

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996

Folder ID: 30484998

Dates: 11/03/1995 – 09/05/1996

Subfonds: Records of President James D. Wolfensohn

Fonds: Records of the Office of the President

ISAD Reference Code: WB IBRD/IDA EXC-13

Digitized: 03/13/2025

To cite materials from this archival folder, please follow the following format:

[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED



30484998

R2002-036 Other #: 18 Box #: 186468B

President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Matters
Breakfast - Michel Camdessus Meeting - March 6, 1996

**DECLASSIFIED
WITH RESTRICTIONS
WBG Archives**

**DECLASSIFIED
WITH RESTRICTIONS
WBG Archives**

Archive Management for the President's Office

Document Log

Reference # : Archive-00590

☐ Edit

☐ Print

A. CLASSIFICATION

- ☒ Meeting Material
- ☐ Trips
- ☐ Speeches

- ☐ Annual Meetings
- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: BREAKFAST: CAMDESSUS MEETING

Venue: IMF (Mr. Camdessus' dining room)
Contact: Elfried Archer @ 623-4600
MARK BAIRD (DEC COORDINATION) @31666
EXC: ATSUKO

DATE: 03/06/96

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☒ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ☒ IMF
- ☐ UN
- ☐ MDB/Other IO
- ☐ NGO
- ☐ Private Sector

- ☐ Part I
- ☐ Part II
- ☐ Other

E. COMMENTS:

Archive Management for the President's Office

Document Log

Reference # : Archive-00590

Edit

Print

A. CLASSIFICATION

- ☒ Meeting Material
- ☐ Trips
- ☐ Speeches

- ☐ Annual Meetings
- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: BREAKFASTs with Camdessus

DATE: 03/06/96

- DATE: 11/8/95
- DATE: 12/6/95
- DATE: 1/25/96
- DATE: 2/20/96
- DATE: 3/6/96
- DATE: 4/17/96
- DATE: 6/12/96
- DATE: 7/19/96
- DATE: 9/4/96 (Argentina, Russia, Multilateral Debt [HIPC], Bulgaria)

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☒ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ☒ IMF
- ☐ UN
- ☐ MDB/Other IO
- ☐ NGO
- ☐ Private Sector

- ☐ Part I
- ☐ Part II
- ☐ Other

Action -

Multilateral Debt -

3 weeks advance

(Even)

Mexico

- Pricing is right -

but or by is advancing

- agitated the markets

Nigeria -

making some but are

enough progress

- corruption, state intervention

Technically -

Nigeria -

Mr. Camdessus: Breakfast Meeting

Wednesday

November 8, 1995

8:30-9:30 am

JDW private dining room

① Banks in Mexico

② Argentina V.P. Rostoff

P. Rostoff

Debt Issues

① Debt MEXOROC

② Argentina..
- disarray.

① Annex - 5% a year - with my this bank
only it got the bank to work by
more in 1980

- New in 9th countries -

- Transfer - 12 days - against money.
new today

{ male
Annex
transfer

W.B. - study - anaphorical

decisions very slow

limit on perfectionism

+ disturbance //

② Annex - movements superior

-

OFFICE MEMORANDUM

DATE: November 7, 1995

TO: Mr. James D. Wolfensohn

FROM: Atsuko Horiguchi

EXTENSION: 84256

SUBJECT: **Your Breakfast with Mr. Camdessus Tomorrow, Wednesday, November 8, 1995
8:30-9:30 am (JDW Private Dining Room)**

☆ You may wish to thank him for the excellent cross-briefing you received from him for your recent ECA trip.

☆ According to his personal assistant, Jeremy Quick, Mr. Camdessus will raise:

- o **Multilateral Debt** → timetable for joint work through April (first tab)
- o **Mexico** → DEC note (second tab + Mr. Burki's note to you)
- o **Bank-Fund collaboration** → DEC note (second tab)

☆ You may wish to raise:

- o **Nigeria** → re: IFC projects (third tab); Mr. Lindbaek has requested meeting with Mr. Camdessus
- o **Argentina** → possible post-Cavallo scenarios
- o **JCAAM (Joint Committee on the Arrangements for the Annual Meetings)** → (fourth tab)

December workshop for academics.

Stan. Inv. to meet - speaking with the staff -
needed

British American French } all adverse

Debt

Timetable- Multilateral Debt
(November 1995-April 1996)

Events		World Bank 1996 Debt Tables	First Joint Paper (Defining debt problem and first look at mechanisms)	Second Joint Paper (More detailed assessment possible action)	Joint Report to Interim/ Development Committees
November 24	Bonn Conference-Multilateral Debt				
December 1	[OECD DAC meeting]				
	Proposed Round Table (academics, investors, policymakers)				
11-15	Paris Club (evaluation Naples terms)				
		Draft to Fund for comments (late December/early January)	First draft (late December)		
January	<i>Residual Debt Tables</i>				
12		Draft to Bank (early January)			
		Draft to Board	Paper to management (mid/late January)	First draft (mid/late January)	
26		Bank Board Seminar	Issue Paper (late January)		
February					
			Board Discussion (mid-February)	Draft to Bank (early February)	
20	Press Conference				
22-28	Road Show				
29	Publication				
March					
				Board Discussion (mid-March)	First Draft (early March) Paper Management (mid/late March)
					Issue Paper (late March)
April					
26	Development Committee				
					Board Discussion (early April)
					Issue Paper (early/mid-April)

DEC Note

prepared by:
Anandam Ray, DECV
X31443
11/3/95

Brief for Mr. Wolfensohn for the breakfast with Mr. Camdessus on November 8

Bank-Fund collaboration

1. Mr. Wolfensohn might wish to note that Bank-Fund collaboration is proceeding well at the staff level on a range of issues. To illustrate,
 - the consultative mechanism on public expenditure reviews, as recommended by Messrs. Wolfensohn and Camdessus, is now fully in place, and the first cycle of meetings is presently under way at both the regional and country levels.
 - as a part of its broader communications strategy, DEC is trying to arrange a joint annual retreat for Bank and Fund staff to facilitate discussion of key policy and country-specific issues in a professional setting and to help develop closer personal ties between senior officials of the two institutions,
 - the Bank has arranged training for its senior managers on Fund policies and procedures, to be provided by the IMF Institute and the Bank's EDI.

Country issues

2. Argentina. Mr. Wolfensohn may wish to seek Mr. Camdessus's views on a possible post-Cavallo phase. By way of background, Mr. Wolfensohn might note that President Menem made himself available to a number of New York financial institutions without Minister Cavallo, and that we have, at their initiative, had intensified contacts with Vice President Ruckauf and Minister Bauza. This may suggest preparations for a change of minister sooner rather than later.
3. The Bank is thinking through the implications of this and possible responses to adverse market developments. The LAC Region (World Bank), Western Hemisphere Department (IMF), and the IDB, are in contact with one another to ensure a well coordinated response, should this event occur.
4. Mr. Burki has sent a separate brief to Mr. Wolfensohn.
5. Mexico. In the case of Mexico also, it may be useful for Mr. Wolfensohn to ask Mr. Camdessus for the Fund's assessment of the current situation. In case Mr. Camdessus suggests a large new loan from the Bank on burden-sharing grounds, we should only agree if the policy conditionality is correspondingly strong. Mr. Burki has also prepared a separate note on Mexico.
6. Russia. Mr. Wolfensohn may wish to discuss Russia given his recent visit there. By way of background, he might note that the Bank worked closely with the Fund in designing and monitoring the structural component of the current Standby Arrangement. Those reforms--in the trade regime and the oil sector--were also supported by the Bank's

Second Rehabilitation project. Building on that collaboration, we have taken primary responsibility for the more wide-ranging structural conditionality of the Extended Fund Facility (EFF), which is intended to cover the period 1996-98. As in the case of the Standby, the EFF is seen as providing a broad framework for the Bank's follow-up policy based lending in areas such as agriculture, coal and the social sectors. Despite the broad scope of the proposed reforms, First Deputy Prime Minister Chubais has set an ambitious timetable for processing the EFF with expectations that it could replace the current Standby Arrangement in early 1996. A first round of detailed negotiations has been completed. Progress now depends on his obtaining consensus for the difficult reform measures within the government in an environment where a number of key agencies have distanced themselves from the process because of political uncertainty and the upcoming elections.

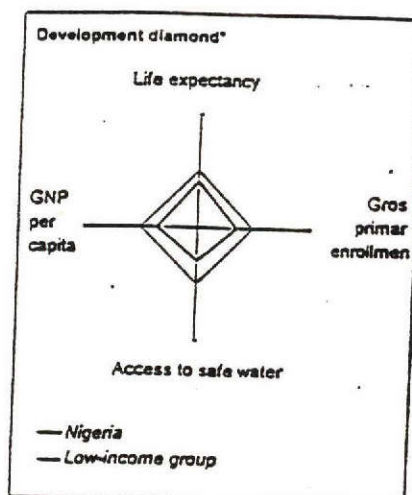
7. Kyrgyz Republic. In this case, Bank-Fund collaboration has not succeeded well. The Fund did the public expenditure review, which recommended expenditure reductions in the social sectors; this ran contrary to the spirit and direction of reforms that we are supporting in the Social Safety Net and Health projects. The Bank's extensive comments were not adequately taken into account, making it difficult for us to endorse the upcoming ESAF arrangement. This is an example of the conflict between the Fund's emphasis on short-term budgetary savings and the Bank's focus on longer-term structural reforms and the quality of the fiscal adjustment.

Nigeria

Nigeria at a glance

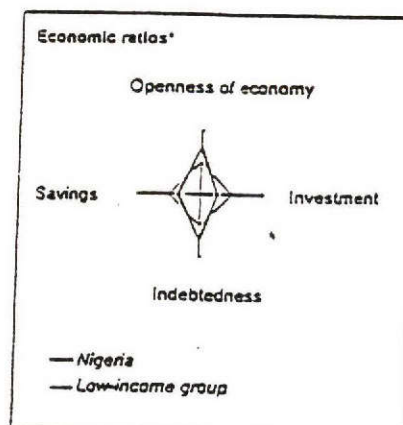
POVERTY and SOCIAL

	Nigeria	Sub-Saharan Africa	Low-income
Population mid-1994 (millions)	107.9	559	3,092
GNP per capita 1994 (US\$)	280	510	390
Average annual growth, 1990-94			
Population (%)	2.9	2.9	1.9
Labor force (%)	2.9	2.6	1.3
Most recent estimate (latest year available since 1988)			
Poverty: headcount index (% of population, 1992)	33	-	19
Urban population (% of total population)	38	30	28
Life expectancy at birth (years)	51	52	62
Infant mortality (per 1,000 live births)	83	93	63
Child malnutrition (% of children under 5)	43	36	40
Access to safe water (% of population)	40	64	67
Illiteracy (% of population age 15+)	49	50	41
Gross primary enrollment (% of school-age population)	76	67	108
Male	85	74	118
Female	67	60	101



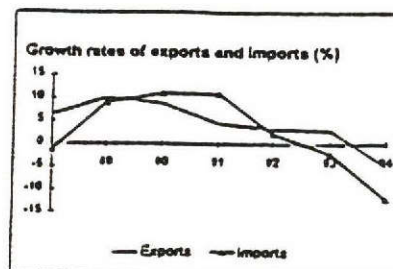
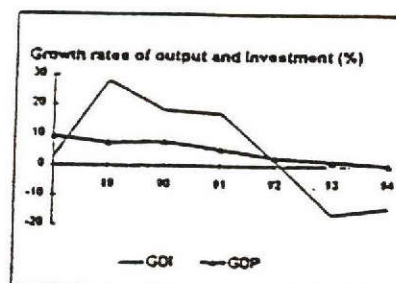
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1993	1994
Gross domestic investment/GDP	25.2	9.0	15.1	10.1
Exports of goods and non-factor services/GDP	18.3	16.1	36.1	21.9
Gross domestic savings/GDP	20.7	12.6	18.5	11.0
Gross national savings/GDP	18.1	8.7	11.2	4.4
Current account balance/GDP	0.2	-0.3	-3.3	-5.3
Interest payments/GDP	0.1	1.6	4.5	4.0
Total debt/GDP	4.5	24.1	103.0	75.2
Total debt service/exports	3.0	34.2	16.0	21.1
Present value of debt/GDP	-	-	-	-
Present value of debt/exports	-	-	-	-
(average annual growth)				
GDP	-0.4	4.4	1.5	0.3
GNP per capita	-3.0	1.2	-1.6	-0.1
Exports of goods and n/s	-3.6	3.8	2.9	-4.9



STRUCTURE of the ECONOMY

(% of GDP)	1975	1985	1993	1994
Agriculture	31.7	37.3	33.5	42.7
Industry	28.5	29.2	42.6	32.1
Manufacturing	5.0	12.2	7.1	7.5
Services	39.8	33.5	23.8	25.2
Private consumption	66.7	73.8	63.2	78.6
General government consumption	12.6	13.5	18.3	10.5
Gross domestic investment	25.2	9.0	15.1	10.1
Exports of goods and non-factor services	18.3	16.1	36.1	21.9
Imports of goods and non-factor services	22.8	12.4	32.6	21.0
(average annual growth)				
Agriculture	-2.9	3.8	1.4	2.4
Industry	-0.3	3.6	-2.4	-5.1
Manufacturing	8.2	3.6	-1.8	-2.8
Services	1.5	7.4	6.1	3.7
Private consumption	7.4	1.4	-1.2	2.2
General government consumption	1.9	8.1	28.4	-3.3
Gross domestic investment	-8.3	4.0	-16.4	-14.1
Exports of goods and non-factor services	-3.6	3.8	2.9	-4.9
Imports of goods and non-factor services	2.6	-1.6	-2.1	-12.0
Gross national product	-0.3	4.2	1.3	2.7



Note: 1994 data are preliminary estimates.

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



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996		Barcode No. 30484998		
Document Date [undated]	Document Type Summary			
Correspondents / Participants				
Subject / Title Mr. Wolfensohn's IFC 1995 Annual Meeting Brief Nigeria Summary				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by S. Thompson</td><td>Date February 14, 2025</td></tr></table>	Withdrawn by S. Thompson	Date February 14, 2025
Withdrawn by S. Thompson	Date February 14, 2025			

Jim Hoagland

Shell's Game In Nigeria

Nigeria's corrupt military dictatorship has crossed a red line by sentencing minority rights leader Ken Saro-Wiwa to death on trumped-up murder charges. Only a strong burst of world condemnation that includes the international oil companies that keep Africa's largest nation afloat financially can save Saro-Wiwa from death and Nigeria from complete ruin.

In practical terms, the dissident's fate rests in the hands of Royal Dutch Shell, the British-Dutch oil giant, America's Chevron Corp. and a handful of other European and American petroleum companies, none of which has spoken out on the case.

Their silence is predictable. Global business routinely refuses to mix in domestic politics and is right to do so. The business of world business is business, to paraphrase Calvin Coolidge, and not fine-tuning unfamiliar or broken political systems.

Investors and manufacturers from abroad contribute significantly to nation-building. Their search for profit often encompasses a long-term, apolitical commitment to creating jobs for the people and revenue for struggling Third World governments of varying ideological stripes.

That point seems obvious today; but it was bitterly disputed in the first decades after de-colonization. When I covered Africa and the Middle East for The Washington Post, multinational corporations were often portrayed as the blood-sucking leeches of neo-imperialism. In the post-Cold War world, they are courted by governments desperate to enter the global economy.

The Saro-Wiwa case should be the exception to the rule of multinationals avoiding political controversy. It should also be a catalyst for the world's oil companies to reassess the role they play in shoring up murderous regimes in Nigeria, Libya, Iran and elsewhere.

Ken Saro-Wiwa, an acclaimed playwright, is one of those engaging Nigerian intellectuals caught up in the turbulence that has engulfed Nigeria since its 1961 independence from Britain. He leads the Movement for the Survival of the Ogoni People, who are among 20 ethnic groups that inhabit the oil-producing Niger River Delta region.

The movement demands for the Ogoni a fair share of oil revenues from the central government—a regime that promotes drug-trafficking and which annulled the results of a 1993 national election that would have returned the country to civilian rule—and from Shell and Chevron, which hold the primary oil concessions in Ogoniland. The companies have temporarily closed down operations there because of civil strife and protest.

In May, four traditional chiefs who opposed the movement were killed by a mob. A special military tribunal sentenced Saro-Wiwa and four others to death on Monday in a trial that the British Foreign Office publicly condemned as “a flawed judicial process” and which human rights observers said was a travesty and illegal under Nigeria’s constitution.

Britain may seek Nigeria’s suspension from some commonwealth activities when the organization meets in New Zealand next month. But that is a flick on the wrist with a wet noodle. Only intervention by Shell can save Saro-Wiwa, said Anita Roddick, a well-known British entrepreneur and merchandiser, in a remarkable letter to the Financial Times of London last week.

Roddick raised the questions the business community faces in dealing with the Nigerias, Libyas and other rogues of the world: “Where do we draw the line? What do we as businesses owe to the communities we work in?” While Shell and the central government profited, “billions of dollars of oil revenue have been ripped out of the heart of the Niger Delta. The Ogoni people have to live in a land without clean water, air or soil.” Those who campaign for human rights for them are persecuted. “Shell claims privately that it is appalled by what is going on, but says its hands are tied.”

Oil companies have functioned as a state within a state in many Third World countries. Their record of protecting Western consumers and contributing to the stability in host countries and of the international financial system is far more positive than is generally recognized.

But there should be a line beyond which the companies will not go in aiding and abetting criminal behavior by a host government. That is the line the Nigerian rulers have crossed. Shell and the others should now respond by making clear publicly that they do not condone Nigeria’s actions.

The silence on Nigeria from America’s business and political leaders must also end. Presidential candidates and Senate bigwigs such as Jesse Helms trample each other in the rush to denounce those who would do business with the tiny island of Cuba and yet give little if any attention to Africa’s largest nation becoming an unstable criminal conspiracy.

That is unfortunate for Nigeria. It is tragic for America, which will lose its way by losing its sense of priorities.

