FINSV (ERNEST STERN)

EXT.: 82004

SUBJECT: Risk Management Procedures

The note on Risk Management Procedures is very good, and I would like to send it on to Mr. Preston for approval. However, give me a call on one question.

The proposed net worth margin links us to reserve adequacy. But, as we pointed out this year, that is not really the issue. With the Brazil strategy, for instance, the risk is to income not capital. Was there a discussion of a "link to the income target and, if so, what are the reasons for not connecting it up to that (or that, as well)?

CC: Institutional ISC Files (INSTITUTIONAL ISC FILES)

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

DATE: 29-Sep-1991 08:34pm

TO: Sven Sandstrom

(SVEN SANDSTROM)

FROM: Ernest Stern, FINSV

(ERNEST STERN)

EXT.: 82004

SUBJECT: RVP Front Offices

I agree with Bilssel's response to Bob re RVP front offices. But it also means that Wilfried has plenty of existing capacity to create his flexible pool of staff.

TO: Mr. Ernie Stern

Re: Harassment

Ernie:

I'm delighted that you decided we'd work together on this!

I had planned to talk with a few more people this week and next, finish reading collected articles, and then draft a brief paper for you, then the Group, to consider. In the meantime, I would propose to send the attached.

Is this okay, or would you prefer a different approach?

A.
/ sands fine
③
9/30
9/23

P.S. I also attach, for your possible interest, an excerpt from another article which reminded me of our conversation.

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

ERNEST STERN
Senior Vice President
Finance

September 30, 1991

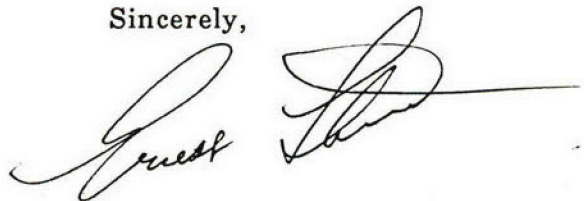
Mr. Nobuaki Kemmochi
Director, Tokyo Office
The World Bank
Kokusai Building, Room 916
1-1, Marunouchi 3-chome
Chiyoda-ku, Tokyo 100
JAPAN

Dear Mr. Kemmochi,

Your comments on the reporting link of the Tokyo Office after November 30, were most helpful. I followed your suggestion and spoke with Mr. Shiratori who also has no objection, under the circumstances, to having the Tokyo Office report to the Vice President/Treasurer. We will, therefore, proceed on that basis and include this in an announcement on other changes, to be effective December 1.

I look forward to seeing you in Bangkok.

Sincerely,



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

ERNEST STERN
Senior Vice President
Finance

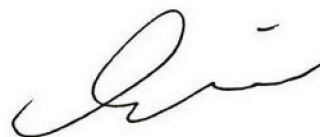
September 30, 1991

Mr. Picciotto

Bob -

Your Memo of September 27, 1991

I agree with items 4(a), (b), and (c). I also accept 4(d), but would like to know more about how this review is to be organized and who is to lead it. Item 4(e) is a very useful proposal. Please discuss implementation with Steve.



cc: Mr. Sandstrom

The World Bank

ERNEST STERN
Senior Vice President
Finance

September 30, 1991

Mr. Preston

The attached is from Larry's predecessor who is a member of the Harvard/MIT team on the USSR. Pages 7-9 on coordination may be of particular interest.

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

Attachment

9-191
9-26-91

STANLEY FISCHER

15 GRALYNN ROAD

NEWTON, MA. 02159

TEL (617) 964-2494 FAX (617) 258-7070

September 26 1991

Mr Ernest Stern

Fax; (202) 477-6658

Ernie:

Congratulations on being reorganized in an intelligent way.

The attached article will appear in the next issue of the IIE's magazine, which Fred plans to put out in time for the annual meetings. He has promised to give the issue and this article intensive publicity.

After reading the article the editor called to urge me to specify the individual I had in mind in the last complete para on p8. She said that names like Jimmy Carter, Paul Volcker, and Ernie Stern came to mind. I said that two of those would be unsuitable, but declined to put specific names in the article. She said she was sure Fred would name names in his press conference.

Best



Stanley Fischer

SOVIET AID AND ITS COORDINATION.

