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Folder ID:	1770394
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McNamara Papers

Bank actions
Profit transfer
Bank + IDA Financial Policy /
Allocation of Net Income

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GRW/ This is the 1964 paper reducing the commitment charge [illegible] 5 Dec

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

Bank/FPC64-5
IDA/FPC64-1

FROM: The Secretary

June 5, 1964

NOTICE OF MEETING

BANK AND IDA FINANCIAL POLICY

The attached memorandum from the President on Bank and IDA financial policy will be considered by the Financial Policy Committees of the Bank and IDA on Thursday, June 18, 1964, at a meeting scheduled to begin at 10:00 a.m.

Distribution:

Members of the Financial Policy Committees
President
Vice Presidents
Department Heads

From: The President

June 5, 1964

BANK AND IDA FINANCIAL POLICY

1. In view of the approaching end of the fiscal year, I believe that it would be desirable to have a review of certain aspects of the financial policy of the Bank and the Association. During the course of the year most of these matters have been discussed informally with Executive Directors individually or in groups. In this memorandum I summarize my recommendations and suggestions.

A. Bank Loan Charges

2. In my memorandum of July 18, 1963 (FPC 63-8), I stated that the Bank's current loan charges were both low and reasonable and that the arguments against any substantial reduction in those charges, particularly the effect of such a reduction in increasing the spread between the cost of borrowing from the Bank and borrowing from the market, were persuasive. On a further review I find no reason to change my opinion. As I also stated in my memorandum FPC 63-8, it would be reasonable, in view of the size of Bank earnings, to reduce the commitment charge made on the undisbursed portion of Bank loans. I recommend that, effective July 1, 1964, we reduce the rate of commitment charge from 3/4% to 3/8% per annum, and that this reduction apply to existing as well as new loans. This would result in an estimated decline in the Bank's net earnings of about $7 million next year and probably somewhat more thereafter. The benefit of the reduction would be realized by our most recent borrowers, almost all of them less developed countries.

3. Under our outstanding participation agreements with investors agreeing to purchase portions of Bank loans, we are required to pay them commitment charge at the rate of 3/4% per annum on amounts committed by them but not yet called by us. A reduction of commitment charge under our existing loan agreements would not in my opinion entitle us to reduce the commitment charge on outstanding participations and the Bank would have to absorb the difference. I see no objection to this. The Treasurer estimates the amount involved at about $100,000.

4. Action required. Action on the foregoing recommendation can be taken by the Executive Directors. A draft resolution is attached hereto as Annex A. If the effective date of the reduction of commitment charge is to be July 1, 1964, the resolution should be adopted before that date. There is no need to amend existing loan agreements. As was done when commitment charge was reduced in 1950 the Bank will inform borrowers that their obligations to pay commitment charge will be validly discharged by payment at the reduced rate.

B. IDA Service Charges

5. In determining the initial terms and conditions for IDA credits, it was decided that credits would not carry interest but that borrowers would be charged a service charge on outstanding portions of credits intended to cover the administrative expenses of the Association. The rate of service charge was fixed at 3/4% per annum with the intention that this rate would be reviewed from time to time and that once the volume of IDA lending warranted a reduction of the charge, it would be reduced. For the current fiscal year IDA's administrative expenses are expected to amount to $2.7 million and receipts from service charges are estimated to be $1 million. Projections for the fiscal year 1964-65 indicate administrative expenses of $3.2 million and receipts from service charges of $2.4 million. The Treasurer believes that during fiscal year 1965-66 receipts from service charges at 3/4% per annum will equal or exceed IDA's administrative expenses. We shall review the question again next year.

C. Reserves

i. Allocation of Net Income

6. In accordance with my recommendation, the Executive Directors on September 24, 1963, adopted Resolution No. 63-33 discontinuing, with effect from July 1, 1963, the automatic allocation of the Bank's net income to the Supplemental Reserve. This action of the Executive Directors was noted with approval by the Board of Governors at the last Annual Meeting. As a result of this decision the net income of the Bank accruing during the current fiscal year is reflected on the books of the Bank as "net income" subject to any further action which the Executive Directors or the Board of Governors may appropriately take with respect thereto by way of allocation to reserves or surplus or otherwise.

7. As of May 31, 1964, the Bank's Supplemental Reserve stood at $558 million and the Special Reserve at $285 million. In my opinion the present level of our reserves is such that it is not necessary to add thereto the full amount of net income for the current year, which is estimated to be approximately $97 million. More specifically, it would in my view be sufficient if only about one-half of this year's net income would be added to the Supplemental Reserve. I recommend that the remainder be transferred as a grant to the International Development Association. My proposal with respect to this transfer is stated in more detail in paragraphs 14-19.