OFFICE MEMORANDUM

DATE: October 31, 1995

TO: Mr. Gautam Kaji, Managing Director, EXC

THROUGH: Mr. E. V. K. Jaycox, Vice President, Africa Region

FROM: Olivier Lafourcade, Director, West Central Africa Department

EXTENSION: 34880

SUBJECT: **NIGERIA: IFC PLANS REGARDING PROSPECTIVE LNG PROJECT**

N.B. - The link between macro performance and support for this investment is more than philosophical consistency - the EC's will not be able to put fresh money in unless Paris Club agrees order to the adverse situation & this will not happen w/o our IMF program in place. CM

1. **Background** There are two major liquid natural gas projects in the pipeline: Natural Gas Liquids (Oso II), and Nigeria LNG. The biggest package is the LNG project, at \$3.6 billion. Final deadlines are being reached with both contractors and offtakers. Because of Nigerian credit risk, IFC involvement is needed to provide comfort to the commercial lenders and export credit agencies that might not otherwise participate. The Bank Group met in the Spring and agreed that IFC would continue working with Nigeria on these projects on a good faith, best efforts basis, with the hope that overall country circumstances would enable it to present these projects to the Board before the end of the calendar year.

2. **Triggers** We have consistently flagged that for the Bank to support the IFC projects, various triggers needed to be met, namely full deregulation of the exchange and interest rates, and a track record of significant improvement in the fiscal situation. The Government informed us during the Annual Meetings that the official and market exchange rates will be unified in July 1996, and that interest rates will be gradually liberalized starting early in 1996. A substantive record of progress in fiscal management took place in the first half of 1995. A joint Bank/Fund mission is scheduled for early December which will review progress, and discuss Nigeria's Medium Term Program (MTP).

3. **Current Situation** The Bank's view continues to be that the track record has to be fully established. Unless movement on the exchange and interest rate liberalization is effected, the stabilization efforts could be eroded. Bank/IMF agreement on an MTP -- which would entail a firm commitment to the macroeconomic issues to be addressed and for needed structural reforms in support of rapid and sustainable growth and poverty reduction -- would provide the needed signal for these projects to be successfully presented to the Board. The 1996 Budget could provide the framework for such an agreement.

4. **Environmental Concerns** During the Annual Meetings, the Minister of Finance raised with Mr. Wolfensohn the LNG project. In response, Mr. Lindbaek mentioned the work IFC was doing on the environmental concerns related to the project. An extract of the Minutes covering this discussion is attached. We understand that the substance of the issue had to do with possible environmental damage in the sensitive Ogoniland region. The questions are whether the project will in fact be within this region, and the capacity and

commitment of the companies involved to actually implement the Environmental Action Plan developed for the project.

5. Also attached, for reference, are the initial pages of the Annual Meetings Brief.

c.c. Messrs. Kalantzopoulos (EXC); Byer (AF4NG); Smith (AF4IE).

c.c./cl. Mr. Sokol (AF4DR).

A Valued Microsoft Customer
C:\WINWORD\DOC\LNG.DOC
October 31, 1995 3:47 PM

**Extract from Minutes of Meeting with the Nigerian Delgation to the Annual
Meetings Held at the Office of the World Bank President
October 13, 1995**

5. Chief Ani then turned to the importance that the FGN places in the proposed LNG project. He quoted from Mr. Wolfensohn's speech to the Annual Meeting that there was "no place for arrogance" in the Bank's relationship with its members. He indicated that Nigeria wished to forge a new relationship with the Bank and called on the President to support the LNG project. The Finance Minister highlighted:
 - that the FGN had given-up controlling interest in the project;
 - thereby ensuring that the private sector managed the project during construction and operation; and,
 - that IFC's role has been critical throughout the development of the project.
6. Mr. Lindbaek responded that work on the project was proceeding well and that IFC was focussing now on some environmental issues related to the project.
7. High Commissioner Abubakar Alhaji indicated that he was somewhat taken-a-back by Mr. Lindbaek's reference to environmental issues, since he had not heard of these before. In concluding discussion on this issue, the President undertook to look into the question of LNG in its entirety with Mr. Lindbaek in arriving at a decision on Bank Group support.

1995 ANNUAL MEETING BRIEF: NIGERIA

Business Context

- Nigeria is in a period of economic instability characterized by low growth, high inflation, and deepening poverty. Recent internal political crises have complicated economic decision making. Even so, the WBG and the Government have been recently engaged in a new dialogue on economic reform, particularly with regard to fiscal policies and poverty alleviation.
- The good news is that difficult issues have been raised and openly discussed. These include the need to reduce and reprioritize expenditures, privatize more of the public enterprise sector, eliminate large fertilizer and petrol subsidies, and increase transparency and accountability.
- The bad news is that there is no internal consensus on how to proceed and there is a worrying lack of consistency in design and implementation of policies.
- Nigeria is a political pariah in international circles, based on disregard for human rights, annulment of the 1993 presidential election, press curbs, arrest of activists, and continuing authoritarian military government.

Country Profile 1994

<i>Income per capita (US\$)</i>	280.0	<i>Population (millions)</i>	108.0
<i>Inflation (%)</i>	57.0	<i>Population growth (%)</i>	2.9
<i>GDP growth (%)</i>	0.3	<i>Under 5 mortality (% 1993)</i>	19.0
<i>Poverty (% poor 1992)</i>	33.0	<i>Female illiteracy (% 1990)</i>	61.0

Poverty Reduction Strategy

There is at this time no formal government strategy for poverty reduction. The Bank's draft *Poverty Assessment* is being used to promote a general debate on poverty-related issues within Government and other sectors of the civil society. The WBG focuses on attempts to improve the macroeconomic framework, to utilize the existing portfolio, and to prepare new operations in the social sectors to promote the poverty reduction agenda.

Lending Operations (figures as at end-June 95)

<i>Size of portfolio (no. of projects)</i>	29
<i>Committed Amount (US\$M)</i>	
<i>net of cancellations</i>	6,379
<i>Undisbursed (US\$M)</i>	1,524
<i>IBRD disbursements (US\$M)</i>	216
<i>Net IBRD transfers (US\$M)</i>	-428
<i>IDA disbursements (US\$M)</i>	58
<i>Net IDA transfers (US\$M)</i>	55
<i>FY96-98 planned lending (US\$M)</i>	75

Key Messages

- Our relationship with Nigeria is at a low point: the portfolio is shrinking, there is no agreement even on the modest projects in the current core lending program, and no evidence of a consistent development strategy and vision.
- Most immediate priority for Government should be to enter into an agreement on a shadow program with the IMF, and rapidly develop an implementation track record; simultaneously, Government must start work on a Policy Framework Paper to be agreed with the Fund and the Bank, drawing on its own home-grown draft Medium Term Economic Program.
- Only when there is a credible track record under an IMF program will the Bank consider more significant lending. Currently we will not go beyond discussion of a minimum core lending program.
- WBG proposes to maintain and develop the on-going policy dialogue, focusing on non-lending activities contributing to supporting the debate on economic and social development in Nigeria. The Bank's administrative resources allocated to Nigeria are being cut to reflect the lower level of activities in both portfolio management and new lending.

*Meeting Participants**Government*

Chief Anthony Ani, Minister of Finance (Governor)
 Paul A. Ogwuma, Governor of Central Bank (Alt. Gov.)
 Chief George Ayo Ogunlade, Minister of Planning
 Ernest Shonekan, former President of Nigeria
 Alhaji Abubakar Alhaji, High Commissioner, UK
 Dr. Ramsey Mowoe, Director, Multi Dept., Min of Fin
 Zubair Mahmud Kazaure, Ambassador of Nigeria to the U.S.

World Bank

James D. Wolfensohn, President
 Edward V.K. Jaycox, Vice President, Africa Region
 Jemal-ud-din Kassum, Vice President, Operations, IFC
 Olivier Lafourcade, Director, West Central Africa
 Hazel Denton, Nigeria Country Manager
 Jose Sokol, Lead Economist, West Central Africa
 Trevor Byer, Resident Representative, Nigeria

DECLASSIFIED

FEB 14 2025

WBG ARCHIVES

Confidential

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: November 2, 1995 02:34pm EST

TO: Olivier Lafourcade

FROM: Hazel Denton, AF4CO

EXT.: 34895

SUBJECT: NIGERIA: IMF BOARD DISCUSSIONS OF ARTICLE IV CONSULTATION REPORT

*See para 5 on next
page on h. + Br & can
be IFC project*
(OLIVIER LAFOURCADE@A1@WBWASH)

(HAZEL DENTON@A1@WBWASH)

On November 1, Jose Sokol and I attended three hours of discussions at the IMF Board. The following are highlights:

1. The IMF Board's message to the Nigerian authorities was delivered in a clear and very strong tone, striking for being overwhelmingly negative. Although a few speakers did make positive statements on the track record established so far for 1995, one after the other, the EDs expressed skepticism on the sustainability of the efforts in the absence of a comprehensive reform package being in place, raised major questions as to the commitment of the authorities to current policies and agreed policies, flagged the singular lack of movement in certain key areas (such as exchange and interest rate liberalization), and the need for a very cautious approach in moving forward -- which must be based on an established track record.

2. The CONCLUDING STATEMENT from the Chairman focused almost entirely on critical areas that need to be urgently addressed, and indicated that the current performance was not sufficient to even consider the possibility of a Fund program at this time. In conclusion, he laid out a slower program for the future than had been anticipated: "More policy measures, track record to be established, to be followed by a Staff Monitored Program. If this all takes place, this would then ease the way to a Fund supported program."

Three EDs who asked for further clarification of the concluding statement (from France, US and UK) asked for tightening up of the language, and stressed that every move would be monitored.

Specific Questions Raised:

3. TRANSPARENCY How valid can the staff analysis be if much of the data is not available or not transparent? The IMF explained that there was a major improvement (in part reflecting recent TA missions by the Fund) and although there are gaps, these have not hampered the analysis.

4. EXCHANGE RATE UNIFICATION The dangers arising from a dual exchange rate were flagged by several speakers. The IMF stressed that there is agreement to unify, and the only difference is on

the timing.

5. IFC LNG PROJECT Two speakers (UK and France) were aggressive in their questioning of the proposed IFC loan, given the large financial benefits which will accrue to Nigeria. The tone of the discussion was along the lines that approval of the project by the IFC at this time would give the wrong signals to the Nigerian authorities. (Earlier the UK ED's had commented that they had particular reservations given the lack of transparency in the use of current oil revenues.) In response, the Fund staff agreed with the analysis which showed the benefits to Nigeria, but on whether or not it should go ahead, stated that the decision rests with the Bank Group which is currently reviewing the project.

6. INFLATION The high rate of inflation is projected to decline by about half by the end of this year.

7. GOVERNMENT SALE OF LOW INTEREST TREASURY BILLS The Fund staff does not support the transformation of short term debt into long term debt at subsidized rates, as government is currently doing.

8. BANKING DISTRESS The Fund Board shares the concerns for the banking sector, and agrees that government intervention should be avoided and regulation increased. Possible renationalization of banks was explicitly noted by several speakers as a poor signal to potential investors.

9. PRIVATIZATION Government plans are under discussion, including leasing, but there is not yet a clearly articulated program.

10. PETROLEUM PRICES The Fund staff's position that import parity has been established was repeated (which we question, as their basis is a comparison of the international wholesale price against the domestic retail price), together with a reference to the fact that the authorities have requested assistance from the Bank in establishing an adequate responsive pricing mechanism.

11. MEDIUM TERM SCENARIO In response to skepticism on the basis for the medium term scenario, the Fund explained that it was consistent with the policy agreements reached.

12. DEBT Various speakers questioned whether preference should be given to public or private sector debt, but the Fund explained that their report focused on the debt profile under different assumptions with no judgments implied.

Following the meeting, I called Robin Glantz at IFC and gave her the general tone of the discussions, and the explicit references to the LNG project.

JCAAM



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996		Barcode No. 30484998		
Document Date 03 November, 1995	Document Type Memorandum with attachment			
Correspondents / Participants To: Mr. Kaji From: Wadi				
Subject / Title Briefing Note on JCAAM recommendations				
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 S. Thompson</td><td>Date February 14, 2025</td></tr></table>	Withdrawn by S. Thompson	Date February 14, 2025
Withdrawn by S. Thompson	Date February 14, 2025			

Development the

Multilateral Debt

Must do something for a group
 Constructive But with a smaller IBA
 Nominal Bosnia's
 Repayment 20% - 25%

IBRD + GDR + 7th round
 we are in deep trouble
 must have own rating for the
 area and

① US

② Japan

③ Bosnia

Breakfast: Michel Camdessus

Wednesday, December 6, 1995

8:30-9:30 am

IMF Executive Dining Room

IMF

Presidency &

+ Presidency

future of
 means

we are whole

① 25 million

① Visit to Europe

② Washington - no more reaction
 against structural adjustment

Nure - let's work about all conditions

the poor - will not escape from
 global crisis

Promotion on IMF - currency pegging etc -

③ must work together - like the words

that - English / Labor / Govt -

every effort we have made for Bosnia

- like an ambassador with the U.S. -

The U.S. read too much into

④ Felt & Felt with DPA - will help create
 a center in Italy - could be the Ambassador of

Nov 2000

⑤ All up to date 100%

will come up
 we should work
 at this

Individual
 country in the
 studies

NB

GB

Jacques de la Presence

IBRD - working

Bosnia ① Look at next 6 months - Put salt on the
 number of 4 or 6 Bill

② GB & ourselves are owed money - why not ^{pay} our
 claims in Bosnia -

OFFICE MEMORANDUM

DATE: December 5, 1995

TO: Mr. James D. Wolfensohn

FROM: Atsuko Horiguchi

EXTENSION: 84256

SUBJECT: **Your Breakfast with Mr. Camdessus Tomorrow Morning
8:30-9:30 am, Wednesday, 6 December 1995, IMF Executive Dining Room**

☞ According to his Assistant, **Mr. Camdessus has no issues to raise.**

☞ You may wish to be advised:

- on the **Whitome Report on Mexico to the IMF Board** that
 - its distribution is extremely restricted (Mr. Camdessus is fighting off Senator D'Amato over it) and as such, the **MD is not open to sharing a copy with you.**
 - it is a very *personal* report, with responsible parties cited by name.
- **IMF's New Concessional Lending Criteria** (approved by the Fund Board on 25 October)
 - Mr. Shiratori, Vice President of OECF, raised this with you with great concern when he visited you on 8 November.
 - Under the new criteria for what would constitute concessional lending (interest rate thresholds) approved by the Fund Board, something like 97 percent of OECF's ODA, and half of all Japanese ODA, would be deemed non-concessional.
 - Mr. Camdessus himself was not aware of this (he was away when the Board approved this policy) and thus did not raise it with you in his last breakfast.
 - According to our IMF sources, there **seems to be some built-in flexibility** to change the interest rate thresholds on a country-by-country basis, which has already been employed to Pakistan and Jordan so that **in practice, access to concessional funds would remain unchanged.**
 - I am told the **MD is "not too interested" in discussing this matter,** notwithstanding the Japanese upset.

☞ You may wish to discuss:

- **Bosnia** -- Mr. Camdessus will *not* be going to London.
- **Global Coalition for Africa** meeting in Maastricht -- Mr. Camdessus attended during his recent Europe trip. Mr. Jaycox has written you a memo.

cc: Rachel

JDW Meeting Aide Memoire

When: November 8, 1995, 3:30-4:00 pm

Where: JDW Office

With: **Mr. Masaki Shiratori, Vice President, Overseas Economic Cooperation Fund**
Mr. Hiroto Arakawa, Chief Representative, OECF Washington Office

Bank staff: A. Nishihara (EDS02); R. Chopra (CFS); R. Lomax, A. Horiguchi (EXC)

Main points raised:

Mr. Shiratori

- o *Purpose of visit:* 23rd Annual Cofinancing Consultations. Relationship between the Bank and Japan has thrived despite differences in opinions on privatization, private sector development, infrastructure, structural adjustment, NGOs. Thanks to Bank staff -- particularly in the South Asia Region and CFS -- very happy with the excellent organization of this year's consultations, which went beyond projects into broader issues and country discussions.
- o *IMF's New Concessional Lending Criteria:* Would like to call JDW's attention to a very important development for poor countries with IMF arrangements. The Fund Board has just decided to adopt the export credit agencies' criteria (interest rate thresholds) for what constitutes concessional lending. Under the new criteria, 97 percent of OECF's ODA would be deemed non-concessional, which means that poor countries will not have access to OECF funds. This new criteria was approved by the IMF Board on October 25, seemingly without high-level consultations with the Bank. Mr. Camdessus himself may not know about this as it was in his absence that this was approved. If DAC (OECD's Development Assistance Committee) adopts the IMF policy, half of Japanese ODA will be regarded as non-ODA. Mr. Nishigaki is concerned, OECF shocked.
- o *Meeting with Mr. Nishigaki:* OECF Chairman is keen to follow through with JDW's suggestion for an extended meeting, and will be happy to know of reciprocated interest (see below).

JDW

- o *IMF's New Concessional Lending Criteria:* Mr. Camdessus did not raise the issue with JDW at a recent breakfast meeting. The new criteria in any case does

not seem to be desirable from the Bank's point of view, nor in anybody's interest. Anything that would bring down the volume of ODA in today's environment is negative.

- o *Meeting with Mr. Nishigaki:* Looking forward to having substantive discussions with Mr. Nishigaki. The hierarchy of issues -- privatization, infrastructure financing, etc. -- needs to be established and discussed in the context of general direction (between the Bank and OECF). It would be helpful if the first meeting could take place in Washington, given JDW's heavy travel. Would like to be 100 percent honest about the issues and totally open to a thorough review of them. Would like to work towards resolution -- in mutual interest of OECF and the Bank.

Postscript:

- o *IMF's New Concessional Lending Criteria:* According to IMF sources, indeed Mr. Camdessus was not aware of the new criteria on concessional lending. The Board paper that was approved, however, seems to have some built-in flexibility to change the country ceilings for non-concessional lending. These changes would be done on a case-by-case basis to offset the changes made in the interest rate thresholds. In practice, this flexibility has been employed to date in the cases of Pakistan and Jordan to adjust upward the credit ceilings for non-concessional lending in such a way that access to concessional funds such as OECF would remain unchanged. If consistently applied, as seems to be the Fund management's intention, such offsetting changes would represent a pragmatic (albeit imperfect) solution to the problem caused by the new criteria.
- o *Meeting with Mr. Nishigaki:* A meeting between Messrs. Nishigaki and Wolfensohn has been set up for Tuesday, January 16, 1996, in Washington.