Stanley Fischer¹

The West is moving to provide technical and financial assistance to the Soviet Union at a time of massive uncertainty about the framework that will link the republics. In the face of this uncertainty, flexibility has to be the watchword for both economic reform strategies and Western assistance.

There is little prospect now that the republics will agree on a federal system with a single currency and a central government with independent taxing power, the minimum needed for maintenance of a stable common economic framework. Rather they are likely to regroup, into an economic union of several republics with Russia at its core -- the Union of Sovereign States or the USS, and the remaining republics, each pursuing its economic as well as political independence. A key issue is whether the Ukraine remains part of the USS or instead becomes economically independent. If it insists on issuing its own currency, it will be setting out deliberately on the path to economic separation.

I. Economic Reforms

Economic reform plans formulated in both the Soviet Union and the West, including the joint agency (IMF, IBRD, OECD, EBRD) plan of December 1990, were remarkably similar. While there were differences in the recommended speed and sequencing of reforms, all plans envisaged a reform

.....
¹Department of Economics, MIT, and Research Associate, NBER and Institute for Policy Reform. This article draws on my paper "Economic Reform in the USS and the Role of Aid", forthcoming in the Brookings Papers on Economic Activity.

based on five main elements: macroeconomic stabilization; price liberalization; current account convertibility; privatization and the introduction of private property; and the creation of a social safety net.

After a new economic framework is agreed upon, reform could proceed along these lines in the USSR, with rapid moves towards budget balance within the Union and its constituent republics, and convertibility of the rouble at a fixed exchange rate. Similar reforms could be introduced and implemented in the republics that do not agree to join the USSR. Those republics would have to decide on their exchange rate system and exchange rate peg if any. The presumption is that republics would prefer to try to peg to a Western currency or basket of Western currencies, but if the rouble is stabilized, there are likely to be advantages for some republics in pegging to it. In considering the reform scenario, it is only realistic to expect that some republics will show virtually no interest in reform, to note that reform will be a long and halting process, and to expect that the common economic space of the Soviet Union will not be maintained.

One of the key lessons of the East European reform experience should be heeded in reforming the Soviet Union: existing trading relationships should if possible not be destroyed too rapidly. The abrupt end of CMEA trade at the start of 1991, and the shift to hard currency payments, is a major contributor to the recessions now besetting East European countries. Some transitional arrangements are needed to deal with existing inter-and intra-republican trade. A variety of mechanisms, including a temporary payments union, has been proposed; they urgently need further study.

II. Western Aid.

The purpose of Western assistance is to support and speed a peaceful transition from communism to a market economy and democracy in the former Soviet Union. In the short run, chaos in the area brings a threat of Yugoslav-type civil war, further economic difficulties for Eastern Europe, and immigration to Western Europe. In the longer run, Soviet integration into the international economic community can benefit everyone. The Soviet Union is extraordinarily rich in raw materials, is the world's largest oil producer, and has the potential to be a giant new market for the world's output. This may be the next economic frontier. Further, most Western economies, especially the United States, will benefit from the peace dividend that is already becoming visible as the Cold War disappears.

By providing aid, the West helps cushion the impact of the hardships that are likely in the former Soviet Union this winter, and as reforms get under way. A successful aid program increases the viability of the economic and the political reform processes.

Three types of aid have to be considered as part of the assistance strategy for the former Soviet Union:

- humanitarian aid -- food and medicines
- technical assistance for activities that would in any case be republican responsibilities
- general purpose financial aid -- such as a currency stabilization fund and balance of payments loans

Humanitarian assistance should be provided to Soviet citizens whatever the ultimate economic arrangements among the republics. Besides the humanitarian reasons for providing such aid, it is a highly visible form of

support, which will have a large political impact. This year's predicted poor harvest increases the urgency of food aid, which can go directly to the republics through mechanisms that are now being worked out. Distribution of food is an important problem, which will be much easier to handle if food prices are decontrolled and some state trucks privatized immediately: given incentives, goods can move fast over the worst of roads. In addition to food, the Soviets themselves emphasize their need for medical supplies.