8. Action required. In line with earlier practice the allocation of the suggested portion of net income to reserves (approximately $47 million) can be effected by the Executive Directors who would report

their action to the Board of Governors with the recommendation that the Board of Governors note it with approval. A draft Report of the Executive Directors to the Board of Governors with accompanying draft resolution will be circulated at a later date. Action on this matter should be taken as soon as possible after the end of the fiscal year, i.e. in early July.

ii. Commission

9. I have one further recommendation to make with respect to our reserves. Our reserves consist of the Special Reserve and the Supplemental Reserve. As of May 31, 1964 the Special Reserve amounted to $285 million. The funds in the Special Reserve, unlike those in the Supplemental Reserve, must under the Articles be kept in liquid form to be used solely to meet the Bank's obligations arising out of its borrowings or guarantees. Accordingly, these funds may not be used for lending operations. I feel that the amount of the Special Reserve is such that it is no longer necessary to continue thus to segregate a substantial portion of our income.

10. The Special Reserve is built up out of the 1% loan commission. I recommend that, subject to the exception noted in paragraph 12 below, the Executive Directors discontinue this set-aside on existing as well as future loans and that we treat all income from loan charges as part of our regular income. Net income would thus be increased by the equivalent of what otherwise would have gone into the Special Reserve. This action would not affect loan charges; nor would it affect the amount of the Bank's income which would be available in the future for reserves (whether the Supplemental Reserve or the Special Reserve) if such use of the income would be thought desirable at any time. It would, however, put an end to the automatic allocation of a portion of our income to a segregated reserve fund, the Special Reserve, which is not available for Bank operations generally.

11. Technically this action would take the form of a decision to reduce to zero the so-called statutory commission, to be effective July 1, 1964 and to apply to future loans as well as outstanding portions of existing loans. Under the Articles (Article IV, Section 4(a)) the Bank was required during the first ten years of its operations to charge a commission on the outstanding portions of all loans made out of borrowed funds at a rate of not less than 1% per annum. (In practice, the Bank charged commission on all loans, including those made out of capital.) Since the end of the ten year period (1956) the Bank has been free to reduce the rate of commission with respect to future loans as well as the outstanding portions of loans already made.

12. In its early years the Bank followed the practice in its loan agreements of stating the charge for interest and the commission charge separately. After the Bank had changed this practice and adopted a "gross"

interest charge, this charge was described in a number of loan agreements as "interest (including commission)". Since 1951 this charge has been described as "interest" and the loan documents have contained no reference to commission and the rate of commission is determined by the Executive Directors in their resolution authorizing the loan. In this last group of agreements, which represents the overwhelming majority of the Bank's loan portfolio, a decision to reduce the commission to zero would clearly not affect the loan charges payable by the borrower. However, there might be some question as to whether loan charges would be affected by such a decision in the cases of loan agreements which state the commission separately or which refer to "interest (including commission)". I therefore recommend that the proposed action by the Executive Directors include only those loans made under loan agreements which contain no reference to commission The outstanding portions of loans on which commission would not be reduced aggregate approximately $86 million. The effect of this exclusion would be that as to those loans the 1% commission would continue to accrue to the Special Reserve.

13. Action required. Action on the foregoing recommendation can be taken by the Executive Directors. A draft Resolution is attached hereto as Annex B. If the effective date of the proposed action is to be July 1, 1964, the Resolution should be adopted before that date.

D. Transfer to IDA

14. The possibility of a transfer of some portion of the Bank's net income to IDA in order to meet part of IDA's need for loanable funds has been under discussion for nearly two years and the arguments for and against such a transfer were set out in some detail in a staff paper dated January 31, 1963 (FPC 63-5) on pages 15-17. In my memorandum of July 18, 1963 (FPC 63-8) I declared myself opposed to a transfer at that time. My view was based primarily on the consideration that a direct transfer then would have adversely affected the Bank's standing in the financial communities of the world. However, during the past six months I have explored the matter once again with our principal bankers and have had numerous exploratory discussions with others. As a result of these meetings I have concluded that action along the lines indicated below would now be accepted by investors and financial observers, commentators and rating agencies as an acceptable use of the Bank's resources.

15. While it is impossible to say with any degree of precision what level of reserves the Bank requires, I think there is a consensus that the Bank need not at the present time add to reserves the full amount of the current year's net income. As I stated in paragraph 7 of this memorandum, it would in my opinion be sufficient if only approximately one-half of this year's net income were added to reserves. It is my opinion that the balance could

prudently be distributed as a dividend or otherwise disposed of. In my memorandum FPC 63-8 of July 18, 1963, I concluded that on balance the arguments against payment of a dividend were more compelling than those in support of a dividend, and I noted that this view appeared to be consistent with the consensus of the Executive Directors.

16. I therefore recommend that the Bank transfer as a grant an amount of $50 million out of net income for the year 1963-64 to the International Development Association. I further recommend that, since a transfer of funds to the Association may raise questions in the minds of investors in the Bank's bonds as to the intentions of the Bank in this regard with respect to future years, the Bank adopt a statement of policy along the following lines:

> Transfers to the Association will be made only to the extent that there is available net income which (i) accrued during the fiscal year in respect of which the transfer is made, and (ii) in the opinion of the Bank is not needed for allocation to reserves and, accordingly, would be available for distribution as dividends.

17. In the course of earlier discussions of this proposal it has been suggested that because of the importance of the proposal formal interpretations of the Articles of Agreement of the Bank and IDA that the recommended action is within the powers of the institutions would be desirable. The General Counsel advises that there are adequate arguments to support such interpretations.