Bosnia

**PROPOSED KEY MESSAGE TO BE INCORPORATED
INTO
MR. WOLFENSOHN'S SPEECH FOR LONDON PIC MEETING**

Even before the cease-fire that went into effect on October 6, a small team of Bank staff met on several occasions with specialists from the Republic of Bosnia and Hercegovina to lay plans for post-war reconstruction. Right after the cease-fire, with the help of USAID and the UN, we joined forces with the EBRD, the IMF and the EC in a mission to Bosnia that updated and deepened our knowledge of reconstruction priorities. This was done with emphasis on sectoral policies needed to recreate economic incentives, and to have the Bosnian people fully participate in the reconstruction effort.

The early phase of economic recovery will require the building of key institutions, employment creation - not least for those who are currently doing military duties, and the rehabilitation of the most important components of physical infrastructure. What is needed is an upfront, concerted donor effort incorporating the on-going humanitarian relief that delivers immediate hope after four years of destruction and does so in a way that encourages private initiative and the transformation to a modern and market-based economy.

The World Bank Group will play its part with the sense of urgency that is required. I will recommend to our executive board that a special allocation from IBRD surplus be allocated to a trust fund for Bosnia reconstruction. We expect other donors to contribute to the same trust fund or to commit to parallel programs serving the same priority needs. The work we have done in the field, while it needs further refinements, enables us to define what these priority needs are and to construct, in cooperation with the other donors, a consistent, non-duplicative program which should have, if we can all move quickly, a tremendously helpful influence on peace implementation. We are currently working on the amounts involved and hope to get a sufficient amount of support from all the donors.

Looking further ahead, full financial normalization should be part of Bosnia's overall reconstruction program. Bosnia currently has arrears with the Paris Club, with the London Club, and with the multi-laterals, including the World Bank. An appropriate solution has to be found to deal with these arrears so that Bosnia can become a full member of the international financial institutions and in time develop full access to multilateral, bilateral and commercial capital flows. This is a challenge that the international community as a whole must meet because leaving it unresolved would greatly complicate the nation-building and normalization process on which economic recovery and peace depends. Long delays in moving on this would be very damaging and we will press to find a solution in full consultation with our shareholders and IDA donors.

Once Bosnia achieves membership in the World Bank Group, and we hope that this can take place in the next few months, it would have access to normal IDA and IBRD facilities subject to IDA and IBRD practice if the peace takes hold and economic policies develop along the promising lines that we are currently witnessing in the Federation of Bosnia and Herzegovina. World Bank contributions could amount to \$500 million over the four-year reconstruction period for which we have produced financing estimates. When added to the allocation from surplus up-front in early 1996, the World Bank Group's contribution would cover from 12 - 15% of the total reconstruction financing that we estimate to be in the neighborhood of \$4.8 billion.

Efficiency, speed and coordination will be essential for reconstruction. This will require very close cooperation with all agencies in the field. I would like to propose that we constitute sectoral task forces, drawing on the professionals working for the key donor agencies in Bosnia. We ourselves will open a strong mission in Sarajevo and would be happy to contribute to these task forces. They should work closely with the High Representative and his office. This should help the peace implementation process without creating new bureaucratic layers or duplication of effort.

Kemal Dervis
December 4, 1995

THE WORLD BANK
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

December 5, 1995

TO: Messrs/Mesdames Bruno, Einhorn, Linn, Lomax,
Ahmed, Malloch-Brown, Basinette, Cullen

FR: Kemal Dervis

RE: Update on Bosnia

Attached are a few notes to update you on Bosnia:
the proposed core message for Mr. Wolfensohn's London
speech; two tables on the broad numbers for the
three-to-four year reconstruction program; and a
summary of where we stand with the ex-Yugoslav
countries.

Attachment

This information is in draft
and was sent by Kemal to
the members of the team for
information/discussion/review.

I've enclosed it here in
case you were interested in
having some notes/numbers
for your discussion with
M. Camdessus.

You will be getting a brief tomorrow
from Johannes/Kemal in preparation
for Thursday's informal meeting
with EDs.

Josie
Dec. 5

Table 1: Priorities for External Financing
Estimates for a Three/Four-Year Reconstruction Program
for Bosnia and Herzegovina, as of December 1995 ^a
 (US\$ million)

Sector	Capital Investment ^b	Technical Assistance ^c	Recurrent Cost Financing	Total	Percent of Total
Water & Sanitation	327	23	30	380	7.8
Energy					
Electric Power	514	16	-	530	10.9
Coal	26	3	55	84	1.7
Gas	81	6	105 ^d	192	3.9
District Heating	74	3	10	87	1.8
Transport	643	25	30	698	14.3
Telecommunications	557	10	-	567	11.6
Agriculture	320	10	-	330	6.8
Industry	380	20	-	400	8.2
Education	196	10	69	275	5.6
Health	476	14	50	540	11.1
Housing	590	10	-	600	12.3
Clearing of Landmines ^e	190	10	-	200	4.1
<i>Total</i>	<i>4,374</i>	<i>160</i>	<i>349</i>	<i>4,883</i>	<i>100.0</i>

a - This table covers the need for external financing only. The RBH national budget and Public Corporations are expected to contribute increasingly to the reconstruction effort as the economic recovery in RBH takes hold. Local financing is expected to build up to 100 % of recurrent expenditures in year 4 and in addition to build up to an allocation of some US\$2-300M per year to capital investment.

b - Includes spare parts.

c - Includes training costs.

d - Three-years worth of gas consumption.

e - Although rapidly increasing, the current scarce level of international expertise will make it difficult for a mine-clearing program of this size to be implemented. However, the eventual complete clearing of mines will likely require a total investment of at least this magnitude.

Source: Aggregated from sector estimates.

Table 2: Estimated Expenditure Profile for External Financing
 (US\$ billion)

Calendar Year				Total
1996	1997	1998	1999	
1.00	1.60	1.40	0.88	4.88

Successor states of the Former Yugoslavia (Federal Socialist Republic of Yugoslavia)

IBRD/IDA current state

	Slovenia	Croatia	Macedonia	Bosnia Herzegovina	FRY (Serbia+Montenegro)
Mid-1993 Population Million inhabitants	2.0	4.8	2.1	4.1	10.6
World Bank Membership Status	Yes	Yes	Yes	No	No
IDA Eligibility	No	No	Yes ^a	Yes	No
Total IBRD DOD Inherited at Break-up (Dec-92) In US millions ^b	171	139	151	417	1094
Arrears as of October 31 1995	0	0	0	431	1502
o/w principal arrears	0	0	0	289	677
o/w interest arrears	0	0	0	142	825
Total IBRD/IDA DOD As of October 31 1995	147	94	186	189	582
Total IBRD Exposure ^c	147	94	186	620	2083
o/w principal	147	94	186	478	1258
o/w interest	0	0	0	142	825
Total IBRD/IDA Commitments December 92- October 31 1995	80	248	203	0	0
Disbursement December 92- October 31 1995	55	26	128	0	0

a: Loans to Macedonia have been a blend of IDA/IBRD resources.

b: At 1992 US dollars values.

c: Includes DOD and interest arrears.

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

JAMES D. WOLFENSOHN
President

November 19, 1995

His Excellency Alija Izetbegović
President
Republic of Bosnia and Herzegovina

Dear President Izetbegović:

As the process of making peace in Bosnia and Herzegovina progresses, increasing attention is being focussed on economic reconstruction. The World Bank mission visited Bosnia last month and came back with considerable hope. They saw how, despite years of siege and daily violence, the spirit of the people of Sarajevo had not been broken. They visited several Bosnian cities, met with representatives of the Republic and of the Federation, and with city officials and people from various walks of life. Everywhere they witnessed the longing for peace amongst a highly skilled population eager to leave the past behind and build a modern market economy.

Mr. President, with this letter I would like to assure you that we at the World Bank will do all we can to facilitate the financial aspects of a peace agreement to which the parties may agree. As you know, we have not waited for membership of the Republic of Bosnia and Herzegovina in the World Bank Group to start working with your government on the assessment of your needs. We will continue and expand this effort with the sense of urgency it deserves. These efforts will help the international community mobilize resources for economic reconstruction as well as for financial normalization.

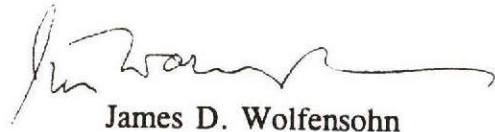
Membership in the World Bank Group requires membership in the IMF and agreement on a plan for financial normalization, including the clearing of the Republic's arrears to the IBRD. We will propose to our shareholders a strategy to achieve this within a specific priority financing plan that would cover the first few months of 1996. This proposal will include a major contribution from IDA for your most urgent economic needs, that could become effective shortly after financial normalization. The specific features of this IDA credit, and the conditions under which it can be finalized, will have to be agreed between your government and my colleagues working with you. We will, of course, also have to submit both the financial normalization plan, and any loan or credit, to our board for approval. As you know, the members of the Contact Group are also major shareholders of IBRD, and IDA relies on their contributions.

November 19, 1995

I would like to assure you, Mr. President, that we at the World Bank are very anxious to assist you with the process of reconstruction and will work with our shareholders and the donor community to develop speedy and creative financing plans.

With my best wishes,

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'Jim Wolfensohn', with a long horizontal flourish extending to the right.

James D. Wolfensohn



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

November 21, 1995

Dear President Izetbegović:

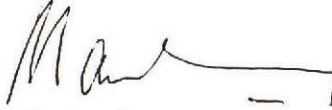
I have been horrified by the tragic conflict that has been engulfing Bosnia-Herzegovina and am much heartened by the prospect that peace has finally come to your country. In this regard, I am keenly aware that an early and forceful effort to reconstruct and reform the Bosnian economy will be an important key to securing a lasting peace and I want to assure you that the International Monetary Fund is ready and willing to play its full role in assisting this process.

Once final agreement has been reached confirming the unity of Bosnia-Herzegovina, we believe that membership in the IMF can be speedily achieved. Regarding clearance of arrears to the Fund, which is a condition for membership, the staff is already engaged in mobilizing financial support from the international community and assurances of such support received already are encouraging. I am therefore confident that it will soon be possible for Bosnia-Herzegovina to become a member of the IMF and benefit from its financial and technical assistance.

Looking beyond the membership issue, we have already begun work that will enable the Fund to support Bosnia-Herzegovina to the fullest possible extent. A mission currently visiting your country is in the midst of undertaking the diagnostic work that will enable the Fund to launch a comprehensive program for technical assistance with the difficult structural, institutional and legislative reforms that will be essential for an early and successful transformation to a market based economy. We also stand ready to assist with the design and implementation of policies to overcome the acute stabilization problems facing your government. A similar approach of simultaneously coordinating financial support, providing technical assistance and designing stabilization policies has allowed the Fund successfully to provide financial assistance to other republics of the former Socialist Federal Republic of Yugoslavia soon after their membership. We are working actively toward providing support to Bosnia-Herzegovina under our emergency assistance facility, and I look forward to an early agreement with the authorities of Bosnia-Herzegovina on a program that could be supported under the Fund's regular financial facilities. This will serve as a catalyst for additional support from the international community and the Paris Club.

Mr. President, please be assured that the Fund will do the utmost to assist your country within the mandate entrusted to it by the international community. I am looking forward to personally working with you in this regard.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'M. Camdessus', with a long horizontal stroke extending to the right.

Michel Camdessus

His Excellency
Alija Izetbegović
President
Republic of Bosnia-Herzegovina

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

OFFICE MEMORANDUM

MS. Atsuko Horiguchi
Fax 522 16 77

DATE: December 1, 1995

TO: Mr. James D. Wolfensohn, EXC

FROM: Edward V. K. Jaycox, AFRVP



EXTENSION: 34000

SUBJECT: **Global Coalition for Africa: Plenary Conference, Maastricht, November 26-28, 1995**

I recently attended the GCA's Annual Advisory Committee Meeting followed by the Plenary Conference in Maastricht, the Netherlands. The meetings were a major success. Attendance was at a high level. The participants included a dozen current or former Heads of State or Government, more than a dozen ministers from Africa and the donor countries, several heads of international and regional institutions (including Mr. Camdessus) as well as several representatives of civil society, including African and Northern NGOs. The Bank was represented by myself and Messrs. Cleaver and Gorjestani. The Plenary reached a consensus on a new partnership for Africa's development process and decided that the GCA should continue for another five years. The following is a brief summary of the mood and quality of debate, the main elements of the consensus, and the GCA's impact to date and its objectives for the future.

Mood and Quality of Debate. The mood was generally optimistic and the quality of debate unprecedented. The GCA's value added was apparent in the excellent issues paper which was prepared by an African team under the guidance of the GCA Secretariat, as well as the high quality of debate on critical substantive issues dealing with governance and economic reform. Unlike other fora where leaders make formal declarations and read from prepared statements, the GCA forum emphasizes frank and open discussion in an informal atmosphere.

I was particularly impressed by the way the African participants exchanged views on their respective experiences in managing the twin transitions of economic reform and political liberalization. I cannot imagine such a constructive and useful debate taking place even five years ago. Some of the representatives of the faster reforming countries took charge to advocate the kind of policies that only a few years ago one could hear almost exclusively from the donors and the academic community. More importantly, when these ideas come from the Africans they carry so much more weight in convincing the others than anything the donors say.

Finally, the participation of NGOs in the debate was instrumental in clarifying several issues that have been of concern to the civil society. A conference of the NGOs was held before the GCA meeting and reported its recommendations to the Plenary. The Bank and structural adjustment were the favorite targets at the NGO conference. Nevertheless, the fact that the Bank was the only donor to have actively participated in the NGO conference was a big image booster for us.

Mr. James Wolfensohn

-2-

December 1, 1995

Main Elements of the Consensus. The basic message of the conference was one of hope and optimism: *Africa can do it.* The sad reality of the torment of some countries has to be balanced against real progress being made by others. Recent progress made by a minority of countries through sustained commitment to reform shows that by reversing bad practices, creating conditions for development, and with some luck and help from the international community, the continent could pull itself out of the quagmire of the past two decades. The conference also reaffirmed the consensus of the first Maastricht Conference in 1990, and modified it as follows based on the changes that have taken place in SSA and the world since then:

- **governance**, which emerged in 1990 as an incipient, vaguely defined issue, is now a major subject of debate in SSA, and is widely seen as *the reform that underpins all other reforms.*
- **development process** is primarily a matter of *self help.* Leaders need to articulate a long term *vision* of growth and poverty reduction. The involvement of the civil society in the development process is the key to generating *ownership* of the process. *External assistance* can only supplement the internal effort.
- **growth** by itself does not amount to successful development. The evolving consensus now emphasizes broad-based growth of at least 5-6 percent per annum, driven by agriculture, which has to grow by at least 4 percent per annum in order to reduce poverty.
- **adjustment** should be anchored in a long term vision of development, with increasing importance given to getting the fundamentals right, to addressing the institutional dimension of reform, and to the fact that *"development is a human centered process".*
- **domestic resource mobilization** is an even more essential requirement of reform programs than when its importance was underscored in 1990. The current situation of excessive dependence on external savings is clearly unsustainable.
- **regional integration** process should be accelerated to remove the barriers to cross-border flow of goods and factors, while simultaneously lowering external protection.
- **debt overhang** is a significant impediment to sustained growth in most SSA countries. While important actions have been taken since 1990, much remains to be done to reduce the overhang significantly, including specific steps to address the multilateral debt problem.
- **partnership** between the African countries and the donors should be based on mutual trust, with each partner being accountable for its actions. Conditionality is a legitimate element of the partnership, but donors should not micro-manage the development process.
- **external assistance** plays a key, albeit supportive, role in Africa's development process. It would be tragic if donors were to reduce support to Africa just when aid has more chance of being used effectively. Concessional assistance needs to be maintained and the key is to *replenish IDA.*

Mr. James Wolfensohn

-3-

December 1, 1995

GCA's Impact to Date and its Future. There was a consensus that the GCA has provided added value in the development process in SSA over the past five years. The partners appreciate in particular the coalition's informal set-up and the uniqueness of the informal exchanges it facilitates at the highest levels. Specifically, the partners agreed that the GCA has:

- provided a useful forum for high level exchanges of ideas for the purpose of building consensus on African development issues;
- played an important catalytic role in focusing attention on critical issues in economic reform and governance;
- helped to generate political validation for the sensitive issues; and
- demonstrated the effectiveness of "peer example" in convincing the slow reformers to accelerate economic and political reforms.

In view of GCA's impact to date, the Plenary decided that the GCA should continue for another five years. In addition, it was agreed *inter alia* that the GCA should:

- (i) **rewire its governing structure** by enlarging the number of the co-chairs to six, comprising an equal number of Africans and non-Africans. The current co-chairmen (President Masire of Botswana, Mr. McNamara and Minister Pronk of the Netherlands) will continue and be joined by President Soglo of Benin, Prime Minister Meles of Ethiopia and Minister Christine Stewart of Canada. Mr. McNamara indicated that he would step down in a year provided that his replacement will be an African woman;
- (ii) **focus its agenda** on a few activities consistent with the priorities agreed in Maastricht (e.g., governance, post-conflict reconstruction, domestic savings mobilization, nexus of agriculture, population and environment, etc.). In this context, it was agreed that the GCA should help monitor progress by African countries along key indicators of the development process (e.g., growth rate per capita, domestic savings rate, primary school enrollment ratio, etc.). This would help the countries and their donor partners to establish benchmarks and monitor results on the ground. The Bank would help the GCA in this task.