Some economic reforms would have to be undertaken at the republican level no matter what the final political arrangements. Most privatization will be a republican and municipal task, as will price decontrol. Tax systems have to be created or improved at the republican level; so too with the legal systems, and the framework for foreign investment; much agricultural reform can be done at the republican level; similarly for financial system reform. Technical assistance is urgently needed in all these areas. Reports are that while foreign experts are falling over each other looking for work in Moscow, they are very thin on the ground in the republics.

Large scale technical assistance to the republics can and should begin very soon. The European Community is ready and willing to move. So is the World Bank, whose Board has approved a \$30 million fund for technical assistance. The IMF's technical advice can be given to the republics as well as the center. The EBRD too can work with the republics as well as the center, for instance helping set up enterprise funds. Bilateral Western assistance is also expected. As much as possible, the assistance should aim to speed the creation of the private sector, and to help bring in foreign private capital.

Some of the technical assistance may need to be accompanied by financial assistance, but this will be on a small scale. The effectiveness of technical assistance will be enhanced if it is provided by teams that spend a long period, rather than the standard flying visit, in the field, in the capitals of the republics, rather than in Moscow. Separate teams from different agencies should be available on a continuing basis to help set up the new economic framework and to assist in the implementation of reforms in the republics as well as the center.

Thus important Western assistance from a wide variety of sources -- namely, humanitarian aid and technical assistance to the republics -- can begin immediately, should begin immediately, and is likely to do so. This aid does not have to wait for clarity about the economic and political future of the Soviet republics.

However large scale general financial assistance cannot be provided until it is clear to whom the assistance will go. For instance, there is no point setting up a rouble stabilization fund until the currency arrangements in the USSR and other republics are sorted out. Similarly, typical IMF-type balance of payments loans that support macroeconomic stabilization cannot be provided until it is known what governments will have the power to bring macroeconomic stability -- and to offer some assurance that the loans will be repaid.

Should the West attempt to shape the transition in the Soviet Union through the leverage of large-scale financial assistance? Yes, in the sense that aid should flow only to governments reforming in a democratic and market-oriented direction. Yes, in that we have an interest in arrangements that

reduce the risk of chaos. Beyond that lies an essentially political question: whether it is in the interests of the West to attempt to maintain a large centralized state in the former Soviet Union by announcing that large scale financial support will be available only to an all-Union government. This strategy could be useful in the short run in slowing the disintegration of the Union. But over the longer run, it is difficult to see a Western interest in maintaining a single successor state; nor would an announcement that aid would be available only to an all-Union government be credible, because the same motives that justify aid to the Union would justify aid to the successor states.

Since general financial assistance cannot flow until a new economic framework is in place, Soviet leaders have strong incentives to agree on a new economic constitution. Reform plans, including the details of Western assistance, can be worked out as soon as the economic constitution goes into effect. The USSR and those republics that become fully independent should gain full membership in the international agencies, through which much of the needed financial aid will flow.

As the West begins to provide assistance, it will have to show flexibility in dealing with different levels of government, and possibly with changes in governmental structure. It will also have to preserve flexibility in considering balance of payments support and in deciding when such support is warranted. But since it will take time to figure out the dimensions of the needed support, work should begin now, even before the political framework in which aid may be delivered is known.

Preliminary calculations about aid suggest two important conclusions. First, the West can put together a large aid package without the

United States having to provide a great deal of direct aid. And second, because Japanese aid will be crucial, the Soviets and Russia have very good reasons to reach a territorial understanding with Japan.

III. Aid Coordination

A serious Soviet assistance program will be on a much larger scale than any effort mounted by the West since the early fifties. Technical and financial assistance will be supplied by a host of Western institutions: the multilateral institutions; directly by Western governments; by the commercial private sector; and by non-governmental organizations. The multiplicity of contacts on both sides is essential if Western engagement with the Soviets is to succeed in penetrating deep into the Soviet economy and society.

There are many overlaps in the responsibilities of the IMF, World Bank, other United Nations agencies, EBRD, OECD, European Community, and the governments providing direct bilateral assistance. The agencies are already engaged in a contest to capture their share of the Soviet market, and the competition will intensify as technical and financial assistance to the Soviet Union grows. Some of this competition is healthy, but most will be counter-productive, leading to duplication of effort, bureaucratic infighting, and turf battles. In addition, experience in Eastern Europe shows that the competition confuses policymakers in the recipient country and absorbs attention that would be better focused on economic reform.