18. Since the proposal is to make the grant out of net income, it is my opinion that it is appropriate that final action on the proposal should be taken by the Board of Governors.

19. Action required. The implementation of the foregoing recommendations will require the following steps:

(a) The adoption by the Executive Directors of interpretations of the Articles of Agreement of the Bank and the Association;

(b) A report from the Executive Directors to the Board of Governors recommending the proposed transfer and the adoption of the policy statement along the lines of paragraph 16 above, together with an appropriate draft resolution; and

(c) Action by the Board of Governors on the recommendations of the Executive Directors.

Drafts of the necessary papers will be circulated at a later date. Action on these matters should be taken by the Executive Directors as soon as possible after the end of the fiscal year, i.e. in early July.

George D. Woods
President

Record Removal Notice

File Title	Barcode No.
Board Actions - Profit Transfer - Bank and IDA financial policy 03	1770394

Document Date	Document Type
Jul 1, 1964	Board Record

Correspondents / Participants

Subject / Title
IBRD - Resolution No. - Reduction of Commitment Charge (Draft)

Exception No(s).

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐ 8 ☐ 9 ☐ 10 A-C ☐ 10 D ☐ Prerogative to Restrict

Reason for Removal
Board Record

Additional Comments
Declassification review of this record can be initiated upon request

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Withdrawn by	Date
Chandra Kumar	Jun 13, 2014

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on July 18, 1967

R67-106

FROM: The President

July 17, 1967

ALLOCATION OF NET INCOME FOR FISCAL YEAR 1966-67

1. On July 12, 1967, four tables were distributed to the Executive Directors (attachments to Document R67-101) containing information about the Bank's financial position relevant to the consideration of the allocation to be made of the Bank's net income for the fiscal year 1966-67. The key point to be considered is whether or not a recommendation is to be made to the Board of Governors at its forthcoming Annual Meeting that part of the net income for the fiscal year 1966-67 be transferred as a grant to the International Development Association. During the meeting of the Executive Directors on Thursday, July 13, 1967, I called attention to these tables and stated my intention soon to present a memorandum containing my recommendation about this matter and the considerations underlying it. That is the purpose of this memorandum. To facilitate discussion, one of the four tables previously distributed, with minor adjustments, is attached and labelled Table I.

2. On July 27, 1950, the Executive Directors adopted a resolution providing that the net income of the Bank for the preceding fiscal year "and the net income of the Bank accruing thereafter" should be allocated to what is now called the Supplemental Reserve until further action on this matter should be taken by the Executive Directors or the Board of Governors. The Board of Governors at its Fifth Annual Meeting, in that year, by Resolution No. 55 noted this decision with approval. In accordance with this policy, net income of the Bank for the fiscal year 1949-50 and for the succeeding years up through June 30, 1963 was regularly transferred to the Bank's Supplemental Reserve. In their review of the financial policy of the Bank in September 1963, the Executive Directors concluded that the practice of automatically allocating all net income to this Reserve should be discontinued, and that the allocation to be made of the net income of future fiscal years should be decided at the end of each year. In a report of July 30, 1964 to the Board of Governors (Board of Governors Document No.4), the Executive Directors recommended:

Distribution:

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

that $50 million of the Bank's net income for the fiscal year ended June 1964 be transferred to the International Development Association by way of a grant; and

the approval of the following "statement of policy" with respect to possible transfers in future years:

"Any transfers to the Association will be made only out of net income which (i) accrued during the fiscal year in respect of which the transfer is made and (ii) is not needed for allocation to reserves or otherwise required to be retained in the Bank's business and, accordingly, could prudently be distributed as dividends."

Both the recommended transfer and the statement of policy were approved by the Board of Governors at the meeting held September 10, 1964 (Resolution No. 208). For each of the fiscal years 1964-65 and 1965-66, the Executive Directors recommended that $75 million of the Bank's net income should be transferred to IDA and that the balance should be transferred to the Supplemental Reserve, and these decisions were formally approved by the Board of Governors.

3. The net income of the Bank for the fiscal year ended June 30, 1967 (unaudited) was $169,596,227. In addition, the Bank had commission income for that fiscal year amounting to $684,528 which was appropriated to the Special Reserve. As of June 30, 1967:

the Special Reserve totaled	$ 290,422,318;
the Supplemental Reserve amounted to	$ 732,574,509; and
total reserves were	$1,022,996,827.

As you know, the Special Reserve assets are kept in liquid form whereas the assets corresponding to the Supplemental Reserve are used in the business of the Bank.

4. Table I, attached, entitled "Financial Activities - Actual for Fiscal Year 1967 and Forecast for Fiscal Years 1968, 1969 and 1970", contains the figures which bear most directly upon the question of whether the Bank's net income for fiscal 1967 is "needed for allocation to reserves or otherwise required to be retained in the Bank's business." Some of the important points evident in this table a/ and their relation to the question under consideration are, briefly:

A. New loans committed (column 1) are estimated to rise modestly during the next three years, going from $877 million in the year just ended to $900 million in 1967-68 and thereafter increasing by $100 million a year.