CC: Messrs. Kaji, Frank, Sandstrom, Malloch Brown; AFR RMT

NGorjestani

Breakfast with Mr. Camdessus

Thursday, January 25, 1996

8:30-9:30 am

JDW Private Dining Room

- ① Authentic
- ② Delineation of lives with monetary
spans —

Sund M. Camdessus on Barry Seale report

22nd
{ Morocco
Tunisia
Algeria - Guinea — only for pilot

253

The World Bank
Washington, D.C. 20433

OFFICE OF THE PRESIDENT

James D. Wolfensohn

Tel.: (202) 458-4256

Fax.: (202) 522-1677

FACSIMILE TRANSMITTAL FORM

DATE: February 19, 1996

No. of Pages: 8

(including this page)

TO: Mr. James D. Wolfensohn

FAX #: (202) 232.5372

FROM: Atsuko Horiguchi

SUBJECT: Your Breakfast with Mr. Camdessus Tomorrow, Tuesday, ²⁰~~21~~ February, 8-9 am

Mr. Wolfensohn:

Welcome back! I hope you had a sunny weekend of R&R and family time.

I just received a brief from Masood Ahmed this afternoon for your breakfast with Mr Camdessus tomorrow (first two pages). I believe you've already seen Mr Nicholl's statement (on the debt papers) and Alex Shakow's memo (on Mr Ruggiero's continued interest in the Development Committee), but I am forwarding them again just in case.

The breakfast was moved up from Wednesday (and at the slightly earlier hour) at Mr Camdessus' request.

☺ Atsuko

DECLASSIFIED

FEB 14 2025

WBG ARCHIVES

MASOOD AHMED

Director

International Economics Department

CONFIDENTIAL

Fax cover sheet

Sent to: Ms. Rachel Lomax
cc: Mr. S. Sandstrom
Mr. M. Bruno
Ms. A. Horiguchi ✓
Ms. N. Kamel

Date: February 19, 1996

Fax No:

No. of pages (incl. this): 5

Message:

Status Note on Multilateral Debt

Rachel,

I understand from Atsuko that the breakfast between Messrs Wolfensohn and Camdessus has been brought forward to tomorrow morning. As you probably also know, the Fund Board discussion on the debt papers has now been brought forward to tomorrow at 10:00 a.m.

On debt, there are a few points that Mr Wolfensohn might want to raise at the breakfast:

- *confirm that they are both still comfortable with the approach proposed for the two Board discussions.* You recall the basic idea was to use the discussions to draw together some general principles that would guide subsequent staff work in designing a specific proposal for the Development Committee. We have had some informal consultations with a few Executive Directors. On our side, Peter Nicholl's written advance statement provides an excellent basis for setting out these general principles (copy attached). Mr. Wolfensohn might want to share this with Mr. Camdessus. He might also refer to the draft of the summing up which we have prepared jointly with Fund staff (attached to my February 15 note to you).
- *take stock of the position of the various MDBs in preparation for the heads of MDB meeting at the end of the month.* You have my em summarizing the meeting

THE WORLD BANK

ROOM: N-4-043 TELEPHONE: (202) 473-3800 FACSIMILE: (202) 522-1135

we had with the MDB representatives who visited us on Thursday. The meeting was useful in bringing the regional banks up to date on the analysis that has been carried out and to test their reactions to the broad approach for designing a proposal. They now have a better appreciation of the nature of the problem and the need to do something beyond current instruments. However, as I noted in my em, the EBRD and (less loudly but probably equally firmly) the Asian Development Bank are still concerned that any action we take should not impair the market's perception of the MDBs as preferred and tripleA borrowers. They are also almost certainly not going to contribute financially to a Debt Reduction Fund that is aimed primarily at countries they do not deal with. One specific issue that Mr. Wolfensohn might raise in this regard is how to bring Mr. de Larosiere on board, and what role Mr. Camdessus might play in this endeavour.

- *prepare a common strategy for dealing with key G-7 officials.* At this stage three countries need special mention. The UK's position is supportive in terms of the need to do something about the debt problem, but unhelpful in pushing for an institution by institution solution (rather than the coordinated approach we are coming up with) and in emphasizing that the funding for any initiative must come largely from within the multilateral system. The French will also need early attention, both because of the Paris Club connection and because they have so far been skeptical about the need for a special HIPC debt initiative; Mr. Wolfensohn might explore how far Mr. Camdessus has already discussed the issue with the French authorities. Finally, the Japanese will need to be brought into the picture soon after we have a common proposal; perhaps during Sven's visit there in mid-March in connection with IDA.

Beyond tomorrow's breakfast and this week's Board meetings, we need to come back to the issues raised by the staff work on the joint proposal. As I mentioned, the issues we are now grappling with are the structure and governance of the Multilateral Debt Fund, the nature and mechanisms for appropriate burden sharing among the MDBs and between the MDBs and the IMF, and how the proposed initiative would deal with countries in the interim phase before they were eligible for debt stock reductions. We would like to discuss these internally this week and then plan for a meeting to give a status report to Jim early next week.

Please call me at home (301-229-3199) if there is any further information you need.

Regards,



Masood



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996		Barcode No. 30484998		
Document Date 16 February, 1996	Document Type Board Record			
Correspondents / Participants				
Subject / Title Statement by Peter Nicholl "Analytical Aspects of the Debt Problem of Heavily Indebted Poor Countries" and "Debt Sustainability Analysis for Heavily Indebted Poor Countries" (Informal Meeting, Thursday, February 22, 1996)				
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 S. Thompson</td><td>Date February 14, 2025</td></tr></table>	Withdrawn by S. Thompson	Date February 14, 2025
Withdrawn by S. Thompson	Date February 14, 2025			



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996		Barcode No. 30484998		
Document Date February 16, 1996	Document Type Letter			
Correspondents / Participants To: James D. Wolfensohn through: Zhang Shengman, SECVP From: Alexander Shakow, Executive Secretary, Development Committee				
Subject / Title WTO Observer Status at the Development Committee				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by S. Thompson</td><td>Date February 19, 2025</td></tr></table>	Withdrawn by S. Thompson	Date February 19, 2025
Withdrawn by S. Thompson	Date February 19, 2025			

TRANSMISSION REPORT

(MON) FEB 19 1996 19:34

DOCUMENT #	3561307-798
TIME STORED	02. 19 19:30
TIME SENT	02. 19 19:30
DURATION	3' 39"
DESTINATION	2022325372
DST. TEL#	92325372
MODE	ECM
PAGE (S)	8PAGE (S)
RESULT	OK
DEPARTMENT	

JIM

Papua New Guinea

Just in case Camdessus brings this up - though we have no reason to suppose he will and noone is suggesting that you should- you might like to know that we are about to send a note to the Government saying that the structural program is off track. The Fund mission seem to have taken the view that the macro is OK and they are not judging the structural issues.

This was from Marianne Haug^{*} - I have not heard from Gautam, and it may not have got elevated to this level in the Fund either.

Rachel

5 March

* Her note of 3/1 is below. I gather 90% of the conditions for the 2nd tranche have not been complied with, though I don't know how weak they are, or how badly the macro targets Marianne refers to in her note have been missed.

Marianne Haug, Director, EA3DR

March 1, 1996

Note to Mr. Kaji:

Re: PNG

1. As you might recall, the Second Tranche for the Economic Recover was scheduled to be released in November 1995. A mission was in the field at the time, but concluded that (i) the budget had not been formulated and measures on trade reform had not been taken, and (ii) final results for 1995 were not available.
2. The Bank informed the IMF and other co-lenders as well as the Government accordingly in December 1995 and announced a tranche release mission for February. On January 19 the Government informed us that the budget for 1996 and the 1996-98 Public Investment program was not yet ready, and thus they did not like to receive a mission until the latter part of March. As the IMF was planning its quarterly standby mission at the end of February, and most of the conditionality are directly related to the 1995 and 1996 budget implementation, a supervision mission visited during the February 18-29 period to review progress and assist in any way possible to finalize the outstanding provincial and investment budgets.
3. Upon arrival and discussions in Port Moresby, the mission confirmed the following non-compliance with the conditionality and concluded that the program was off track. Major issues are as follows:
 - (a) On sustainable forestry, the Government has not passed the Code of Conduct (it was a Board presentation condition); indeed the legislation had not yet even been presented to Cabinet. In addition, a string of new concessions had been introduced by the Minister of Forestry in violation of the Forestry Act and the Government had introduced three times legislation to abolish the Authority since November, although the maintenance of the Authority was an explicit loan conditionality. In addition, royalties for the land owners were not enacted.
 - (b) The macro-economic targets for 1995 have not been met. Specifically, the expenditure targets for social services and infrastructure have not been met. The Government stopped disbursing against these agreed expenditure categories in November to set aside 64 million Kina in a special trust fund at the personal discretion of the Prime Minister and the

Minister of Finance. Further, the agreement on wage freeze was not met. Full retroactive indexation of expatriate salaries (30% devaluation) was granted in addition to a retroactive wage increase of 6.9% for the PNG nationals.

- (c) There is no agreed budget for 1996 between the Government and Provinces, i.e., the structural expenditure targets can neither be measured nor verified. Equally, the public investment program has not been agreed upon. Instead, special funds continue to be set aside at the discretion of the MPs and budget management is in chaos.
- (d) As to the Trade Reform, the agreed measures due January 1 regarding cement monopolies and other monopolies for refinery, etc. have not been implemented.

4. Mr. Pirouz Hamidian-Rad, the mission leader, summarized these findings in a letter to the Finance Minister and meetings were arranged for him. It was clear during all meetings that PNG officials counted on a softer stand by the IMF and the new Australian Government to be elected on March 2.

5. Mr. Hamidian-Rad shared his letter with the IMF team which was joined by Mr. Saito. The IMF team abstained from sharing their macro-economic data with the team but instead agreed on a macro-economic framework abrogating the Bank's wage conditionality and domestic spending limit. When Mr. Hamidian-Rad was confronted by the Governor of the Central Bank and the Minister of Finance with the draft standby letter, the PNG Government expected him to accept the standby arrangement which apparently had been agreed between Mr. Saito and Sir Julius.

6. Mr. Hamidian-Rad informed the Governor and the Minister that the IMF could not decide on behalf of the Bank and World Bank conditionality needs to be reviewed independently of the Fund. The Government then canceled all of the mission's meetings for this week and Mr. Hamidian-Rad received a threatening, personally offensive letter from the head of the Structural Adjustment Unit, the former Secretary of Finance. A decision was taken that the mission would return to Washington and report on their findings.

7. During the entire period, the mission had close contacts with NGOs, forestry land owner groups, and churches to explain the social and sustainable forestry actions covered under the program. As it became apparent that the mission was leaving, PNG's newspapers were flooded with NGO statements and editorials in support of the World Bank role.

8. The Supervision Mission is scheduled to submit their report and draft letter to Government upon their return on Monday.

L. POEY
L:\PNG.DOC
March 1, 1996 5:03 PM

Business Briefing

29Feb96 PAPUA NEW GUINEA: RTRS-WORLD BANK TEAM TELLS PNG GOVT TO COOL OFF.

PORT MORESBY, Feb 29 (Reuters) - A World Bank team cut short a visit to Papua New Guinea without completing an investigation into structural reforms, saying the government needed time to cool off.

The four officers were in the South Pacific nation to check the progress of a structural reform programme that was thrashed out last August as debt-ridden Papua New Guinea sought a US\$358 million loan.

The first US\$200 million of the loan was paid last year but the second tranche was due to be paid after the officers reported back on the progress of the reforms.

Spokesman Pirouz Hamidian Rad said his team was asked by senior finance department officials to leave immediately after the two groups differed greatly on the progress of the government's implementation programme.

"Although some progress had been made, much more needs to be done in a positive manner and within the time frame we all agreed to," Rad told the Post Courier newspaper before leaving on Wednesday night.

"We asked them to look at the government progress critically.

"We are leaving with no hard feelings but it seems the government needs cooling off and more time to look at the programme."

The Papua New Guinea government, however, has denied it ordered the World Bank officers to leave but wants to continue talks with more senior World Bank officers in Washington.

Finance Secretary Rupa Milne described certain World Bank concerns as "insignificant nitty gritty".

The breakdown in talks in Papua New Guinea left the timing of the second tranche of the loan uncertain but it was expected that talks would resume soon over how to get the reform package back on track.

The reform package aimed to cut government spending and redirect revenue into health and education services throughout the country where the majority of the four million population live a subsistence lifestyle despite its rich resources.

- Canberra bureau 61-6 273 2730

(c) Reuters Limited 1996

REUTER NEWS SERVICE



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996		Barcode No. 30484998		
Document Date 08 January, 1996	Document Type Letter			
Correspondents / Participants To: Sven Sandstrom From: Mark Bowen				
Subject / Title Preliminary Briefing on 1996 Salary Adjustment				
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 S. Thompson</td><td>Date February 19, 2025</td></tr></table>	Withdrawn by S. Thompson	Date February 19, 2025
Withdrawn by S. Thompson	Date February 19, 2025			

Breakfast: Mr. Camdessus

Wednesday, March 6, 1996

8:30-9:30 am

Mr. Camdessus' dining room (IMF)

We have no securities
of retention deposits
know as we get the best

Run in Chemongul
Mort for

I.
Salary =
US + 3.4% → 5.6
Trans 7.6
we have approximately 9 we do
not do 5.6 - 10% 10% alone 53
we should have 10% 10% alone 53

Pyotr
1/2 of 3.5% the expected so for 5.6
6.8%
but short - cannot on for 5.6
sandy like 4.5%
the money at 7.5%
must wait

① Economic Journal
rebuilds in partnership
of having institution with the country

② 2nd period - can have
already started

March 5, 1996

Possible Issues for the Camdessus/Wolfensohn Breakfast

March 6, 1996

• Multilateral Debt: Both Camdessus and JDW to meet with Oxfam this week. JDW's meeting is on March 8 at 1:30. Mark Malloch Brown has prepared the brief and will meet with JDW on March 7 for a pre-meeting briefing.

• Russia: Bank lending in support of economic reform in the light of the large EFF program (note from Pradeep Mitra, Chief, Russian Country Operations Division).

• MDB Heads Meeting: (Note from Atsuko on outcome of meetings).

Joan

has now searched, as MMB told you

below

URGENT*→ Hand to A. Ray.*

February 27, 1996

Mr. Selowsky

Marcelo:

Re: Russia: Briefing for Camdessus-Wolfensohn breakfast

Although I had initially thought that there were no outstanding issues for discussion at the March 6 breakfast between Messrs. Camdessus and Wolfensohn on Russia, it subsequently occurred to me that the MD may press the President on the issue of Bank lending in support of economic reform in the light of the large EFF program.

The attached brief is addressed to that issue. Although he has not seen it, Yukon has approved its contents in principle. I understand you are coordinating this process with DEC which is putting together the Bankwide brief for the breakfast by cob today.

Pradeep
Pradeep

cc: Mr. Huang

RUSSIA: Briefing for Mr. Wolfensohn's breakfast with Mr. Camdessus
March 6, 1996

Key Messages

- **Bank-Fund Collaboration.** There has been close collaboration between the IMF and the Bank in preparing the three-year \$10.2 billion Extended Fund Facility (EFF), the negotiations on which were recently concluded in Moscow. Bank staff helped develop the agenda of wide-ranging structural reforms in the program and will be called upon to help monitor progress jointly with the IMF.
- **Bank Lending in the light of the EFF.** Given the Fund's willingness to commit one of the largest programs in its history at this juncture in Russia, Mr. Camdessus may ask about the Bank's intentions in accelerating fast-disbursing lending in support of the Government's reform program. The Bank is working on three sector adjustment loans—in coal, agriculture and the social sectors (\$500 million each)—which the Government had requested be "fast-tracked" during your visit to Russia. However, in your communications, you have made clear to the Government that our ability to process these loans will be tied to the pace of policy reform. In response to Mr. Chernomyrdin's request to you, and an encouraging beginning to the dialogue, we are working to process the coal SECAL expeditiously and hope to present it to our Board this fiscal year *provided the Government undertakes the necessary reforms*. Progress on the social SECAL and the agriculture SECAL has however been slow due to the Government's inability to forge an internal consensus on the necessary reform program.

1. **Bank-Fund Collaboration.** Bank and Fund teams have worked closely on Russia in the preparation of the EFF program. The Bank has participated in Fund missions and our staff have developed an agenda of structural reforms in areas such as privatization and restructuring, banking, inter-governmental fiscal relations, trade reform, social safety net, tax administration, agriculture and the coal sector. The Bank has also worked with the Fund to develop procedures for monitoring the program and participated in negotiations with the authorities. The EFF will provide a potentially important avenue for continued dialogue on structural policies.

2. **Bank Lending in parallel with the EFF.** Fund management has expressed to our management the view that fast-disbursing Bank lending in support of the structural reforms articulated in the EFF would be desirable. As you know, Prime Minister Chernomyrdin recently confirmed to you the Government's strong interest in the coal SECAL. This was subsequently reconfirmed by first Deputy Prime Minister Kadannikov to Mr. Linn during the occasion of the latter's recent visit to Russia. We are working to process the coal SECAL as expeditiously as possible and would hope to present it to our Board this fiscal year *provided the Government undertakes the necessary reforms*. We do not, however, expect that the social and agriculture SECALs can be processed as rapidly. In order to help develop a consensus on the reform program in the social sectors, the Government is in the process of establishing a steering committee and working group for this operation and is preparing a response to a concept paper prepared by the Bank. We have informed the Government that we would send a preparation mission only when these steps are taken. Finally, while the Government recognizes the importance of addressing the major problems in the agriculture sector, it does not currently appear to be in a position to undertake the necessary policy reforms. Given the importance of these sectors, we plan however to continue working with the Government on these operations and if agreement can be reached, they could complement the EFF during the latter years of what is a three-year program.

MDB Meeting Minutes

Tr World Bank/IFC/MIGA

O F F I C E M E M O R A N D U M

DATE: March 5, 1996 10:27am EST

TO: See Distribution Below

FROM: Atsuko Horiguchi, EXC (ATSUKO HORIGUCHI)

EXT.: 84256

Sent By: Khin Mala U

SUBJECT: **REVISED VERSION**

MDB Presidents' Meeting, February 28-29, 1996: Debriefing

Executive Committee Members: Kindly circulate as appropriate.