Western assistance needs to be coordinated. One proposal is that the recipients should provide the coordination. There will indeed be a need for coordination on the recipient side, which is likely to be provided by the Inter-Republican Economic Committee that is likely to emerge in the next few

weeks. But the Soviet side, which has very little experience with the West, cannot possibly coordinate the numerous competing international agencies flocking to Moscow.

Rather, the West has to take the responsibility for coordinating official aid. No single existing agency could perform the role. Normally, the IMF has the expertise to coordinate the first stage of the reform and aid process, when stabilization, price liberalization, convertibility, and balance of payments assistance are in the forefront. But in the case of the former Soviet Union, technical assistance is likely to be provided for some time before the normal first stage of reform is possible. During this period, the Fund, the Bank, the EBRD, the EC, and the OECD are all likely to be providing assistance. In practice, all agencies would find it difficult to subordinate their responsibility to that of another agency which had been assigned the lead role.

A separate agency is needed, but the need is temporary and requires no new permanent agency. A modest office, the Office of Soviet Aid Coordination (OSAC), headed by an experienced, authoritative, and widely respected individual, could provide the required coordination.

OSAC would not be asked to approve the activities of others, but would

- assure that information on programs, policies, and funding is shared;
- assure that duplication is identified and thus avoided;
- assist recipients in identifying alternative sources for technically suitable support;
- assure that the policy framework and reform program, as defined by the recipient states (USS and the independent republics) in

agreement with the international community, is the framework within which programs are developed; and

- monitor implementation and report regularly to the major donor governments and the heads of agencies.

OSAC would chair an international coordinating committee of representatives of the major donors and international financial agencies. It would report regularly to the G-7. It would have small offices in Washington, western Europe, and Moscow, would be staffed mainly by individuals on secondment from other agencies, and would be set up for a period of no more than five years.

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

ATE: 27-Sep-1991 08:45am

TO: Ernest Stern

(ERNEST STERN)

FROM: Basil Kavalsky, FRM

(BASIL KAVALSKY)

EXT.: 80523

SUBJECT: Frank Potter's Intervention at the IDA9 Meeting

You will recall that Frank Potter pointed out yesterday that in a response to a note he had written, Mr. Conable had assured him that the issue of the implication of new claimants for regional allocations over the full IDA9 period would be addressed during the Board discussion of the IDA9 report. Since this was not addressed he asked for a one-page note without specific numbers which would respond to this query. While the Chairman's summary did not promise anything, we could easily prepare something and circulate it to the Board (separately from the new Table I think - since the focus is a little different). Hopefully this could purchase some goodwill (bonavoglia?).

There are two other issues on which some follow-up might be helpful. First, the question of the actual share of agricultural credit lending in FY91 and the expected share over the rest of IDA9. If the figures show declines then we would not follow up, although I would ask Michel Petit if they could put something down on paper on the reasons for such declines. If such lending is more or less maintained in real terms then it might be worth sending a note to this effect to Baijal and Ako-Adjei. The second issue is the PFP and the relationship with the Fund. The UK is certain to come back to this given the unsatisfactory responses from OPS. I think it would be useful in the IDA10 context to ask EAS to prepare something on this issue.

CC: Jeffrey Katz

(JEFFREY KATZ)

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9/30

- 1) new recipients. No problem with a note but there is not a huge amount to say. In a "better" world we would have reconvened the Deputies for a supplemental. Barring that it will affect everybody's share.
- 2) Ag. Credit. We can certainly say something about projected levels. But just what is the point? If it is not in our country programs it doesn't mean its being ignored.
- 3) PFP ~~the~~ Syria. But a joint note with the IMF would be more definitive



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Document Date 09/26/1991	Document Type Memorandum			
Correspondents / Participants To: Mr. Stern From: Charlotte Mandel, FINPE				
Subject / Title Pension Department in a reorganized bank				
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
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9-207
9-27-91

THE WORLD BANK GROUP

Office of the Director External Affairs		DATE: 9/27/91
NAME		ROOM NO.
Mr. Ernest Stern, FINSV		E-1227
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INITIAL		SIGNATURE
NOTE AND FILE		URGENT
REMARKS: Wood & AS. see & 8 ②		
FROM: Judith Maguire, EXTDR	ROOM NO.: T8117	EXTENSION: 31833