---

a/ To facilitate the interpretation of this table, and to illustrate how these figures have been obtained, there is also attached as Appendix A a brief explanatory note illustrating how the estimates of "new funds needed" (Column 9) and "aggregate new borrowings" (Column 11) were made.

B. The trend of increasing cash disbursements (Column 5) against our outstanding commitments is expected to continue, rising from $790 million in 1966-67 to $850 million in 1967-68 and increasing thereafter by $50 million each year.

C. Even assuming that the Bank's net income continues at, or slightly above, the level reached this last year, and that it is all transferred to the Bank's Supplemental Reserve (with no transfers to IDA), the amounts of new money which the Bank will have to borrow (Column 11) in each of the indicated fiscal years to sustain the estimated levels of new operations, while maintaining a sound financial position, are large. Because of the critical importance of this point, it is more fully discussed below.

5. The figure of $554 million at the head of Column 11 is the aggregate amount of new borrowings (including refundings) made during the fiscal year 1967, which leaves us with a "lendable cash balance" (Column 6) of $1,337 million as of June 30, 1967. Assuming that there are no transfers to IDA and that the entire net income of the last fiscal year ($170 million) and of the fiscal year 1967-68 (estimated at $169 million) is retained for Bank use, aggregate new borrowings for the fiscal year ending June 30, 1968 would come to about $789 million. If we assume that the $303 million of IBRD maturing debt held by Central Banks (Column 10b) can be refunded, aggregate new borrowings in the public markets of $486 million ($789 million minus $303 million) would still be required. Moreover, this figure assumes that all repayments due the Bank in fiscal 1968 on outstanding loans ($253 million, see Column 3) will be made on schedule and be usable for Bank operations. We already know that one of our largest debtors has requested an adjustment of debt service within this period.

6. Were we to continue to transfer $75 million a year to IDA, the figure of $486 million just mentioned would become $638 million and there would be corresponding increases in the estimates of aggregate new IBRD borrowings in succeeding years. An appreciation of the effect of a decision to transfer $75 million to IDA from the net income of 1966-67, and from the net income of each of the three succeeding years, upon the estimates of aggregate new IBRD borrowings can be obtained from the following figures:

	(Units of $1 million) 1968	1969	1970
I. Aggregate new borrowings:			
A. Without any transfers to IDA (Column 11)	789	884	771
B. With a transfer of $75 million each year to IDA	941	966	856
II. Aggregate new borrowing in the public markets assuming refunding of bonds held by Central Banks:			

	(Units of $1 million) 1968	1969	1970
A. Without any transfers to IDA (Column 9 + Column 10a)	486	523	426
B. With transfer of $75 million each year to IDA	638	605	511

These estimates are all based on the assumption that our "lendable cash balance" (Column 6) is allowed to drop from its June 30, 1967 level of $1,337 million to a level of $1,250 million and held constant at that level despite the narrowing margin between it and the rising loan disbursements. The estimates in Section II above further assume that we are able successfully to refund during the ensuing three years obligations totaling about $1 billion now held by Central Banks (including the Deutsche Bundesbank) and maturing during that time.

7. During the fiscal year just concluded, the Bank has experienced difficulty in borrowing $290 million in the public capital markets of the world even though we have been paying the highest rates of interest in our history. Sales from our portfolio are practically at a standstill. In my judgment, it will be no small task for the Bank to raise on the capital markets in this fiscal year the large amount that will be needed even if there is no grant to IDA. The increasing burden of debt service of our member countries makes less reasonable the assumption that repayments due on existing loans will accrue to the Bank in a form usable for its operations, as forecast in Column 3. It would be unwise to permit our "lendable cash balance" to drop below the level of $1,250 million on which these estimates are based. Weighing these considerations, I conclude:

a. that the entire net income earned by the Bank in the fiscal year 1966-67 is required for Bank business;

b. that the greater increase in Bank reserves, which would result from a decision to retain the entire net income, would be a desirable safeguard against the possibility that some of the favorable assumptions on which the forecast was based may not in fact be realized; and

c. that it would not be prudent to distribute any of the net income as a dividend.

8. I recommend that the entire net income of the Bank for the fiscal year 1966-67 be transferred to the Bank's Supplemental Reserve and that the attached resolution to this effect be approved. A draft of the report of the Executive Directors to the Board of Governors on this matter will be presented for your consideration after a definite decision has been taken.

George D. Woods
President

Attachments

Record Removal Notice

File Title	Barcode No.
Board Actions - Profit Transfer - Bank and IDA financial policy 03	1770394

Document Date	Document Type
Jun 30, 1967	Board Record

Correspondents / Participants

Subject / Title
IBRD - Resolution No. - 67 - Allocation of Net Income to Supplemental Reserve (Draft)

Exception No(s).