Overall atmospherics:

- o All sessions generated frank, substantive discussions, and all MDB heads/deputies expressed enthusiasm for this forum and its continuation.
- o Mr Sato of ADB expressed initial concern that WB be seen as coordinating the RDBs, but by the end of second day, he seemed to have come around. Until the end, though, he persisted in the view that maintaining healthy competition, not cooperation, was our bigger challenge. Meanwhile, other heads agreed that our institutions were still undercoordinated ("underlap"), and would benefit from more systematic collaboration.
- o Session on multilateral debt took place in camera.
- o Dinner at JDW residence was friendly; JDW asked Mr Kabbaj to speak on his restructuring experience. Otherwise, topics ranged from President Samper to Prime Minister Hashimoto to the Republican primaries.
- o All were very impressed with IPANet presentation; JDW/Mr Iida invited all MDBs to participate.

Main points raised:

Mr Omar Kabbaj, President, African Development Bank

- o AfDB is operating in most difficult environment -- challenge is to prove value-added: what could we do that the WB isn't already doing?
- o Since assuming presidency six months ago, completed AfDB's restructuring (where 20% of staff was dismissed, 70% of management was reappointed through

examination by external consultants in a transparent process, without political intervention) as a matter of survival.

- o Just discussed with the possibility of participating in ESAF activities.
- o MDB Task Force Report (draft): statement vis-a-vis AfDB is unfair.
- o African countries suffer in their lack of an enabling environment to support a healthy banking sector; would appreciate WB support in financial sector reform in the African region.

Mr Mitsuo Sato, President, Asian Development Bank

- o Cooperation is easy, more difficult is to cooperate without losing momentum for competition, to maintain "cooperative pluralism."
- o Cooperation in non-lending services just as important as in lending: ADB receiving great externalities from WB's research.
- o There is a long history of separation; per JDW's suggestion on the comprehensive report (see "JDW" below), shouldn't be so ambitious; shouldn't have the WB seen as center of the universe, coordinating MDBs.
- o MDB Task Force Report (draft):
 - . support of MDBs is appreciated, but attention to promotion of capital/financial markets is inadequate; issue of mobilization of domestic resources is key, especially in high saving countries of East Asia -- transforming savings into long-term investments, i.e. through the creation of bond markets, is a big regional challenge;
 - . decentralization should not be a golden rule; it could lead to loss of scale economies;
 - . too coordination-oriented, not enough on competition.

Mr Shoji Nishimoto, Chief, Strategy & Policy, ADB

- o Report from Asian Development Fund VI's second replenishment meeting in Bonn (February 26-27): donors' primary concerns were governance and effectiveness/efficiency. ADB's vision statement focused on the demand side, but the overwhelming preoccupation of donors was about supply constraints.

Mr Nick Stern, Chief Economist, European Bank for Reconstruction & Development

- o Macrostability and sectoral reforms are critical for EBRD's activities in designing coherent projects.

- o Though EBRD does not provide BOP support, its advice should be coordinated with other MDBs; otherwise, countries are savvy enough to play us off each other.
- o Notwithstanding ad hoc networks that have led to a great deal of collaboration, we are still a bit under-coordinated; but we need to be mindful that coordination itself requires resources.
- o MDB Task Force Report (draft):
 - . pleased with the report's support for MDBs; however,
 - . it misunderstands the role of MDBs and private sector, and EBRD's raison d'être itself, particularly on B-loans (which is fundamental to EBRD's catalytic role), and infrastructure (where EBRD's involvement is -- as honest broker -- positive);
 - . "Convergence" should be substituted with "coherence."
- o On private sector, share a number of common priorities with MDBs:
 - . enabling environment: activities of IBRD and ADB (in Central Asia) in this is critical to EBRD's projects;
 - . capital markets: important in transforming domestic savings to investment, but also for corporate governance (through disclosure);
 - . country strategy: EBRD has compulsory section on "other IFIs' activities" in its project reports to ensure congruence;
 - . catalytic impact on transition economies: by breaking monopolies/creating markets and by conveying market-oriented information.

Mr John Taylor, General Counsel, EBRD

- o Further areas of collaboration to consider:
 - . procurement: great deal of inefficiencies to be unlocked through collaboration;
 - . loan documentation: EBRD has tried to simplify documentation -- an area of "cooperative advantage;"
 - . training: encourage private sector participation.
- o EBRD just brought a policy paper to the Board on corruption and money laundering; can send copies to other MDBs. Also, work on code of corporate governance is underway.

Mr Enrique Iglesias, President, Inter-American Development Bank

- o Cooperation in past was not always smooth -- culture of cooperation takes time to develop. WB's world vision and experience are "an inspiration" to IDB.
- o Areas of collaboration:
 - . information: e.g. in economic/sectoral analyses -- information sharing makes sense in resource-

- constrained times;
- . strategy: very important to have strong coordination on joint strategies vis-a-vis client countries;
- . relations w/NGOs, civil society: could explore jointly.
- o Welcome MDB staff to IDB's recently-established Institute for Social Development.
- o MDB Task Force Report (draft) might be setting too high a standard on poverty reduction. What would we do with "non-performers" in this area?

JDW

- o Welcome MDB staff to WBG's internal training program.
- o Welcome MDB heads or senior deputies as Presidential Fellows.
- o Suggest that MDB heads of external relations get together to create joint strategy to build public support for concessional lending -- with human interest stories on poverty alleviation, a basic text on key issues in a box, etc. They should then report to the MDB heads prior to the next meeting.
- o Meeting with parliamentarians in an effort to build public awareness and support for IDA -- have already met with them in Australia, Germany and Italy, and plan to do so in as many shareholder countries as possible. Received notice this week that Bundestag just passed the IDA bill.
- o MDB representatives who are meeting with the Task Force in the next few days will forcefully put our joint feedback on misrepresentations about private sector activities, and unfair commentary on AfDB.
- o For the next MDB Presidents' meeting, would be useful to have a report -- a comprehensive overview of existing associations across MDBs -- on bilateral and group relations/collaborations, e.g. MDB treasurers, MDB controllers, MDB evaluation heads. The WB, by virtue of having bilateral relations with all MDBs, can volunteer to compile this -- there is no desire to be center of the universe.
- o On the PSD country strategies (see "Richard Frank" below), WBG should consult with MDB counterparts.

Gautam Kaji

- o Continuum of MDB instrumentalities (from loans to TA to guarantees) need to be looked at with much more flexibility, to meet the increasing sophistication of

countries.

Richard Frank

- o Why PSD? It promotes growth and creates fiscal space (taken up by SOEs);
- o WBG approaches PSD via:
 - . enabling environment -- institutions and framework;
 - . financial sector support -- inextricably linked with, but often lagging behind, real sector;
 - . source of finance;
 - . leveraging of funds.
- o MDBs need to articulate how PSD activities are linked to poverty reduction, where we play a role, and how we can cooperate with each other:
 - . IFC is taking the lead to be complementary to, not to crowd out, the private sector;
 - . environmental challenges to natural resource projects;
 - . solving infrastructure puzzle;
 - . sharing expertise (e.g. WBG can learn from IDB's experience in microenterprise);
 - . training;
 - . country strategies -- WBG chose eight countries for which intensive PSD strategies will be designed.

Jannik Lindbaek

- o MDB Task Force Report (draft):
 - . private sector issues are not dealt with comprehensively or accurately;
 - . preferred creditor status of EBRD/IFC is confused with EBRD/IBRD;
 - . infrastructure investments -- only 10% is financed by private sector, though the rate of growth is conspicuous;
 - . specific references to IFC are erroneous, e.g. 8% return on assets target (vs 8% return on equity).
- o IFC has cooperative relationship with all MDBs; needs of client countries are much greater than any one of us could singularly serve.

Agreed next steps:

- o Next meeting will be hosted by EBRD, with an agenda set forth by EBRD, agreed to by other MDBs. Work can be split among five MDBs along agenda items.
- o Various cross-MDB groups, old and new -- e.g. controllers, treasurers, evaluation, procurement, external relations -- to report to presidents on their activities.
- o JDW and Mr Camdessus to keep other MDB heads fully informed on joint work on HIPC's. Will send revised

proposal on multilateral debt within a week.

N.B. I've been in touch with offices of Messrs Camdessus and de Larosiere about the dates of the next meeting, for which June 30-July 1 (on the way back from Lyon) was suggested. Both of their schedules are already tied up for those dates, but we're trying to work out another date.

Mr de Larosiere is visiting Washington in ten days' time, to meet with members of US Congress; JDW will have breakfast with him on Monday, March 11.

DISTRIBUTION:

TO: Rachel Lomax	(RACHEL LOMAX)
TO: Jessica P. Einhorn	(JESSICA EINHORN)
TO: Richard Frank	(RICHARD FRANK)
TO: GAUTAM KAJI	(GAUTAM KAJI @A1@WBHQB)
TO: Caio Koch-Weser	(CAIO KOCH-WESER)
TO: Sven Sandstrom	(SVEN SANDSTROM)
TO: Ibrahim Shihata	(IBRAHIM SHIHATA)
TO: Akira Iida	(AKIRA IIDA)
TO: Jannik Lindbaek	(JANNIK LINDBAEK)
TO: MICHAEL BRUNO	(MICHAEL BRUNO @A1@WBHQB)
TO: Mark Malloch Brown	(MARK MALLOCH BROWN)
CC: Josie Bassinette	(JOSIE BASSINETTE)
CC: RACHEL MCCOLGAN-MOHAMED	(RACHEL MCCOLGAN-MOHAMED @A1@WBHQB)

Runia - Good program usually in 603

Yellson fights for guerrillas

They were Tiger on Port dub an old gas
to be unlabeled by domestic labeled -
monthly monthly not domestic

Amberg®

ESSELTE

57705

MADE IN U.S.A.



0 78787 57705 3

3 + 3 = Five figures + 3

(international need for the spirit → truly, democracy
on both A discipline & negotiation —
Till the moment are ~~are~~ sure —

Breakfast: Michel Camdessus

Wednesday, April 17, 1996

8:30-9:30 am

JDW's Private Dining Room

Venezuela — Pierre Combes

Corruption

Doc visit

To-Do's

4-19-96

□ (KC: NSO Montana/Wyom. Res.)

7:30a - 8:00a

□ **** NYC -- AM ****

9:00a - 11:00a

□ MEM.SLOAN KETT. -- NYC (CONFIRMED)

- Venue: MEMORIAL SLOAN-KETTERING / 425 EAST 67TH STREET GO RIGHT, TOWARDS ELEVATOR A, AND TAKE IT TO THE 4TH FLOOR, SUITE 401 (BETWEEN YORK AND 1ST AVENUE - THE OUTPATIENT BLDG., SUITE 401)
- NOTE: DR. CHARLENE SCHULZ (GENEALOGIST)
- Contact: 212-639-6760 (KIRA)
- * Personal * (3 HRS. MIN.)
- NOTE: MAUREEN CFMD. ALL DETAILS WITH CLINIC ON 4/11

12:00p - 12:00p

□ SHUTTLE: FLIGHT FROM NEW YORK TO WASHINGTON (JANE TO RECFM.)

1:00p - 1:00p

□ ARRIVAL: WASHINGTON DC (JANE TO RECFM.)

1:15p - 2:00p

□ ?? LITE LUNCH (OFFICE) -- DEPENDING ON NYC TRIP RETURN // ALI TO CONFIRM WITH CIHAT CLOSER TO DATE

- VENUE: OFFICE ??? // TO BE CONFIRMED ON THURSDAY
- 4/5- CIHAT

2:30p - 3:00p

□ FINANCE MINISTER, DR. IBRAHIM AL-ASSAF, SAUDI ARABIA (B) (N)

- VENUE: E1227 (CONF. RM.)
- CONTACT: SAMIRA (FOR MONA YAFI, EDs) @ 80185
- WB ATTENDEES: JDW, ALYAHYA, DERSIV, M. TADROS (UNIT CHIEF), M. ALIKHAN (RES. REP. SAUDI ARABIA) (MNA), HOVAGUIMIAN (IFC), JOSIE
- SAUDI ARABIA DELEGATION ATTENDEES:
 - TO BE ADVISED
- (B) BY MNAV / DUE: WED. APRIL 17
- NOTE: 4/15 - CHANGED TIME TO 2:30 FROM 2:00 AT THE REQUEST OF EDs OFFICE //
- EXC: JOSIE

3:00p - 5:00p

□ MR. RUGGIERO, DIRECTOR GENERAL, WORLD TRADE ORGANIZATION (B) (N)

- VENUE: E1227 (CONF. RM.)
- PROGRAM:
 - 3:00 - 3:30 P.M. -- JDW AND RUGGIERO (ONE-ON-ONE)
 - 3:30 - 5:00 P.M. -- ALL ATTENDEES TO JOIN
- CONTACT: MR. EVAN ROGERSON, DIRECTOR, OFFICE OF THE DIRECTOR GENERAL (41-22) 739-51-00 / FAX: (41-22) 739-54-60
- CONTACT NUMBERS FOR RUGGIERO: (H) 39-471-798-4022// PORTABLE: 41-89-200-9720
- WTO ATTENDEES: MR. RUGGIERO, DIRECTOR GENERAL // MR. EVAN ROGERSON, COUNSELLOR, OFFICE OF THE DIR. GEN. // MR. JESUS SEADE, DEPUTY DIR. GEN. // MR. GARY SAMPSON, DIRECTOR, DEV. DIVISION
- WB ATTENDEES: JDW, M. AHMED, A.WINTERS, ATSUKO
- NOTE: JDW ASKED FOR THIS MEETING TO BE FOR MORE THAN 1/2 HOUR // ADV. AH ON 3/26 - CFMD.
- (B) TO COME FROM M. AHMED
- EXC: ATSUKO

5:00p - 6:00p

□ BLOCKED -- SPRING MEETINGS PREPARATION & FOLLOW-UP

- EXC: RACHEL

6:00p - 6:30p

□ COURTESY CALL: MR. KABBAJ, CHAIRMAN, DEVELOPMENT COMMITTEE MEETINGS (B) (N)

- VENUE: E1227 (CONF. RM.)
- CONTACT: ALEX SHAKOW @ 31828
- ATTENDEES: JDW, KABBAJ, SHAKOW, ZHANG, ATSUKO
- (B) BY SHAKOW / DUE: WEDNESDAY, APRIL 17
- EXC: ATSUKO

JDW

Pls know Mr Camdessus
may invite you to
join the lunch w/
R Ruggiero @ the IMF
on Friday 1pm ~
Your medical tests
may not allow you
to get back in time.
Oh

OFFICE MEMORANDUM

DATE: April 11, 1996

TO: Ms. Atsuko Horiguchi, EXC

FROM: Mark Baird, DECVF

EXTENSION: 31666

SUBJECT: Wolfensohn/Camdessus Breakfast, April 17

JDW: Mr Camdessus' office informs me MC would like to discuss:

- ① 4/19 (Fri) Mtg w/ R. Ruggiero - MC is having lunch w/ him @ 1 pm, you are meeting him @ 3 pm. (brief att.) →
- ② HIPC's / ESAF - MC would like to give you an update of "mixed progress."

They are aware you may raise West Bank/ Gaza and Jordan.

4/16 Atsuko

A natural item for Messrs. Wolfensohn and Camdessus to discuss next Wednesday is their approach to the meetings with Mr. Ruggiero on April 19. Since they are due to see him separately that day, it would be good to coordinate their positions in advance. Attached is a copy of the brief that Masood Ahmed has already sent to EXC. — revised 4/16.

Having just returned from the middle east, Mr. Wolfensohn may wish to share his impressions with Mr. Camdessus. Among the points he might cover are:

- the situation in the West Bank and Gaza. The economic crisis brought on by the border closure is severe. It is a double crisis of employment and budget. Unemployment now exceeds 60 percent, and it is imperative to come up with measures to ease somewhat the crisis. (There is no way to come close to compensating for the economic losses; the IMF estimates that GNP will decline by 17 percent in 1995 as a result of the closure, as opposed to a projection of about 8 percent growth before the closure.) Besides the lack of access to employment in Israel, the lack of imported goods, especially construction materials, has shut down most activity in the West Bank and Gaza; the flow of goods is resuming very slowly. The Bank has already launched temporary employment programs, financed from the Holst Fund, and is working on new programs. The budget crisis is also severe. Preliminary estimates from the IMF indicate that the annual budget deficit will rise from a previously projected \$75 million to \$180 million to \$200 million. In the second quarter alone, the deficit will be \$80 million, mainly in April. Obviously, there is a financing crisis. The Bank is working on possible solutions, but more donor resources will be required.
- Jordan's balance of payments. Recently the IMF has approached donors to seek support for a special foreign reserves fund to be established to provide a cushion against the possible effects of Jordanian Dinar redemption in West Bank and Gaza. Regardless of the modality and the prospects for redemption, there is agreement that

Jordan's non-gold reserves (now one month of imports) need to be increased. The Bank is preparing a follow-up adjustment operation to help cover Jordan's exceptional financing needs. We have agreed to convene a Consultative Group (CG) for Jordan (about July), which would be co-chaired by the Bank and Fund, and aim in part at mobilizing donor support (in particular BOP assistance) for Jordan. Preliminary estimates indicate that Jordan's exceptional financing needs, including a build-up in non-gold reserves to three months of imports, would be in the order of \$1.0 billion over the remainder of 1996 and 1997. Bank and Fund staff are working closely together in the approach to donors prior to the CG.

Attachment

cc: Ms. Salop, Mr. Ray

FROM M. AHMED

Briefing Note on Negotiation of a Bank - WTO Cooperation Agreement

Relations with the WTO are on the agenda for your meeting tomorrow with Mr. Camdessus. Since the brief dated April 3 was prepared the Fund and WTO have made considerable progress in the negotiation of their cooperation agreement and we met with WTO staff in Geneva last Saturday. These developments clear the way for rapid completion of a Bank - WTO agreement. The two critical areas in the Bank and Fund agreements with WTO are access to Executive Board meetings and WTO access to the Development Committee.

① WTO Access to Board Meetings

On access to board meetings, the Fund and the WTO have agreed on a two-tiered WTO access to meetings of the Fund Executive Board:

- automatic observership at discussions of general and regional trade policy issues,
- invited observership at discussions, including country-specific discussions, where WTO presence would be of particular interest for cooperation between the two organizations.

We propose to negotiate WTO access to our Board on similar terms.