OFFICE MEMORANDUM

cc: JW ✓
CS ✓

DATE: September 27, 1991

TO: Mr. Alexander Shakow, EXTDR

FROM: Judith Maguire, EXTDR *JM*

EXTENSION: 31833

SUBJECT: Legislative Report

A. World Bank/IMF Authorization LegislationIntroduction

1. While the legislative process has been highly unusual, Congress is nearing final approval of legislation authorizing increased U.S. contributions to the World Bank, IMF, Asian Development Bank (ADB), and the African Development Fund (AfDF). The authorizations are contained in the FY92 foreign aid bill, which has been approved by a House-Senate conference. However, the managers of the bill are still working on three or four provisions which the Administration has said could trigger a Presidential veto. (These provisions all relate to U.S. bilateral aid programs.) If these negotiations fail and the bill is vetoed, Congress would almost certainly send a revised bill back to the President. The expectation is that, one way or another, an acceptable bill will be signed by the President before Congress adjourns in November.

2. The conference process on the provisions related to the World Bank, the Fund and the regional banks was unusual, as the House agreed on final language with the Senate before the House Banking Committee had considered its version of the legislation. The Senate had already approved the IMF quota increase and contributions for the ADB and AfDF. It had not considered the IFC capital increase, or the issue of a U.S. contribution to the Global Environment Fund (GEF). Six House Banking Committee members participated in the conference, bringing with them a draft bill which they hoped to use as the basis of discussions. They won early agreement from the Senate that the IFC and GEF authorizations would be included in the package, along with a long list of other provisions on the Enterprise for the Americas initiative, World Bank assistance for the Soviet Union, the environment, energy, poverty, etc. House Members then went back to the Banking Committee to get their views on the conference agreement.

House Banking Legislation

3. The House Banking Subcommittee on International Development met on October 25 to mark up a bill, using as a working draft the language which had been agreed to in the conference. Mary Rose Oakar, the Chair of the Subcommittee and one of the conferees, announced at the beginning of the markup that she would take the final product back to the conference, to

make sure that the views of the Committee were given serious consideration. She noted, however, that time was short, as the conference agreement was expected to be finalized in the next day or so. The Subcommittee worked on and off for some eight hours to produce a bill. The end product was not radically different from the version agreed to in the foreign aid conference. Most of the changes (with the possible exception of a Kennedy amendment on military expenditures) are expected to be included in a revised conference agreement.

4. IMF Quota Increase. The Subcommittee overwhelmingly voted to support U.S. participation in the IMF quota increase. A motion to delete the IMF authorization was defeated by a vote of 5 yeas to 21 nays. (Opposition to the IMF came mainly from the conservative Republican members, although they were joined by Bernard Sanders, a Socialist.) Several Democrats demanded that Treasury provide them with a letter from the Secretary specifically asking for their support for the IMF before they would vote for the conference report on the House floor. (They reminded Treasury that they had long sought such a letter as protection against Republican campaign attacks.) Doug Bereuter (R-NE) told the Treasury staff to be sure that all Subcommittee members were given such a letter within seven days.

5. The IMF section of the bill requires the U.S. Executive Director to "vigorously and continually" advocate an enhanced focus on poverty alleviation in the Fund's work. The U.S. will push the Fund to include poverty-related factors in all its Article IV consultations, to draft PFPs for all countries which have Fund programs and active Bank or IDA programs, and to condition Fund programs on the borrowers' commitment to addressing poverty issues. The bill also directs the US ED at the Fund to vote against assistance to countries displaying a pattern of human rights violations, as well as countries providing refuge for terrorists. (Similar directives are already in force for the World Bank and the regional banks. The State Department determines which countries fall in this category.)

6. IFC The authorization for U.S. participation in the IFC capital increase was approved without discussion.

7. GEF. Language authorizing a \$50 million U.S. contribution to the GEF was approved without discussion. The bill requires that before the funds can be released, the U.S. must certify that eight conditions have been met; these include: the establishment of guidelines for the selection of projects; NGOs be given opportunities for input into the process, and be allowed to participate in all phases of the project cycle.