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐ 8 ☐ 9 ☐ 10 A-C ☐ 10 D ☐ Prerogative to Restrict

Reason for Removal
Board Record

Additional Comments
Declassification review of this record can be initiated upon request

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Chandra Kumar	Jun 13, 2014

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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TABLE I

Financial Activities - Actual for Fiscal Year 1967 and
Forecast for Fiscal Years 1968, 1969 and 1970

(Expressed in Millions of U.S. Dollars)

Fiscal Years Ending June 30	Loan Commitments Made (1)	Additional Available Capital (2)	Loans Repaid to Bank (3)	Loans Sold (4)	Loans Disbursed (5)	Lendable Cash Balance * (6)	Undisbursed Balance of Loan Commitments * (7)	Loans Disbursed Held by Bank * (8)	New Funds Needed (9)	IBRD Debt Maturing ** (10) Public (10a)	Central Banks (10b)	Aggregate New IBRD Borrowings (11)	Total IBRD Debt Outstanding * (12)	Grants to IDA (13)	Cumulative Reserves * Supplemental (14)	Special (15)	Total (16)
1967 (actual)	877	46	188	69	790	1337	2393	4741	328	62	164	554	3309 ***	-	902	290	1192
1968 (estimated)	900	10	253	50	850	1250	2443	5288	281	205	303	789	3590	-	1071	290	1361
1969 (estimated)	1000	10	303	50	900	1250	2543	5835	363	160	361	884	3953	-	1245	290	1535
1970 (estimated)	1100	6	342	50	950	1250	2693	6393	372	54	345	771	4325	-	1425	290	1715

Fiscal Years Ending June 30	Total Reserves to Loans Outstanding	Total Reserves to Borrowings Outstanding
1967	25.1	36.0
1968	25.7	37.9
1969	26.3	38.8
1970	26.8	39.7

* End of period

** Column (10a) represents maturities and sinking funds relating to Bond issues originally offered to the public.

Column (10b) represents Bond issues originally placed privately with Central Banks and other financial institutions of member Governments and loans from Swiss Confederation.

*** Includes delayed deliveries

Self-evident assumptions appear in columns 1-6 of the above statement. Others are as follows:

(a) New loans are assumed to have an average life of about 14 years with amortization of some loans beginning in the third year and in some loans a final maturity of 35 years.

(b) Loan sales are assumed to be of maturities from two to eight years with an average life of about four and one-half years.

(c) No realized losses.

Treasurer's Department
Finance Division
July 12, 1967
Revised July 13, 1967

APPENDIX A

Explanatory Note on the Estimates of New Funds Needed and Aggregate New IBRD Borrowings in Table I attached

		In Millions
1. The "lendable cash balance" (column 6), which represents funds available to the Bank (including funds due for bonds sold under delayed delivery and all of the 1966-67 net income of $170 million), was as of June 30, 1967		$1,337
2. During fiscal 1968 funds will be needed for the following:		
a. Loan disbursements (column 5)	$ 850	
b. Repayment of maturing debt:		
(i) held by the public (column 10a)	205	
(ii) held by Central Banks (column 10b)	303	
(iii) Total repayments of maturing debt	$ 508	
c. Sub-total (2a plus 2b)		$1,358
3. During fiscal 1968 it is estimated that funds will become available from the following sources:		
a. Additional available capital (column 2)	$ 10	
b. Funds repaid to the Bank under outstanding loans (column 3)	253	
c. Participations and portfolio sales (column 4)	50	
d. Net income for 1967-68 (shown in Table I only as the increase in Supplemental Reserve) (column 14)	169	
e. Portion of "lendable cash balance" utilized during year (difference between balances in 1967 of $1,337 and 1968 of $1,250 - column 6)	87	
f. Sub-total		$ 569
4. Aggregate new borrowings (item 2c minus item 3f) (column 11)		$ 789
5. The figure "new funds needed" in column 9 is the difference between "aggregate new borrowings" ($789) and debt maturing [item 2b (iii) above] of $508 and is the increase in total IBRD debt outstanding from year end 1967 to year end 1968 as shown in column 12 ($3,590 minus $3,309).		$ 281

July 14, 1967

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

R67-101

FROM: The President

July 12, 1967

ALLOCATION OF NET INCOME

In accordance with my advice at the meeting of Executive Directors on July 6, the following statements are attached to be used as a basis for the consideration of the allocation of net income of the Bank for fiscal year 1966-67:

(1) FINANCIAL HIGHLIGHTS

(2) FINANCIAL ACTIVITIES - ACTUAL FOR FISCAL YEAR 1967 AND FORECAST FOR FISCAL YEARS 1968, 1969 AND 1970

(3) ACTUAL FISCAL YEAR 1966-67 AND ESTIMATED FISCAL YEARS 1967-68 AND 1968-69 IBRD CASH FLOW

(4) PROJECTION OF NET INCOME

Any questions which the Executive Directors may have in mind can, if time permits, be discussed at the meeting on Thursday, July 13, 1967.