② WTO Access to the Development Committee

The remaining issue is one over which the Bank and the Fund have joint responsibility -- WTO access to the Development Committee. An important consideration here is to allay Mr. Ruggiero's concern that the new format for the Development Committee will give the WTO less access than in the past. In the past the GATT was invited frequently -- but in each case to report on a specific topic of interest to the Development Committee: In the late 1980s and 1990s, the topic was often the progress of the Uruguay Round.

In the past, the WTO has suggested that they have access on a standing basis to all sessions, including restricted sessions. This would amount to creating a special relationship between the WTO and the Development Committee. Such an approach does not appear to be consistent with the Development Committee's present rules, and it would create an unfortunate precedent for dealing with other organizations.

-2-

An alternative arrangement that has been discussed with the WTO and Fund staffs is that the Development Committee invite the WTO to all plenary sessions, plus all restricted sessions where the subject matter is a trade issue or other issue of relevance for fulfillment of the Ministerial Declaration on Coherence. WTO staff have been accommodating in trying to work out a suitable arrangement along these lines, and so it seems to be the most fruitful approach.

To make such an arrangement palatable to Mr. Ruggiero it will have to lead to invitations relatively regularly. As a gesture of good faith, therefore, we would propose that the agenda for the Development Committee meetings in October include an invitation to Mr. Ruggiero to contribute on a topic of joint interest to the Development Committee and the WTO. (One option would be to relate his presentation to the issues that will be addressed in the WTO Ministerial Meeting in Singapore in December 1996.)

How to Proceed

We are arranging a teleconference for this week with the aim of completing the negotiation of a Bank - WTO agreement. Practical considerations demand that our agreement with the WTO be completed in parallel with the Fund's. Any proposal on the Development Committee will require the agreement of both organizations. Each Executive Board will likely wish to consider its respective agreement as a whole, and to know what the arrangements are between the WTO and the other institution.

On the whole, the Bank's agreement would parallel the Fund -WTO agreement, with provision for WTO access to the Development Committee along the lines stated above.

If you agree with the proposed position on WTO access to the Development Committee, you might want to take it up with Mr. Camdessus when you meet with him Wednesday morning. If Mr. Camdessus agrees, you may then want to inform Mr. Ruggiero on Friday that you plan to go forward to your respective boards as soon as the agreements have been completed.

You might also want to take up the matter of WTO access to the Development Committee with Mr. Kabbaj when you meet with him Saturday morning. The Development Committee President's approval to include Mr. Ruggiero in the October 1996 meetings would add considerably to the value of the proposed position.



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Breakfast Meeting - Michel Camdessus Meeting - March 6, 1996		Barcode No. 30484998		
Document Date 16 April, 1996	Document Type Memorandum			
Correspondents / Participants To: James D. Wolfensohn From: Ibrahim F. I. Shihata				
Subject / Title Draft Agreement with WTO				
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 S. Thompson</td><td>Date February 19, 2025</td></tr></table>	Withdrawn by S. Thompson	Date February 19, 2025
Withdrawn by S. Thompson	Date February 19, 2025			

**Briefing Note on Meeting
with Mr. Ruggerio**

MASOOD AHMED

April 3, 1996

Note to Mr. Jim Wolfensohn

Jim,

Briefing Note on Meeting with Mr. Ruggiero

You are scheduled to meet with Mr. Ruggiero on April 19th. You have also received a letter from him (copy attached) which seeks your help in resolving differences between the IMF and the WTO on the cooperation agreement they are negotiating. This issue will most likely also be discussed at the meeting. This brief deals with both of the above.

WTO-IMF Relations

Negotiations on a cooperation agreement between the Fund and the WTO have been protracted and with some frustration on both sides. The issue is partly one of substance and partly process. On substance, the WTO has wanted more access to IMF Board meetings than the Fund's management and Board have been willing to offer; the IMF wants more access to some WTO fora than WTO members (and probably the Secretariat) are willing to offer. The WTO also tends to interpret the call for "greater international coherence" more ambitiously and more formally than the Fund would be comfortable with. On process, the difficulties have been exacerbated by some lack of clarity on staff responsibilities on the WTO side and by the difficulty that the WTO secretariat has in responding to the sometimes conflicting positions of the various delegations which monitor these discussions quite closely. There has also been some tension about the Fund's participation in the WTO discussions on the accession discussions on China, and the Fund's latest set of comments-- the ones that presumably triggered Mr. Ruggiero's letter -- could, by the Fund's own admission, have been drafted with a less officious tone.

I spoke with Jack Boorman informally to ask how things were proceeding with the negotiations. I told him that you had received a letter from Mr. Ruggiero that indicated some degree of frustration and that we were preparing a brief for your meeting with him on April 19. Jack Boorman agreed that the recent weeks had been frustrating for both sides. He felt though, that there had been a clearing of the air last week and he was now quite hopeful that the negotiations would move rapidly forward, so that any remaining issues could be resolved at the heads of agency level at the time of the Development Committee meeting. Since all but one of these remaining issues are also relevant for our own proposed agreement, we agreed to remain in close touch during the coming week.

WTO-Bank Relations

As the WTO-IMF relationship covers all the dimensions of the WTO-Bank relationship, plus others, it made sense for the WTO to begin negotiations with the IMF. After preliminary discussions in October 1995, the Bank and WTO agreed that the outstanding issues of the Development Committee and WTO attendance at country specific Bank Board meetings would be considered once the WTO had spoken further to the Fund. In the meantime, WTO-Bank relations have remained cordial. Mr. Ruggiero has been particularly appreciative of the briefings that our staff provided prior to his recent trip to Africa. We have also explored the possibility of some joint research on African trade issues, but after an initial burst of activity in which our WTO counterparts voiced a desire to lead this work, they told us that they have been asked to put this research on the back burner.

To move forward on a WTO-Bank cooperation agreement, we will have to resolve several outstanding issues. These relate to the nature of the WTO's participation in the Development Committee and of its access to country specific discussions in the Bank's Board. On both of these, the WTO would like greater access than we believe our Board would currently want to offer. Specifically, the WTO's current position on these issues--as we understand it--is the following:

- Automatic observership at the Executive Board discussions of general trade issues and invited observership at all Board discussions of country specific issues directly related to trade; the latter would cover mainly some CAS or adjustment operations although we would have to define this more precisely. (At the Board seminar on WTO relations last July, there was general endorsement of the first but considerable resistance to the second).
- Automatic observership at all open sessions of the Development Committee, invited observership at Development Committee restricted sessions that take up issues directly related to trade. This represents a

welcome softening of the earlier WTO request for observership at all restricted sessions regardless of topic. However, it is not yet a confirmed position, having been communicated to us only verbally and by a single, though relatively senior member of Mr. Ruggiero's staff. Even if the position is subsequently conformed by Mr.

Ruggiero, we will need to be sure that there are clear rules on what issues are directly related to trade: for example, the WTO apparently feels that the discussion on HIPC debt should be included.

Our view is that these requests, if sensibly interpreted, are a reasonable basis for the enhanced cooperation that both agencies want to see develop. In exchange, we would want to confirm that the Bank will have automatic observership at all WTO Council and Committee meetings, including those of the Dispute Settlement Body. We need to recognize, however, that getting Board approval for WTO access to country specific discussions is not guaranteed. It would be very difficult to convince our our Board to grant the WTO access that the Fund Board was unwilling to give.

How to Proceed

In the first instance, we need to respond to Mr. Ruggiero's letter with a simple holding letter that puts this issue on the table for your meeting. A draft is attached for your approval. Thereafter, we recommend you raise the issue with Mr. Camdessus at your next breakfast meeting, partly to share with him Mr. Ruggiero's evident frustration at the way things are proceeding, and partly to discuss how we might get the process moving more smoothly. You might also ask Mr. Camdessus how he sees the current WTO request for access to trade related country specific Fund Board discussions and to some restricted sessions of the Development Committee, and if he shares IMF staff optimism that remaining issues can be solved at heads of agency level at the time of the April Development Committee meetings.

If Mr. Camdessus confirms that a Fund-WTO agreement is likely to be reached soon and the two of you agree on the access that the WTO should be offered to the Development Committee and to the Fund and Bank Executive Boards, then we should consider initiating discussion with our Board to gain their approval along those agreed lines. You might then indicate to Mr. Camdessus that you would be willing to have an initial discussion with Mr. Ruggiero on April 19 along the following lines:

- seek to confirm our understanding of the WTO's position on the Development Committee and Board observership issues;

- indicate that this degree of access is currently not endorsed by all members of the Executive Board; but
- you are willing to push for this since it represents, in your view, the spirit of the Marakesh Declaration and is a reasonable approach to formalizing the strong links that you would like the Bank and the WTO to have;
- you have discussed the issue of WTO-IMF relations with Mr. Camdessus, and can report that he shares this approach and would also be willing to push in his Board for a similar outcome;
- Mr. Ruggiero will have to ensure that his staff follow a "reasonable approach" to interpreting the links between trade and other matters;
- you would like to be able to ask Mr. Ruggiero for his help in the coming weeks to approach those country authorities in Geneva which are pressing him for greater access to the Bank and the Fund but whose representatives in our Boards are taking a different line.

A final note: because our Board is not likely to agree to provide access to the WTO different from what the Fund Board provides, we suggest that from here Fund and Bank discussions proceed in parallel. If however Fund, WTO negotiations are blocked by disagreement on an issue on which the Bank has no interest, such as Fund access to WTO dispute settlement panels, then we might wish to consider moving ahead toward completing our agreement with the WTO.



Masood Ahmed

Letter from Ruggerio
03/15/96

WORLD TRADE ORGANIZATION

154, RUE DE LAUSANNE - 1211 GENEVA 21 - SWITZERLAND
TEL. (41-22) 739 51 00 - FAX (41-22) 739 54 60

RENATO RUGGIERO
DIRECTOR-GENERAL

15 March 1996

Dear Jim,

Thank you very much for your willingness to help resolve the problems we are having in the negotiations with the IMF. It is the act of a true friend, and I am sure your efforts will produce a positive effect.

The negotiation has begun with the Fund alone, since for reasons which are not very clear to me World Bank officials have always stated that they would be ready to accept the same situation as the Fund. Perhaps we were wrong to accept this position, but we began that way in good faith.

Our negotiations with the Fund (and indeed with the Bank) must be seen in the light of the mandate given to the WTO in the WTO Agreement itself and in the Marrakesh Ministerial Declaration on Achieving Greater Coherence in Global Economic Policymaking, of which I attach a copy for ease of reference. This makes it a personal responsibility of the Director-General of the WTO to review with the Managing Director of the International Monetary Fund and the President of the World Bank, the implications of the WTO's responsibilities for its cooperation with the Bretton Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policymaking. This mandate was not only given by ministers but, much more significantly, was ratified by the national parliaments of our common members. The Fund, at least up until now, has shown complete disregard for this essential motivation of the agreement.

.../

Mr. James D. Wolfensohn
The President
World Bank
1818 H Street N.W.
Washington, D.C. 20433

- 2 -

The mandate we received is something new in terms of our cooperation up until now. It lifts it to a higher plane, taking account also of the fact that increasing globalization is binding trade, money and development closer and closer together.

This fact has been at the heart of our position, which is backed by our members in Geneva, that we should be able to participate in meetings of the Executive Board where trade or trade-related issues are dealt with, including country-specific programmes.

This is only logical, since this Organization no longer deals only with trade liberalization but more and more with rules, affecting areas as diverse as investment, intellectual property and competition. The negotiations on financial services and basic telecommunications have, as you well know, very broad economic and social implications. Moreover, we now carry out regular reviews of the trade policies of our members.

All this means that the WTO is able to make a real and valuable contribution to the deliberations of the Fund's Executive Board (and to those of the Bank as well) - not only on the wider issues of regional and global trade but also on country-specific programmes.

This is the vision to which the Fund's bureaucracy has reacted with an impossibly slow negotiation and a narrow attitude. Of course, we are prepared to offer the Fund (and the Bank) full participation in all our Council and Committee meetings.

That the negotiations have lasted almost one year is not only unjustifiable but is in itself a failure, which is coming to be seen as such by governments. The Fund's responses to our initiatives have taken weeks if not months.

Their response to our latest draft proposal, which we have just received, was again highly unsatisfactory, and could even be described as arrogant and provocative in some cases. It seems to be the response of bureaucrats, rather than policymakers, and takes a rather unfriendly tone. We have divergent views on a number of issues, two of which seem particularly troublesome-WTO access to Fund Executive Board meetings and laying out the rationale for the agreement in the preamble.

Firstly, in our draft of the cooperation agreement, we provided that the WTO would be invited to Executive Board meetings where "country-specific or other issues with a trade content" were expected to be discussed. We did not ask for general invitations to Executive Board meetings; our interest is limited to trade matters. But without access to all Executive Board meetings that consider trade issues, the coherence mandate simply cannot be achieved. The Fund's response, however, would unduly limit this access.

- 3 -

As for the Preamble, the real difference is that we refer both to the Marrakesh Declaration and to the mandate I mentioned above, as well as to the legal provisions of our constitutive documents. The Fund want a reference only to the legal provisions and in doing so restrict in an undue way the scope of the whole agreement.

It will be clear by now why I need your help, first of all as a friend and a man of vision, and also because you, Michel and I share through the Marrakesh Declaration a joint responsibility. I think it would be tragic if it appeared that our three institutions could not agree on even the institutional basis for fulfilling this responsibility.

I do not want to add, my dear Jim, any other considerations but I know you are well aware of all that this negotiation means.

I thank you again, and I look forward very much to talking with you again soon and to meeting on 19 April.

With my best personal regards,

Yours sincerely,

*Yours ever
Renato*

Renato Ruggiero

**DECLARATION ON THE CONTRIBUTION OF THE
WORLD TRADE ORGANIZATION TO ACHIEVING GREATER
COHERENCE IN GLOBAL ECONOMIC POLICYMAKING**

1. *Ministers recognize* that the globalization of the world economy has led to ever-growing interactions between the economic policies pursued by individual countries, including interactions between the structural, macroeconomic, trade, financial and development aspects of economic policymaking. The task of achieving harmony between these policies falls primarily on governments at the national level, but their coherence internationally is an important and valuable element in increasing the effectiveness of these policies at national level. The Agreements reached in the Uruguay Round show that all the participating governments recognize the contribution that liberal trading policies can make to the healthy growth and development of their own economies and of the world economy as a whole.
2. Successful cooperation in each area of economic policy contributes to progress in other areas. Greater exchange rate stability, based on more orderly underlying economic and financial conditions, should contribute towards the expansion of trade, sustainable growth and development, and the correction of external imbalances. There is also a need for an adequate and timely flow of concessional and non-concessional financial and real investment resources to developing countries and for further efforts to address debt problems, to help ensure economic growth and development. Trade liberalization forms an increasingly important component in the success of the adjustment programmes that many countries are undertaking, often involving significant transitional social costs. In this connection, Ministers note the role of the World Bank and the IMF in supporting adjustment to trade liberalization, including support to net food-importing developing countries facing short-term costs arising from agricultural trade reforms.
3. The positive outcome of the Uruguay Round is a major contribution towards more coherent and complementary international economic policies. The results of the Uruguay Round ensure an expansion of market access to the benefit of all countries, as well as a framework of strengthened multilateral disciplines for trade. They also guarantee that trade policy will be conducted in a more transparent manner and with greater awareness of the benefits for domestic competitiveness of an open trading environment. The strengthened multilateral trading system emerging from the Uruguay Round has the capacity to provide an improved forum for liberalization, to contribute to more effective surveillance, and to ensure strict observance of multilaterally agreed rules and disciplines. These improvements mean that trade policy can in the future play a more substantial role in ensuring the coherence of global economic policymaking.
4. *Ministers recognize*, however, that difficulties the origins of which lie outside the trade field cannot be redressed through measures taken in the trade field alone. This underscores the importance of efforts to improve other elements of global economic policymaking to complement the effective implementation of the results achieved in the Uruguay Round.
5. The interlinkages between the different aspects of economic policy require that the international institutions with responsibilities in each of these areas follow consistent and mutually supportive policies. The World Trade Organization should therefore pursue and develop cooperation with the international organizations responsible for monetary and financial matters, while respecting the mandate, the confidentiality requirements and the necessary autonomy in decision-making procedures of each institution, and avoiding the imposition on governments of cross-conditionality or additional conditions. Ministers further invite the Director-General of the WTO to review with the Managing Director of the International Monetary Fund and the President of the World Bank, the implications of the WTO's responsibilities for its cooperation with the Bretton Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policymaking.

Mr. Wolfensohn:

G7 LYON SUMMIT:
June 27-29 (Thursday-Saturday), 1996

JDW: you are co-hosting dinner w/MC on Wednesday (6/12) night for Governor Arinait (@ the Fund). AL

- → **ARRIVAL INTO LYON (Thursday night)→**: Mr. Camdessus is planning to fly in on Thursday night to make himself available for side meetings during the day on Friday. (He will stay in Lyon through Saturday afternoon.) We are arranging for you to arrive on Thursday night at 9:25 pm (BA flight from Heathrow) as well.
- **JDW/MC/RR/BBG ADVANCE MEETING (Friday afternoon)**: We (your office) are proposing a meeting with the other three on Friday, 4-5 pm, probably at Tour Rose Hotel, the official hotel of the G7 (where you will be staying). MC and BBG have agreed; RR's reply is pending. Time of meeting was set to suit BBG's arrival time ("some time after lunch on Friday").
- **DINNER WITH MINISTERS (Friday evening)**: The first official event will be an 8 pm dinner on Friday with the Ministers. At one table, you, MC and RR will dine w/Finance Ministers. At another, BBG will have dinner with Foreign Ministers. There will be two tables in a horseshoe shaped room. Then, there will post-dinner entertainment (fireworks, etc.) -- an informal forum for the four Special Guests to mingle with Heads of Government (HoG).
- **SESSION WITH HEADS OF GOVERNMENT (Saturday late morning ~ early afternoon)**: The official session of the Special Guests with HoG will start at 10:45 am and last through 1:30 pm on Saturday:

10:45-11:45 am

Main Topic: "Sustainable Development Through Partnership & Integration Into the Global Economy"

- ☞ Presentations by Special Guests not to exceed 5 minutes.
- ☞ Please see Mr. Chirac's letter for more flavor of this session.
- ☞ Geoff Bergen is preparing talking points.

noon-1:30 pm

Lunch (followed by Photo Session)

- ☞ This is the official ending of the Summit.