8. World Bank Debt Initiatives The bill directs the Treasury to urge the Bank and the Fund to renew their programs which support debt and debt service reduction for highly indebted countries. The bill also directs Treasury to urge that: reductions in commercial debt and debt service are comparable to and in concert with, reductions in official debt and debt

service; and the renewal of such arrangements not result in an excessive shift in the proportion of debt or risk assumed by public sector institutions. Finally, the legislation requires Treasury to instruct the U.S. ED at each multilateral bank that it is against U.S. policy for an MDB to impose, as a condition of approving a loan or releasing funds under any loan, that the borrowing country reach an agreement on debt reduction with its commercial bank creditors.

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loans in
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of
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9. Soviet Union. The bill directs the Treasury to support membership of the Soviet Union (the term includes all successor states other than the Baltic States) in the IMF, World Bank and regional banks. Before this, however, it requires the President to certify to Congress that the Soviet Union:

- is in the process of implementing free market economic policies;
- is taking action toward free and fair multiparty elections;
- has undertaken good faith negotiations with the Baltic states and other republics that have elected to become independent;
- has demonstrated a sustained commitment to peaceful resolution of disputes with the republics and with democratic movements;
- is making progress toward the termination of military assistance to repressive regimes or nations which support terrorism.

The bill also supports the establishment of technical assistance programs at the World Bank for the Baltic states and the Soviet Union.

10. Military Expenditures. At the urging of Congressman Joe Kennedy (D-MA), the Subcommittee approved an amendment relating to military expenditures by developing countries. First, the amendment would require the Treasury to press the Bank and the Fund to determine, with respect to any loan proposals, whether that country is engaged in arms and weapons expenditures that are excessive to its national circumstances; or whether these expenditures constitute an impediment to sustainable long-term growth. The Amendment would also require the U.S. to vote against loans to countries with excessive arms expenditures unless, after consultation with the Bank or Fund, the country commits to reducing these expenditures. (This is the one section of the Subcommittee bill that is not considered likely to be included in the foreign aid conference bill.)

11. Primary Health and Basic Education. The bill contains a "Sense of Congress" resolution that the World Bank should give greater priority to child survival and to supporting the aims of the World Summit for Children. Specifically, the bill asks that the Bank agree to devoting 5

percent or more of its lending to primary health programs, and 5 percent to basic education.

12. Energy Efficiency. The bill contains extensive proposals for promoting energy efficiency in the MDBs. The bill requires Treasury to instruct the US ED at each bank to take a leadership position in devising a system of incentives that would promote the development of cost effective energy efficiency programs. The bill proposes that energy efficiency assessments be prepared for each loan. (These would be similar to environmental assessments.) These assessments would have to be made available to the Board at least 120 days before loan consideration. The bill also proposes that summaries of the assessments be made available to the public, affected groups, and local NGOs at least 120 days before loan consideration. Finally, the bill directs the US ED at each bank to initiate discussions to ensure that the respective banks develop (within twelve months) procedures for the systematic assessment of the energy efficiency aspects of development projects, and "other activities for which the respective bank provides financial or technical assistance".

B. World Bank/IMF Appropriations

13. Progress on the foreign aid appropriations legislation is much slower than usual. As a result of the well publicized dispute over the \$10 billion loan guarantees for Israel, the Senate Appropriations Subcommittee on Foreign Operations has postponed its consideration of the House appropriations bill for at least 120 days. This means the Subcommittee (which is chaired by Senator Leahy) will probably not begin work on the bill until February. In the interim, the bilateral aid programs will be governed by a series of Continuing Resolutions. The multilateral institutions are handled somewhat differently. Treasury does not make payments to the World Bank, the IMF, or the regional banks on the basis of a Continuing Resolution. Treasury waits until final action has been completed on the bill, so that it can be absolutely sure of the size of the contributions which Congress is willing to approve. This means that (among other things) final action on the IMF quota increase, and the next U.S. payment for IDA will be delayed for some time.

cc: Messrs. L. T. Preston, EXC; E. Stern, FINSV; M. Qureshi, OPNSV;
W.P. Thalwitz, PRESV; I. Shihata, LEGVP; T. Thahane, SECGE;
S. Sandstrom, EXC; J.W. Stanton, EXTDR

The World Bank

ERNEST STERN
Senior Vice President
Finance

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Nestor

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Global bargain hunter

Rarely leaving New York, Jean-Marie Eveillard seeks out stock and bond bargains worldwide for his top-performing SoGen International Fund.