Distribution:

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

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FINANCIAL HIGHLIGHTS

(Expressed in millions of United States Dollars)

	FISCAL YEARS								
	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
LOANS:									
Loans signed	703	659	610	882	449	810	1,023	839	877
Disbursements	583	544	399	485	620	559	606	668	790
Repayments: to Bank	45	74	101	104	113	117	137	166	188
to others	64	84	90	122	131	150	163	162	158
Loans sold	148	243	202	319	273	173	106	82	69
FUNDED DEBT:									
Bonds sold*	432	374	787	271	121	100	598	463	554
Maturities and sinking fund purchases	199	187	499	163	126	132	348	224	226
Debt outstanding*	1,937	2,124	2,424	2,528	2,524	2,492	2,742	2,981	3,309
INCOME:									
Investment income	25.8	38.8	43.4	54.2	59.5	62.3	61.3	63.1	71.9
Loan income	119.4	137.5	150.9	162.9	174.6	188.9	205.0	226.9	255.7
Other income	1.0	1.6	1.1	1.2	1.1	1.1	1.3	2.4	4.3
Gross income including commission	146.2	177.9	195.4	218.3	235.2	252.3	267.6	292.4	331.9
Loan commission (included above)	24.0	27.0	28.8	30.0	31.3	33.1	.9	.8	.7
Discount on sale of loans	-	4.1	3.4	6.3	1.1	.2	.1	.1	-
Bond interest and issue costs	66.0	77.2	88.0	99.0	103.7	102.6	107.4	118.0	130.8
Administrative expenses	9.7	10.1	12.0	12.7	16.4	18.9	22.3	29.8	30.8
Net Income	46.5	59.5	63.2	70.3	82.7	97.5	136.9	143.7	169.6
Transfer to IDA	-	-	-	-	-	50.0	75.0	75.0	**
Allocation to Supplemental Reserve	-	-	-	-	-	47.5	61.9	68.7	**
CAPITAL AND RESERVES:									
Supplemental Reserve balance	282	342	408	476	558	558	606	664	**
Special Reserve balance	138	165	194	223	255	288	289	290	290
Subscribed Capital	9,557	19,308	20,093	20,485	20,730	21,186	21,669	22,426	22,850

* Based on offering date and including delayed deliveries

** To be determined

Treasurer's Department
Finance Division
July 10, 1967

CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Financial Activities - Actual for Fiscal Year 1967 and Forecast for Fiscal Years 1968, 1969 and 1970

(Expressed in Millions of U.S. Dollars)

Fiscal Years Ending June 30	Loan Commitments Made (1)	Additional Available Capital (2)	Loans Repaid to Bank (3)	Loans Sold (4)	Loans Disbursed (5)	Lendable Cash Balance * (6)	Undisbursed Balance of Loan Commitments * (7)	Loans Disbursed Held by Bank * (8)	New Funds Needed (9)	IBRD Debt Maturing ** (10) Public (10a)	IBRD Debt Maturing ** (10) Central Banks (10b)	Aggregate New IBRD Borrowings (11)	Total IBRD Debt Outstanding * (12)	Grants to IDA (13)	Cumulative Reserves * Supplemental (14)	Cumulative Reserves * Special (15)	Cumulative Reserves * Total (16)
1967 (actual)	877	46	188	69	790	1337	2393	4741	328	62	164	554	3309 ***	-	902	290	1192
1968 (estimated)	900	10	253	50	850	1250	2443	5288	275	205	303	783	3584	-	1071	290	1361
1969 (estimated)	1000	10	303	50	900	1250	2543	5835	361	160	361	882	3945	-	1245	290	1535
1970 (estimated)	1100	6	342	50	950	1250	2693	6393	371	54	345	770	4316	-	1425	290	1715

Fiscal Years Ending June 30	Total Reserves to Loans Outstanding	Total Reserves to Borrowings Outstanding
1967	25.1	36.0
1968	25.8	38.0
1969	26.3	38.9
1970	26.9	39.8

* End of period

** Column (10a) represents maturities and sinking funds relating to Bond issues originally offered to the public.

Column (10b) represents Bond issues originally placed privately with Central Banks and other financial institutions of member Governments and loans from Swiss Confederation.

*** Includes delayed deliveries

Self-evident assumptions appear in columns 1-6 of the above statement. Others are as follows:

(a) New loans are assumed to have an average life of about 14 years with amortization of some loans beginning in the third year and in some loans a final maturity of 35 years.

(b) Loan sales are assumed to be of maturities from two to eight years with an average life of about four and one-half years.

(c) No realized losses.

Treasurer's Department
Finance Division
July 12, 1967

CONFIDENTIAL

ACTUAL FISCAL YEAR 1966-67 AND ESTIMATED FISCAL YEARS 1967-68 AND 1968-69 IBRD CASH FLOW

(Expressed In Millions of U.S. Dollars)

	Actual Fiscal Year 1966-67		Estimated Fiscal Year 1967-68		Estimated Fiscal Year 1968-69	
Cash Outflow:						
Sinking Fund Purchases (A)		54		50		50
Debt Maturing (B)		172		458		471
Loan Disbursements		790		850		900
Total		1016		1358		1421
Cash Inflow:						
Capital	53		29		17	
Profits	170		169		174	
Loan Repayments	188		253		303	
Loan Sales	69	480	50	501	50	544
Net Cash Outflow Before Reflecting Proceeds of Debt Issues		536		857		877
Proceeds of Debt Placed Before 7-1-66 (C)	101		74		-	
Proceeds of Debt Placed Since 7-1-66 (D)	230		71		89	
Debt Refunding (E)	164	495	303	448	361	450
Net Cash Outflow After Reflecting Debt Already Placed and Estimated Debt Refunding		41		409		427