1:30-2:30 pm

Press Conference for Mr. Chirac and Special Guests

- According to Mr. Camdessus's Assistant (Jeremy Quick), the MD has not yet set up any other side meetings. Jeremy is going to Lyon on Tuesday or Wednesday in advance, where aides will be setting up meetings *on site*. MC is likely to meet with as many HoG and Finance Ministers as possible on a bilateral basis. Somebody from your office (Jane or I) should probably be there in advance to do the same for you.
- Which begs the question of who will accompany you -- the G7 Secretariat has been asking me and I would like to give them an indication. Rachel has not confirmed her participation either way. MMB has suggested that you will need a press person (MMB himself?). We would appreciate some sort of signal from you.
- Written briefs for you have been assigned Bank-wide on specific themes and issues. You will have four G7-related briefing meetings in the next few weeks:

Thursday, June 13:	Public Expenditure/Role of the State (DEC jam session)
Monday, June 17:	Global Integration (DEC jam session)
Tuesday, June 18:	Briefing for Session with Heads of Government (development strategy issues)
Wednesday, June 26:	Briefing for Session with Finance Ministers (IDA, multilateral debt)

- We have scheduled **another breakfast with Mr. Camdessus** in advance of the summit, on **Friday, June 21**.

OTHER TOPICS

- **Cambodia/Corruption:** Jeremy says that the MD is unlikely to raise this issue after all, even though DEC flags this in the attached brief.
- **Greenpeace/Annual Meetings:** According to MMB, MC may already have been briefed that we wish to admit Greenpeace to the Annual Meetings if they ask. Please see MMB's memo, which IMF is not happy about.

cc: MMB, Jane, Allison

Mr Wolfensohn:
 • I've requested & am awaiting details of the spouses' program from the G7 secretariat in Paris.
 • Mr Camdessus's office has not confirmed Mrs C's plans yet. You might wish to enquire...
 Atsuko

Atsuko Horiguchi
 June 11, 1996

LYON/LONDON ITINERARY, JUNE 27 TO JULY 3, 1996

THURSDAY, June 27

- 06:30 a.m. Depart NY Residence (London Town Cars) and drive to JFK Airport
- 07:15 a.m. Arrive New York JFK Airport, for British Airways Concorde flight
- 08:45 a.m. Flight departs NY to London, Heathrow
- 5:28 p.m. Arrive London, Heathrow
- 6:50 p.m. Depart London, Heathrow, Terminal 1, for BA flight to Lyon
- 9:25 p.m. Arrive Lyon (airport name?)
- (Car arranged to meet this flight booked through Abdallah El Maaroufi in the Paris office)
(Cellular phone no. (arranged by Paris office))
- 9:40 p.m. Depart Lyon Airport to TOUR ROSE HOTEL
(arranged through French Government--Mr. Autheman's office)
Address:
Tel. No.:
Fax No.:

FRIDAY, June 28

(Note: MC's office warned that bilateral meetings are likely to be last-minute arrangements/fluid)

- 4:00 p.m. to
5:00 p.m. Meeting between JDW/MC/BBG/RR (not confirmed)
Venue:
- 8 p.m. Dinner for Special Guests (JDW/MC/BBG/RR)
Venue: DETAILS TO COME

(details: will be in one big room, Finance Ministers and JDW, MC, RR will be at one table. Foreign Ministers and BBG will be at the other. There will be a post-dinner show (fireworks, etc.) which will be an informal forum for Special Guests to mingle with Heads of Government.)

SATURDAY, June 29

(Following details still to be finalized once the letter from Mr. Chirac arrives)
(Special Program for Spouses also expected)

10:30 a.m. to

- 1:30 p.m. o Heads of Government meet with Special Guests (1 hour) 10:45-11:45
 o Photo Session
 o Lunch for Heads of Government and Special Guests 12:00-1:30

1:30 p.m. to

- 2:30 p.m. o Press Conference for President Chirac and Special Guests

4:30 p.m. Depart Tour Rose Hotel for Lyon Airport
 (Car arranged by Paris office)

5:30 p.m. Arrive Lyon Airport, for British Airways flight

6:40 p.m. Flight departs Lyon to London, Heathrow

7:15 p.m. Arrive London, Heathrow

Car to meet flight (arranged through Geoffrey Lamb in London Office)
(Cellular phone arranged by London Office)

7:20 p.m. Depart Heathrow to Berkeley Hotel
 Address: Wilton Place, London
 Tel: 44 171 235 6000
 Fax: 44 171 235 4330

Note: Booking through Donald in Amex
 IN: 06/29 OUT: 07/03 (4 nights)
 Rate: 365 pounds sterling per night

1

11:00 a.m. to

(Transportation arrangements made by
Sir David Scholey's office
Contact: Allison - tel: 171 395 2402)

a.m. WB business (arrangements through Geoffrey Lamb in London office - DETAILS TO COME)

evening: dinner with Jacob Rothschild (DETAILS TO COME)

a.m. WB business (arrangements through Geoffrey Lamb in London office - DETAILS TO COME)

evening: Teddy Forstmann (DETAILS TO COME)

0730 a.m. Depart Berkeley Hotel for Heathrow Airport, Terminal 4

British Airways Concorde, Flight 1

Arrive New York, JFK
Car to meet flight (London Town Cars)

WYOMING ITINERARY, JULY 3 TO 7, 1996

WEDNESDAY, July 3 (cont.)

0935 a.m.	Depart JFK to Residence or Teterboro (????)
time?	Howard to pick up Vernon and Ann Jordan in Washington DC and take them to Teterboro
time?	Mr. and Mrs. Wolfensohn (and children?) to Teterboro to meet Howard and Jordans for flight to Jackson, Wyoming
	Note: the Helmans are definitely going to Jackson - they are making their travel plans (from Maureen)
time??	Flight departs Teterboro, New Jersey to Jackson, Wyoming
time??	Arrive Jackson, Wyoming
time??	Michael/Kelly to meet flight (2 cars needed?)

Monsieur le Président,

Ch. A.

Je vous écris au sujet de notre prochaine rencontre à Lyon, le samedi 29 juin.

Notre réunion débutera à 10 H 45 pour s'achever à 11 H 45 et sera suivie d'un déjeuner de 12 H 00 à 13 H 30. Compte tenu du peu de temps disponible et afin de permettre une discussion ouverte et animée entre tous les participants, les présentations ne devront pas durer plus de cinq minutes.

Les Chefs d'Etat et de gouvernement se sont mis d'accord sur le thème principal qu'ils souhaiteraient aborder avec vous et les autres dirigeants des institutions internationales : il s'agit de la recherche d'un « développement durable à travers un partenariat renoué et l'intégration dans l'économie mondiale ».

I. Vous trouverez ci-après les éléments principaux qui seront développés par les Chefs d'Etat et de gouvernement :

-1. Du fait de la mondialisation croissante de l'économie, il apparaît nécessaire de définir les termes d'un partenariat renoué pour le développement entre pays en développement, pays développés et institutions multilatérales.

2. L'un de nos objectifs prioritaires devrait être une concentration effective de l'aide publique sur les pays les plus pauvres, pour leur permettre de bénéficier de la mondialisation des flux financiers et commerciaux.

Monsieur James D. WOLFENSOHN
Président
WORLD BANK
WASHINGTON D.C. 20433
U.S.A.

3. A cette fin, les pays développés sont déterminés à assurer des flux substantiels d'aide au développement et à fournir le soutien nécessaire aux actions multilatérales en faveur du développement.

4. Il revient aux pays en développement de conduire des politiques avisées, sur les plans politique, juridique, économique et social, encourageant le développement du secteur privé, l'investissement étranger, les dépenses publiques productives et une intégration plus complète dans l'économie mondiale.

5. Les organisations multilatérales qui contribuent au développement doivent poursuivre leurs efforts de réforme et de rationalisation, se concentrer davantage sur leurs domaines d'excellence et être, ensemble, plus efficaces en améliorant leur coordination et leur coopération.

II. Les Chefs d'Etat et de gouvernement souhaiteraient connaître vos vues sur la contribution que votre organisation pourrait apporter à la politique d'aide au développement, en coopération avec les autres organisations multilatérales. Nous sommes convaincus qu'une amélioration de la coordination et de la coopération entre les institutions, mais aussi avec les autres acteurs de l'aide au développement, nous aiderait tous à atteindre nos objectifs communs.

1. A cette fin, il serait utile de rechercher les moyens :

- d'harmoniser les objectifs et les programmes pour chaque pays, en clarifiant les mandats et en délimitant de manière précise le rôle de chaque organisation ;

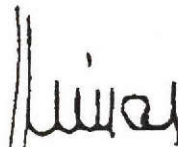
- de réexaminer les mécanismes de prévention des crises et de réaction à celles-ci.

2. L'Afrique est à l'évidence un continent qui requiert une attention particulière. Nous souhaiterions entendre votre avis sur la manière de renforcer la coordination entre les organisations afin d'élaborer une stratégie à moyen terme pour cette région. L'initiative spéciale pour l'Afrique, lancée le 15 mars par le Secrétaire général des Nations Unies, en coordination avec d'autres institutions multilatérales, doit être considérée comme un bon point de départ.

3. Enfin, nous aimerions discuter de la coordination entre les institutions multilatérales en Bosnie où il est particulièrement important de déployer rapidement une aide d'urgence pour répondre aux besoins apparus après le conflit et pour l'instauration de la paix.

Dans l'attente de vous rencontrer à Lyon, je vous prie, Monsieur le Président, de croire à l'assurance de ma haute considération.

Très respectueusement,



Jacques CHIRAC

Paris, le 4 JUIN 1996

OFFICIAL TRANSLATION

Dear President,

I am writing about our upcoming meeting, in Lyon, on Saturday 29 June.

Our meeting will be held from 10.45 to 11.45 a.m. and will be followed by a lunch from noon to 1.30 p.m.. Considering the limited amount of time, and to allow for a lively, open discussion among all participants, presentations should not exceed five minutes.

The participants have agreed that the main topic they would like to discuss with you and the other leaders of international institutions is "sustainable development through partnership and integration into the global economy".

I. Following are the principal elements of the message that the participants will be putting forward :

1. In the context of the increasing globalization of the economy, there is a need to define a renewed partnership for development between developing countries, developed countries and multilateral institutions.

2. An essential objective should be to effectively target official aid on the poorest countries to enable them to reap the benefits of the globalization of world financial and trade flows.

3. To that end, developed countries are resolved to secure substantial flows of development aid and to provide the necessary multilateral support for development.

Mr James D. WOLFENSOHN
President
WORLD BANK
WASHINGTON D.C. 20433
U.S.A

4. Developing countries are responsible for their own sound legal, political, economic and social policies which encourage private sector development, foreign investment, productive public expenditures and fuller integration into the global economy.

5 Multilateral organizations involved in development must persevere in their efforts to reform and rationalize, concentrate more on their areas of expertise and act with greater effectiveness by improving coordination and cooperation.

II. The participants would like to hear your views on the contribution your organization could make to development policy, in cooperation with the other multilateral organizations. We think that renewed efforts at institutional coordination and cooperation, also involving other actors, would help us to achieve our common objectives.

1. To this end, it would be useful to focus on ways to :

-harmonize objectives and programs for individual countries by clarifying mandates and precisely delineating organizational roles.

-review mechanisms for preventing and responding to crises.

2. Africa is obviously a region which requires particular attention. We would like to hear your views on ways to enhance coordinated efforts to develop a medium-term strategy for Africa. The special initiative on Africa, launched on March 15 by the United Nations Secretary-General, in coordination with other multilateral institutions, can be considered a good starting point.

3. Finally, we feel that we should discuss the coordination of multilateral institutions in Bosnia where rapid deployment of assistance for urgent post-conflict and peace-building needs is particularly important.

I am looking forward to seeing you in Lyon.

Yours sincerely.

Jacques CHIRAC

HORIGUCHI

G7 Summit: Storyline

This Summit is a golden opportunity to demonstrate that the G7 as a whole is still committed to development and supportive of the multilaterals role in promoting it. The heads of the multilateral agencies will have an opportunity to make a really powerful, politically appealing case for multilateralism directly to Heads of Government in candid private discussion.

How can this be done? A possible story line might run as follows:

development is terribly important for things you politicians really care about - a moral duty of course but also expanding markets, peace and war, avoiding mass migrations, dealing with noisy lobbies at home and so on. It can't be just a matter of buying political goodwill abroad or providing favours to domestic firms. It needs to *really* work - produce *real results*.

the case for multilateralism is that it is your best way of getting results, especially in a fiscally constrained world. What we do is mutually reinforcing in preventing the marginalisation of the poorest - through promoting a liberal trading environment and the sound policies which will enable countries to take advantage of it. We take on jobs that no-one can do bilaterally - managing the global commons; post conflict ; helping countries manage transition; building capacity and creating the enabling policy and regulatory environments which attract the private sector and make your own bilateral programs work. And we are the most effective partners for the private sector, which is where the really big bucks are - and we can use our leverage to raise their game on environmental issues too. We are apolitical (so you can shelter behind us when tough messages have to be delivered). We are a cost effective way of pooling scarce intellectual and technical resources. And we are tough on ourselves - rigorous evaluations etc - and not afraid to publish unflattering results.

we are and will be doing all the right things to improve our effectiveness, by working more closely together, reforming ourselves, putting our own surplus into concessional funds etc,

but to succeed we must have a critical mass of funding and your support on key issues.

Alas we don't always get it in practice from your people when we need it, and we sometimes get pulled in different directions by the different agencies in your capitals eg post conflict fund, Bosnia, multilateral debt, and anything else you can think of. The share of ODA going to multilaterals is falling, within a declining ODA/GDP. Funding for the UN and IDA has fallen below critical mass. Please don't let politics get in the way of some of the things we may need to do to make our institutions more effective - trust us to get on with the job. And yes, we need more focus - but give us space to define where we can be most effective - don't impose multiple conflicting demands on us.

so this public display of support from Heads of State is really important to us and we are very grateful. (There will be a photo opp and a press conference on the latest plans).

For next Camdessus Breakfast

Jim

G7 Summit: Preparation

I spoke to Jack Boorman at the Fund who is handling this for Camdessus and told him I was gathering ideas about what big points the four of you might seek to get across in Lyon. We thought you and Camdessus might want to have a first chat about this when you have breakfast next week, and then we might touch base again when I get back.

We thought that you and Camdessus would likely have no difficulty in agreeing a common line. There may be more problems with Ruggiero and maybe the UN. If so they will have to be resolved at your level. We have been trying to fix a preliminary meeting between the four of you in Lyon on the Friday, so that would be a chance for you to sew things up (Atsuko can tell you how that stands).

I told him that I will not be trying to agree anything at this stage - mostly listening and conveying the message that this is a golden opportunity for the four of you to make one or two big points to Heads of State in candid private discussion which should not be wasted - eg by being boring or unduly provocative or divisive or appearing to be at sixes and sevens etc, or allowing yourselves to be sidetracked off development altogether. In practice of course you are going to have to script this yourselves, but if you can agree before you go in what the key messages are - and maybe some of the things to keep off - it will be easier to pull off successfully.

Messages

Jack and Camdessus have had one preliminary talk about this earlier in the week. This doesn't seem to have got beyond saying that the problem for the G7 is how do they reach out and show leadership in the new world where they don't want to be seen to be giving instructions: they need to be told that they don't need to launch new initiatives and build new institutions - they should use and reshape the ones they have.

On further reflection, we both thought this might be fine as a common position for the Bretton Woods institutions but it is a bit divisive with Ruggiero and Bhoutros Ghali in the room. By all means stress the relevance and flexibility of existing institutions, and the efforts that we are all making to improve them - but then concentrate your fire on asking for the G7s support .

This goes much wider than IDA and the lack of funding for the UN, which you will not want to labour in the HoG session (save it for Finance Ministers). For example, you might challenge *them* to play their part a bit more consistently - they are forever asking us to get our act together.

Jack gave the example of military expenditures, where aid agencies and treasuries lecture us about being tough on unproductive expenditures - which is fine - while defence ministries and export credit agencies fall over themselves flogging expensive arms. This may be a bit close to the knuckle with the French and the Brits, but the general point is valid - we saw this lack of co-ordination and consistency between different branches of Government over Bosnia for example. No doubt there are plenty of examples in the field of trade.

This is still a bit undeveloped but we can go on mulling it over. I quite like the general point that credible leadership rests being consistent in what you say and do - it applies to the G7 as much as the World Bank.

Bosnia, Russia etc

Finally, with Yeltsin in the room Jack pointed out that there must be a good chance that there will be a lot of chat about Russia, Bosnia and the transition economies. They may have got some of this out of their system before you appear, but even if they haven't I don't think this need deflect you - you can use them as case studies and jumping off points for the things you want to get across.

Christine Wallich will give you a good brief on Bosnia - when I spoke to her she was very keen that you should ask the G7 not to hang back on funding for 1997, and play wait and see on the medium term reconstruction needs. There was some suggestion - from the US - that you should write round saying this before the Summit, but no one seems to have mentioned it to the French and I was not sure how helpful it would be. She was going to talk to Caio and Severino. You might want to ask Caio where this has got to. My instinct on letters is to leave them till closer to the time, but that's just caution.

Logistics

Finally you need to decide who you want with you in Lyon. The French would like to know at some stage - they have provisionally made reservations for two supporters. Mark thinks you need a good press person, which seems sensible. And you probably could use someone to talk to the sherpas and pick up the gossip. I will come if you want but I will not be devastated if you prefer to take someone with better French like Abdallah. Up to you.

Give me a call if you have any further thoughts you want me to explore on my travels.

Rachel
7 June

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

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

DATE: 06-Jun-1996 04:13pm EST

TO: Paula Donovan

(PAULA DONOVAN)

FROM: Kenichi Ohashi, FRMRP

(KENICHI OHASHI)

EXT.: 80570

SUBJECT: 1995 ODA flows - confidential

Paula:

We have obtained through Gretchen a confidential draft press release on 1995 ODA flows. Since it has not been released yet, we have to be careful with the information. However, some of the information has much relevance to the Lyon Summit and what message JDW might carry. So, with the assumption that the information will be public before Lyon (we will check when it is due), I am circulating the attached summary for background.