In the twelve years that he has managed the SoGen International Fund from his offices in New York City's Rockefeller Plaza, Jean-Marie Eveillard has put together an impressive record built on global value investing. For the ten years ending June 30, the \$260 million fund had an annual average return of 16.8 percent, compared with 10.95 percent for the Standard & Poor's 500 index. Lipper Analytical Services ranks SoGen among the top 25 out of 115 growth funds for the ten-year period. The French-born Eveillard, 50, began his career as a securities analyst for Société Générale in Paris in the 1960s, went to the U.S. in 1968 as an analyst for the newly formed SoGen International Fund and became its portfolio manager in 1979. In July, Contributing Editor Sharon Harvey Rosenberg spoke with Eveillard about his investment process and his current view of world markets.

Institutional Investor: How would you characterize the fund's investment style?

Eveillard: We primarily take what Americans call a value approach. We try to buy the stocks of good — even only decent — companies, but we insist on buying the stocks cheaply. We want price to earnings, or price to cash flow or free cash flow, or price to book value or adjusted book value — or a combination of them — to be low. And on an absolute basis. A couple of years ago Japanese and English brokers would call me and say, "The Japanese market is selling at 60 times earnings, and we've found something at 40 times earnings." But I look at things from an absolute, not a relative, point of view.

Any guidelines on capitalization?

As value investors, we are almost automatically drawn toward either big but depressed securities or obscure securities, with the idea that the more obscure a security is, the more likely it is to be mis-



SoGen's Eveillard: "If a stock has declined significantly, the Europeans and the Asians don't want to touch it. That opens up a tremendous opportunity to value investors"

priced by the market. We own a great number of stocks, both in the U.S. and outside the U.S., whose market cap is between \$25 million and \$100 million. With a \$260 million fund, we can buy small stocks, though sometimes we've had to file a 13D because we've owned more than 5 percent of a company.

How many stocks do you own?

Too many. A little more than 100.

And you're not limited to stocks alone.

If a security trades on a market anywhere in the world, we might be interested. We have a very wide focus that takes in equities and fixed-income securities.

How do you approach fixed income?

We are not trying to be a balanced fund. At times bonds get overpriced, so we want equities, and sometimes equities get overpriced, so we want bonds. In the spring and summer of 1987, when equities were selling at 25 times earnings and long-term Treasuries were yielding almost 10 percent, we were buying bonds and selling equities. Also, we take the approach that

at 10 percent and above in terms of yield, bonds get into equity-type returns. Four or five years ago, for instance, we bought bonds denominated in New Zealand dollars, because at the time you could buy three-, four- and five-year bonds with yields of 18 to 20 percent, which was exactly the type of equity returns that we wanted. Of course, we were taking a currency risk, but it actually turned out to be a currency potential.

Do you hedge?

We've thought about it now and then, but we find it expensive. If it's a strong hedge, it becomes very costly. And since we're willing to hold securities for a few years, we feel the foreign exchange factor may wash out.

When you pick stocks, do you follow a top-down or bottom-up approach?

It's much more bottom-up. The top-down approach that we do have is related to how much we want in equities, in bonds and in cash — how optimistic or pessimistic we are about the world from an investment viewpoint.

What is your current asset allocation?

As of June 30 we had 31.3 percent in U.S. stocks and 14.2 percent in foreign equities; 16.9 percent in U.S. bonds, mostly corporates; 11.8 percent in foreign-currency-denominated bonds; 7.3 percent in gold-related securities; and 18.5 percent in cash, almost all of it U.S.-dollar-denominated. So we have only something like 45 percent invested in equities, which obviously indicates that we are not very positive about equity markets throughout the world.

Why the caution?

We're pessimistic. We don't think this is a typical post-World War II cycle. There

were financial excesses in the 1980s the likes of which have not been since the '20s, which is bound to make the current cycle different. So we view circumstances as potentially difficult in the future. Also, we think securities prices are way too high.

Is this level of exposure unusual?

Over the past twelve years that I've run it, the fund has had as little as 25 or 30 percent in equities and as much as 70 or 75 percent, so 45 percent is fairly low. But the fund historically has taken a somewhat cautious posture, which may have to do with my European background.