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July 12, 1967

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N O T E S

(A)

	1967	1968	1969
Canada	1	1	1
Germany	7	5	5
Netherlands	2	2	2
Switzerland	1	1	1
U.K.	2	2	2
U.S.	41	39	39
	54	50	50

(B)

	1967	1968	1969
Austria	-	5	-
Belgium	-	-	10
Canada	-	-	15
Central Banks	100	200	200
Germany	64	91	161
Switzerland	8	12	35
U.S.	-	150	50
	172	458	471

(C) U.S. Issue of $175 million placed in June 1966

(D)

	1967	1968	1969
Canada	18	-	-
Central Banks	100	-	-
Switzerland	22	-	-
U.S.	90	71	89
	230	71	89

(E)

	1967	1968	1969
Central Banks	100	200	200
Germany	64	91	161
Switzerland	-	12	-
	164	303	361

Robert W. Cavanaugh
July 12, 1967

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Projection of Net Income

(In millions of U.S. dollars)

	Fiscal Year Ended June 30			
	Actual	Estimated		
	1967	1968	1969	1970
Income from investments at 5%	72	65	70	72
Interest income from loans:				
Loans now outstanding at 5.64%	247	281	305	318
New loans at 6%		2	9	28
Commitment income	8	9	9	10
Other income	4	2	2	2
Gross income	331	359	395	430
Administrative and SMC expenses	31	35	37	39
Borrowing costs:				
Debt now outstanding at 4.61%	130	133	115	101
New borrowings at 5.54%		22	69	110
Total expense	161	190	221	250
Net income	170	169	174	180
Ratio of income available to cover borrowing costs to borrowing costs	2.31:1	2.09:1	1.95:1	1.85:1

Treasurer's Department
Finance Division
July 12, 1967

E

Record Removal Notice

File Title	Barcode No.
Board Actions - Profit Transfer - Bank and IDA financial policy 03	1770394

Document Date	Document Type
Jun 30, 1968	Board Record

Correspondents / Participants

Subject / Title
Annex B - IBRD - Resolution No. - Allocation of Net Income to Supplemental Reserve (Draft)

Exception No(s).

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐ 8 ☐ 9 ☐ 10 A-C ☐ 10 D ☐ Prerogative to Restrict

Reason for Removal
Board Record

Additional Comments
Declassification review of this record can be initiated upon request

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Chandra Kumar	Jun 13, 2014

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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FOR EXECUTIVE DIRECTORS' MEETING

For consideration on July 30, 1968

R68-127

FROM: The President

July 16, 1968

ALLOCATION OF NET INCOME, FISCAL YEAR 1967-68

1. The question arises whether or not a recommendation is to be made by the Executive Directors to the Board of Governors at its forthcoming Annual Meeting that part of the Bank net income for the fiscal year 1968 be transferred as a grant to IDA, and if so how much such a grant should be. This memorandum contains my recommendation on this matter in the light of past decisions and other relevant considerations.

2. On July 27, 1950, the Executive Directors adopted a resolution providing that the net income of the Bank for the preceding fiscal year "and the net income of the Bank accruing thereafter" should be allocated to what is now called the Supplemental Reserve against Losses on Loans and Guarantees until further action on this matter should be taken by the Executive Directors or the Board of Governors. The Board of Governors at its Fifth Annual Meeting, in that year, by Resolution No. 55 noted this decision with approval. In accordance with this policy, net income of the Bank for the fiscal year 1950 and for the succeeding years up through June 30, 1963 was regularly transferred to the Bank's Supplemental Reserve. In their review of the financial policy of the Bank in September 1963, the Executive Directors concluded that the practice of automatically allocating all net income to this Reserve should be discontinued, and that the allocation to be made of the net income of future fiscal years should be decided at the end of each year.

Distribution:

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

3. On June 5, 1964 the President recommended to the Executive Directors that approximately one half of that year's net income, namely $50 million, be transferred to IDA as a grant (FPC 64-5). In addition, he recommended that the Bank adopt a statement of policy with regard to possible transfers in future years. Both these recommendations were adopted, and in their report to the Board of Governors the Executive Directors dealt with the statement of policy as follows:

> "While the conclusions of the Executive Directors with respect to the desirability of a grant to the International Development Association were reached with respect to net income for the fiscal year 1963-64 only, they have noted that similar action might be appropriate in future years. While such action would have to be decided upon with respect to each fiscal year in the light of all relevant circumstances, and particularly taking into account the need for additions to the Bank's reserves, the Executive Directors consider it appropriate that the Bank should at this time adopt a statement of policy with respect to possible transfers in future years in the following terms:
>
> 'Any transfers to the Association will be made only out of net income which (i) accrued during the fiscal year in respect of which the transfer is made and (ii) is not needed for allocation to reserves or otherwise required to be retained in the Bank's business and, accordingly, could prudently be distributed as dividends.'"