How so?

Europeans of my generation — I was born at the beginning of World War II — tend to be somewhat skeptical. It may also have to do with the fact that most Europeans do not have the very optimistic, can-do attitude of Americans. It's the Old World as opposed to the New World.

But your caution hasn't put you at a disadvantage during the long bull market.

No, in the 1980s it did not prevent us from compounding at a little more than 20 percent annually. Still, our investors know that we may not make them a tremendous amount of money, but they suspect that we will not lose much money either. We've held up very well in difficult markets. For instance, in 1987 we were up almost 14 percent.

Does your current pessimism explain your gold-related holdings?

We're bullish on gold for two reasons. First, the price of gold was \$850 an ounce in early 1980, and today it's \$370. I have a great belief that everything is cyclical in life, particularly in the investment world. Second, my bullishness on gold is predicated on the idea that the breakdown of credit will continue, and as it does, people will start worrying about paper money.

Why is your portfolio so heavily weighted toward the U.S.? Your name suggests it would be otherwise.

We received our name, SoGen International Fund, more than twenty years ago, at a time when there were no international funds to speak of. The people running the fund then thought, "We'll invest in American securities, but every now and then we'll have a couple of foreign securities. So we'll take the name 'international.'"

"We're pessimistic. We don't think this is a typical postwar cycle."

But today things are different. International funds are those that are supposed to invest only in foreign securities. We've thought about changing the name of the fund, but if keeping the name is confusing, changing it could be confusing as well.

You are more bullish about American securities.

We currently have a little more than twice as much money in the U.S. as we have outside the U.S. for two reasons. One, we own practically nothing in Japan. Since we are value investors, we don't want to play their game. Two, we generally feel more comfortable with American securities. We live here, we feel that public information is better. There are some places, like Australia and Hongkong, where minority shareholders can really be taken to the cleaners. We feel better protected here. So we have to constantly fight a bias toward American securities.

What other risks do you face when investing outside the U.S.?

When an emerging market becomes fashionable, it appreciates sharply because of foreign money pouring in, and when the foreign money exits, the local market is not deep enough to absorb the selling pressure. So we tend to shy away from emerging markets. We own a little bit in Mexico and Malaysia, but we own nothing in Thailand or Indonesia.

What are some of the advantages of investing outside the U.S.?

It is much easier to find value. In the U.S. there are too many people with sharp pencils competing with you. The money management business is still pretty much an Anglo-Saxon specialty, and in continental Europe and Asia, it's done very poorly. Also, most people in Europe and Asia are growth or momentum investors. If a stock has declined significantly, the Europeans and the Asians don't want to touch it. It's not

fashionable. That opens up a tremendous opportunity to value investors.

How do you get investment ideas?

We tend to be somewhat skeptical of Wall Street research because it's mostly oriented toward growth stocks or trading, which is just not our style. So either we develop our own investment ideas or count on being lucky enough to know a few brokerage firms that understand how we operate.

And how do you follow up on ideas?

With the help of brokerage firms throughout the world or simply by being on the mailing list of companies and getting public information every quarter in the U.S. and every six months, sometimes once a year, in countries outside the U.S. When we're buying a new stock, we usually don't feel comfortable enough with it to buy a full position. So we start on a small scale and then we develop a bed of knowledge about the company. And either it becomes a very large holding or it doesn't become a very large holding.

And when might you sell?

I sell when I think the stock is richly priced — somewhere in between fairly priced and expensive — which could happen after six months or after three or four years. And I sell when we realize our assessment of a company was wrong, though we don't get discouraged easily. We are willing to be patient.

What is it like covering the world markets from New York?

Sometimes people wonder how the three of us — there are two people working for me — can cover all the markets throughout the world, both from an equity and a fixed-income point of view. The answer, of course, is that we don't. There are only 24 hours in a day, and we have to sleep a little bit. But a value investor doesn't need to be constantly in touch with every security in every market in the world. And we are very patient investors. We'll wait years with a stock. Therefore we don't need day-to-day coverage. I travel very little. Whenever companies have meetings in New York, we go to those meetings, but our investment style does not really require visiting companies. And most of the brokerage and banking sources from Japan, Britain and France have operations here. Twenty years ago London was the place to be for international investing, but today New York is as good as London. ■