2 ques: 1) need? "safety Res" to [illegible] funded debt 2) need? cash

Both the recommended transfer and the statement of policy were approved by the Board of Governors at the meeting held September 10, 1964 (Resolution No. 208). For each of the fiscal years 1965 and 1966, the Executive Directors recommended that $75 million of the Bank's net income of $137 million and $144 million, respectively, should be transferred to IDA, and these recommendations were approved by the Board of Governors. In fiscal 1967, however, the Executive Directors recommended, and the Board of Governors approved, that only $10 million of the Bank's net income of $170 million should be transferred to IDA.

4. The major consideration which led the President and the Executive Directors to recommend the transfer to IDA of a substantial portion of the Bank's net income in the fiscal years 1964, 1965 and 1966 was that the level of reserves was such that it was not necessary to increase them by the full amount of the net income for those years. The best way of ensuring that that portion of net income which was not needed for the Bank's reserves would continue to be used effectively for high priority economic development was to transfer it to IDA.

i.e. no need? [illegible] for safety funded debt [illegible] change [illegible] today

5. The decision of the Executive Directors to transfer only $10 million to IDA in fiscal 1967 was made on the basis of a memorandum from the President which had recommended that there should be no transfer in that year since in his view the entire net income of the Bank was required for Bank business (R67-106); the President stated that in his judgment it would be no small task for the Bank to raise on the capital markets in fiscal 1968 the large amount that would be needed even if there were no grant to IDA. During the discussion in the Executive Board, the President withdrew the recommendation in the memorandum and substituted a recommendation that $10 million should be transferred to IDA. The decision to make a "token transfer" of $10 million was taken in order to avoid giving the impression to potential IDA donor countries that the Bank attached less importance to IDA.

i.e. [illegible] diff between 75 [illegible]

6. Since the first decision to make a transfer was taken, in 1964, the relationship between the Bank's reserves and its receivables from loans and funded debt has changed only slightly. The ratio of reserves to receivables from loans was 25.5 percent on June 30, 1963, and was still 25.5 percent on June 30, 1968. The ratio of reserves to funded debt rose from 32.3 percent in 1963 to 40.4 percent in 1968 (see Annex A). The financial position of the Bank is sufficiently strong to make possible a transfer to IDA of approximately half of the net income of fiscal 1968. It is true that to make a grant to IDA increases the amount which the Bank has to borrow, but I believe that the Bank can raise the funds it will need in the forthcoming fiscal year and, in my opinion, it will not be necessary to forego a grant to IDA in order to reduce the Bank's borrowing program by a relatively small amount.

7. Moreover, I believe there are persuasive reasons why the Bank should make a substantial transfer to IDA at this time. With the growing burden of external debt which developing countries are called upon to service the importance of providing more aid on concessionary terms increases, and, at the same time, more countries are in a position to make effective use of IDA credits. The proposed grant to IDA would provide additional low cost aid at a time when such aid is increasingly needed and would demonstrate the Bank's support for IDA at a time when donor countries have to make critical decisions regarding IDA replenishment.

8. In the light of all these considerations I believe it would be appropriate, and in accordance with the statement of policy referred to in paragraph 3, for the Bank to transfer to IDA an amount of $73 million which is equal to approximately one-half of its net income, after devaluation losses, in fiscal 1968.

9. I therefore recommend that out of the net income for fiscal year 1968, now estimated at $145.9 million, (a) $72.9 million be transferred to the Supplemental Reserve, and (b) the remainder of the net income, $73 million, be transferred to the Association by way of grant.

10. There are attached hereto (a) a draft resolution of the Executive Directors allocating a portion of net income to the Supplemental Reserve (Annex B) and (b) a draft report of the Executive Directors to the Board of Governors on allocation of net income (Annex C).

Robert S. McNamara
President

Attachments

ANNEX A

IBRD: RATIO OF RESERVES TO RECEIVABLES FROM LOANS AND FUNDED DEBT

End of Fiscal Year	Reserves as percentage of Receivables from Loans	Reserves as percentage of Funded Debt
1963	25.5	32.3
1964	25.7	35.9
1965	25.0	35.1
1966	24.2	36.4
1967	24.9	38.5
1968 1/	25.5	40.4
1968 2/	24.1	38.2

1/ Assuming all net income allocated to reserves.

2/ Assuming $73 million allocated to grant to IDA.

Because of indirect relationship to transfer of profit I should like to inform the Dirs I have this [illegible] sent a note to Fed Res [illegible] marketing of 400m [illegible] Das [illegible] Blessing - Pres Bundesbank.

ITEM 10

Allocation of Net Income

The next item deals with allocation of net income of the Bank for the fiscal year 1967-68. The documents distributed are R68-127 and SecM68-240.

145.9
23.2
169.1
73.
96.1

As Report R68-127 states, our net income after [illegible] of [illegible] loans for fiscal year 1968 is now estimated at $145.9 million. Of this amount I recommend that $72.9 million be transferred to the Supplemental Reserve, and the remainder, $73 million, be transferred to the Association by way of grant.

(Comments and Discussion)

Recommended Action:

That the Executive Directors approve the Report R68-127 and its recommendations, including the draft report and draft resolution to the Board of Governors, and adopt the resolution attached as Annex B to document R68-127.