Ken

CC: Sven Sandstrom

(SVEN SANDSTROM)

CC: ALEXANDER SHAKOW

(ALEXANDER SHAKOW @A1@EDSEL)

CC: Louis Forget

(LOUIS FORGET)

CC: Atsuko Horiguchi

(ATSUKO HORIGUCHI)

CC: Enrique Rueda-Sabater

(ENRIQUE RUEDA-SABATER)

CC: Sergio Contreras

(SERGIO CONTRERAS)

CC: Olga Ekume

(OLGA EKUME)

CC: GRETCHEN HANDWERGER

(GRETCHEN HANDWERGER @A1@PARIS)

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

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

DATE: 06-Jun-1996 04:05pm EST

TO: Kenichi Ohashi

(KENICHI OHASHI)

FROM: Sergio Contreras, FRMRP

(SERGIO CONTRERAS)

EXT.: 30413

SUBJECT: CONFIDENTIAL - 1995 Aid Flows

We have just received advance copy of the OECD's draft press release on 1995 financial flows to developing countries on a CONFIDENTIAL basis. These PRELIMINARY numbers should be useful as part of the preparation for the Lyon meeting.

Here are some highlights.

Perhaps the most striking piece of information is that the US is no longer #2 in volume (current US\$) terms but #4 (with \$7.3 billion). Japan continues to be #1 (\$14.4 b.), France is #2 (\$8.4 b.), and Germany is #3 (\$7.5 b.).

In constant US\$ terms, only Japan among the G7 recorded an increase. The % change in real terms from 1994 for the G7 are as follows:

Canada	-7.2%
France	-12.2%
Germany	-5.1%
Italy	-46.2%
Japan	+0.2%
UK	-5.6%
US	-28.2%.

Although total ODA decreased only from \$59.2 billion in 1994 to \$58.8 billion in 1995, this decrease represents 9.6% in real terms.

As a % of GNP, ODA hit the 0.27% mark, down from 0.30% in 1994. This is the lowest ratio since 1970, when the 0.7% target was established. In terms of GNP, in 1995 all G7 decreased their contributions as follows:

Canada	0.39%, down from 0.43% in 1994
France	0.55%, down from 0.64% in 1994
Germany	0.31%, down from 0.34% in 1994
Italy	0.14%, down from 0.27% in 1994
Japan	0.28%, down from 0.29% in 1994
UK	0.29%, down from 0.31% in 1994
US	0.10%, down from 0.14% in 1994.

The G7 countries in terms of aid as a % of GNP in 1995

were:

Denmark	0.97%	down from	1.03% in 1994
Norway	0.87%	down from	1.05% in 1994
Sweden	0.85%	down from	0.96% in 1994
Netherlands	0.80%	up from	0.76% in 1994
France	0.55%	down from	0.64% in 1994
Luxembourg	0.40%	n.a.	
Canada	0.39%	down from	0.43% in 1994

that is, only two of the G7 (in terms of GNP) make it to the list.

According to the OECD Secretariat, the budget stringency explains the decline in ODA in 1995..

Nevertheless, besides Japan, a few small countries increased the volume of aid assistance (in some cases actually they recovered from a slump): Belgium increased by 23% from the 1994 level, Ireland by 21.2%, Netherlands by 14.1%, Finland by 7.9%, (Japan by 0.2%) and Australia registered a 0.1% increase.

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

OFFICE MEMORANDUM

DATE: June 10, 1996

TO: Ms. Atsuko Horiguchi

FROM: Anandarup Ray 

EXTENSION: 31443

SUBJECT: **Camdessus-Wolfensohn Breakfast, June 12**

I received the attached brief on Cambodia from the Region today. I have confirmed that Mr. Camdessus is being briefed on Cambodia by the Fund staff before the breakfast, and that he might well raise the corruption issues with Mr. Wolfensohn. You may thus wish to include the Region's note in your brief for Mr. Wolfensohn.

cc: Mr. Baird, Ms. Salop.

CAMBODIA: Corruption

We understand that Mr. Camdessus may raise issues of corruption in Cambodia, particularly related to forestry policies, with Mr. Wolfensohn on June 12. The context would be to discuss how the Bank and IMF can jointly address corruption and governance issues. There is no disagreement between the Bank and the IMF. If Mr. Camdessus raises this with Mr. Wolfensohn, we would like to provide the following background information.

Cambodia has made significant progress in the past three years in re-establishing political stability, re-integrating itself into the international community and restoring macroeconomic stability. This effort has been supported by the international community, including the IMF and the World Bank. However, corruption appears to be growing. Corruption is a serious concern as it could threaten recent improvements in economic performance. It could also threaten aid flows, as donors will be reluctant to give aid while government officials allow the destruction of Cambodia's forests and "pocket" the proceeds. NGO pressure is also growing.

Forestry is currently at the center of concerns about corruption. Deforestation and degradation of Cambodia's forests have taken place on a significant scale. The Government is currently attempting to develop a capital-intensive wood processing industry through grants of large concession areas for virtually all of Cambodia's timberlands, with royalties that represent only one-fifth of economic value and a log export ban. Moreover, illegal logging continues unabated, especially in areas controlled by the Khmer Rouge insurgency and in other areas.

Recently, the Government has signed "letters of agreement" for the export of "old" logs that were felled prior to the imposition of the export ban (May 1995). These recent agreements have intensified concerns about corruption for three reasons: it is virtually impossible that this quantity of 'old' felled logs actually exists; the process by which the companies were selected is shrouded in mystery; and, it is unclear whether the revenues from these deals will flow into the budget. These deals appear to be a way to "sanction" and reward illegal cutting.

With a Consultative Group (CG) Meeting scheduled for July 11-12--the CG meeting will be co-chaired by the Government of Japan and the World Bank--and a mid-term review of the IMF's existing arrangement with Cambodia scheduled immediately following the CG meeting, how the Bank and the Fund can address effectively issues of governance and corruption in Cambodia is particularly relevant and timely.

The Bank and the IMF have been concerned about this issue for some time and we have been collaborating very closely. The Bank, with the UNDP and the FAO, recently completed a report on forestry management issues. The Bank's approach has been to focus on the fiscal and environmental aspects of this issue, rather than corruption per se. The Government has publicly endorsed the recommendations of the report and we are helping the Government in implementation. This will help over the medium term. But, it is also important that these recent export "deals" are transparently and appropriately dealt with. The current IMF position, which we support, is that there should be an inventory inspection of existing "old" logs; exports of the verified amount would be allowed at market prices, and the proceeds must be transferred into the Budget. Bank staff recently sent a strong message to the Government that Bank, IMF and other donor support was at risk unless the "old" logs deals were dealt with appropriately, exports of only very limited and verifiable quantities be allowed until monitoring and enforcement capabilities are substantially upgraded, and budgetary revenues are based on market prices. We have also encouraged the Government to hold a pre-CG meeting with donors to explain its policies. If a meeting is held, a Bank staff member will participate.

Kyle Peters, x33556, Monday, June 10, 1996

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

DATE: 11-Jun-1996 03:14pm

TO: Atsuko Horiguchi

(ATSUKO HORIGUCHI)

FROM: Mark Malloch Brown, EXTVP

(MARK MALLOCH BROWN)

EXT.: 85914

SUBJECT: RE: G7 Lyon Summit: UN, IMF

Atsuko:

1. Yes to distribution.
2. On Camdessus breakfast, in addition to debt, G-7 etc., Camdessus may already have been briefed that we wish to admit Greenpeace to Annual Meetings if they ask. I attach a copy of my memo, which needless to say IMF is not happy about.

(memo is on the fax).

Mark

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

MARK MALLOCH BROWN
Vice President
External Affairs

June 7, 1996

S.I. Anjaria

1996 Fund/Bank Annual Meetings Accreditation of Greenpeace Representatives

Shail:

We believe it would be counter productive to ban Greenpeace from the 1996 Annual Meetings. It would be at odds with the new chapter in our NGO relations that Mr. Wolfensohn has launched. However, if and when Greenpeace applies for accreditation I would ask Greenpeace Headquarters in the Netherlands to commit in writing to maintain the level of conduct expected of visitors. We should also remind EDs of their responsibility in clearing visitors.



cc: J. Clark, (PSP), K. Bergman (EXTME), S. Zhang, W. Haddad (SECVP),
P. Davies (SECCO)



Office Memorandum

To: Mr. Malloch Brown

June 3, 1996

From: S.J. Anjaria

A handwritten signature in dark ink, appearing to be "SJA", is written over the printed name "S.J. Anjaria".

Subject: **1996 Fund/Bank Annual Meetings - Accreditation of Greenpeace
Representatives**

I would be grateful for your comments on the attached draft, which represents our thoughts on what our joint position should be.

Attachment



Office Memorandum

DRAFT

June 3, 1996

To: Mr. Van Houtven
Mr. Zhang Shengman

From: S. J. Anjaria and Mark Malloch Brown

Subject: 1996 Fund/Bank Annual Meetings
Accreditation of Greenpeace Representatives

As a general policy, and in the interest of good order, we should like to see principles such as the following observed in the case of disruptive NGOs.

- Any NGO that sponsors or participates in action that disrupts official events during the Annual Meetings would be barred from accreditation to the Meetings for a minimum of four or five years.
- The ban would be reviewable after that period, provided that the organization formally renounces any intention to disrupt the proceedings of future meetings.
- Whether the Bank or Fund chose to have dealings, at other times, with an NGO not accredited to the Meetings would be for that institution to decide at its discretion.

We thus do not believe that Greenpeace should be accredited to attend the 1996 Meetings.

cc:

Algama - Town



Ruggiero - Development Committee

Chairman

Box with WFO - Planning
relevant activities time

→ Estimate by admin below
- on directors → Chairman

[To I have an Article on WFO]

Side letter we will arrange meeting to meet me
highly relevant

Octopus meeting

Must go to the Bd for agreements.

He must also parallel so to

Debt.

Quote 67% - What does it mean
= 45%
90% → 67

Amberg®

ESSELTE

57705

MADE IN U.S.A.



0 78787 57705 3

Breakfast: Mr. Camdessus

Friday, July 19, 1996

8:30 - 9:30 pm

IMF, Mr. Camdessus' Private Dining Room

530

- Malaysia →

- Congo →

- China - fair second trial

→ NGOs - America and do not care

Reaction: Safety of short a term in

→ Russia →

→ Russia - joint meeting

→ Bulgaria
Round Dignity → Plan or Runo]

→ Haiti - Public Sector program very well

- critical need for Bank support

- early release of staff

See us and behind



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

CAIO KOCH-WESER
Managing Director
Operations

JDW: We just received
this (6:30pm) &
missed your
Camdessus breakfast
folder — pls take
note for tomorrow AM.
AL

July 18, 1996



Mr. James D. Wolfensohn

Jim,

Bulgaria

You have a briefing note from the Region on Bulgaria, which Michel may raise with you at breakfast tomorrow.

In short, the Fund will be presenting to the Board a SDR 400 million Stand-By Arrangement (also tomorrow), and staff are trying to lobby-up our support — in terms of either timing or magnitude, or both. (They are also lobbying bilateral creditors/donors.) //

We of course want to support the Bulgarians, but — given their *very* poor track record — want to do it on a cash-and-carry basis. So we can't move faster than the Bulgarians. We expect them to take the critical policy actions on a proposed Financial and Enterprise Sector Loan (FESAL) by end-September. This would trigger distribution of the FESAL documents for Board presentation in the second half of October. Disbursement of the first tranche of \$100 million would follow. |

We can hurry this process a little, by trimming the time between Government action and Board presentation. We can consider this when the time comes. But we are reluctant to pre-commit to it now, as it might signal an over-eagerness to lend on our part and the beginning of a slide down what could be a very slippery slope. Nor do we want to front-load FESAL disbursements — unless there is a *pari passu* front-loading of policy implementation.

On the overall amount of our support, we are constrained by exposure and creditworthiness considerations. As you know, Bulgaria is (1) "marginally creditworthy", (2) one of three first-tier countries in the short-term monitoring exercise, and (3) a consideration in determining how much we provision. *So, without better country performance, we simply cannot do more.* //

You should be aware that we have been responsive. Following my visit to Sofia in April, we put together (in record time) the proposed \$30 million Rehabilitation Loan, which will be discussed by the Board on July 30, 1996. A single tranche operation, it finances safety net expenditures associated with public enterprise reform. ←

Finally, please keep in mind that Bulgaria is paying debt service of over \$250 million to the Fund this year — and under \$50 million to us. In terms of burden sharing — we calculate that by end-1997, Fund exposure should be up by \$207 million and ours by \$227 million, compared with end-1995.

Caio

TRANSMISSION REPORT

(THU) JUL 18 1996 05:32

JAMES WOLFENSOHN

DOCUMENT #	3561917-481
TIME STORED	07. 18 05:31
TIME SENT	07. 18 05:31
DURATION	53"
DESTINATION	2022325372
DST. TEL#	92325372
MODE	ECM
PAGE (S)	2PAGE (S)
RESULT	OK
DEPARTMENT	

This item appeared on page 38 of the July 17, 1996 issue of

LE FIGARO (France)

□ CONGO

Le Club de Paris annule 67 % de la dette de Brazzaville

Les créanciers publics regroupés au sein du Club de Paris ont annulé 67 % de la dette publique congolaise, estimée à 989 milliards de francs CFA a annoncé hier Radio-Congo. Le radio n'a pas précisé si cette annulation, décidée lundi, est assortie de plusieurs conditions, soulignant que c'est sous la pression du Fonds monétaire international (FMI) et avec l'appui de la France que cette annulation a été obtenue. La dette extérieure congolaise est évaluée à plus de 2 400 milliards de CFA dont 989 milliards de dette publique. Plus de 70 % de cette dette est due à la France, le principal partenaire économique du Congo.

Meanwhile, *Le Figaro* (p.38) reports that the Paris Club has written off 67 percent of Congo's public debt, estimated at \$2 billion, *Radio Congo* said yesterday. The radio said the cancellation of the debt was obtained under pressure from the IMF and with the support of France, Congo's main economic partner. *Reuters* says Chirac travels to Congo tomorrow. Congo has an even more pressing debt problem than Gabon. Its external debt tops \$5 billion but is over 450 percent of its GNP, according to World Bank figures.

Business Briefing

17 JUL 96 FRANCE: PARIS CLUB AGREES DEBT RELIEF FOR CONGO.

PARIS, July 17 (Reuter) - The Paris Club of creditor nations said on Thursday it had agreed to write off part of Congo's foreign debt, offering it the most generous terms of debt relief available to the world's poorest countries. It said in a statement the debt relief, agreed after the International Monetary Fund last month approved Congo's plans for economic reform, gave it "Naples terms" of debt relief.

Naples terms allow for a reduction of two-thirds of eligible debt.

The Paris Club is currently considering improving these terms following a call by the Group of Seven rich nations last month to give better debt relief to the world's poorest countries, but has yet to decide on how to do this.

The Paris Club, an informal group of creditor countries mainly from rich industrialised countries, said it agreed on the debt relief at a meeting on July 15 and 16.

"The representatives of the creditor countries noted that Congo's low per capita income and heavy debt burden call for strong (economic) adjustment efforts together with, for the first time, exceptional treatment of debt," it said. The oil-producing central African country has embarked on a reform programme to reduce state control of the economy and slim down the civil service.

The Paris Club agreed it could hold another meeting by mid-1999 to consider Congo's stock of debt. Most Paris Club agreements under Naples terms cover only debt repayments rather than the actual stock of debt.

It also said individual countries could make debt for nature, debt for aid or debt for equity swaps or other local currency swaps, for up to 20 percent of the debts concerned.

(c) Reuters Limited 1996
REUTER NEWS SERVICE

Mr. Wolfensohn:

*Possible Topics for Discussion at your Breakfast with Mr. Camdessus
8:30-9:30 am, Friday, July 19*

RECENT TRIP DEBRIEF: Mr. Camdessus has just returned (Thursday afternoon) to Washington and would probably wish to debrief you on his trip to:

- **Cameroon (OAU Summit):** MC met with many heads of African states (the Bank was represented by Callisto Madavo);
- **Congo:** please see the attached article on the Paris Club's decision this week to grant Naples terms to Congo;
- **Malaysia:** MC did the "usual" visit with ministers, the royal family, parliamentarians, press et al.

BULGARIA: The Standby Arrangement for Bulgaria is due to go the Fund's Board for approval on Friday (July 19); MC may ask about the timing and the size of the Bank's support (brief attached).

- FYI, Bulgaria is classified in the **Bank's medium-term risk rating** as **marginally creditworthy** (countries are classified into low-, medium-, high-risk, marginally creditworthy, IDA).
- In the **short-term risk categorization**, it is in **Tier 1 (high risk of crisis)**, along with Pakistan and Venezuela. The Bank does **include Bulgaria in calculating its loan loss provisions (but this is not information to which the Fund is privy)** -- though we only provision part (small portion of) our total exposure to Bulgaria (which, as of June 1996, is **\$418.4 mm**).

Sections on Bulgaria in Brian Wilson's most recent *Short-Term Risk Monitoring Group Report* are attached to the Region's brief. Data from the short-term report are more up-to-date than that from Country-at-a-Glance. Risk-at-a-Glance was not yet available.

WTO: DEVELOPMENT COMMITTEE: Per the July 3 memo from to both of you from Masood and Jack Boorman (attached), our staffs would be grateful if you could discuss and take a decision on how best to organize Mr. Ruggiero's participation at the upcoming Development Committee meeting, i.e. plenary or restricted session.

JIM-JIM, MICHEL-MICHEL, BOUTROS-BOUTROS: If you have not done so already with MC, you might wish to discuss the planned (canceled now?) Wyoming weekend. As you know, MC had a tête-à-tête with BBG while in Yaounde, where BBG mentioned to MC that the campaign for a second term might not allow him to make the retreat.

cc: Sven, Josie

☺ Atsuko 7/18/96

Franklysy, ECIDR
X38723

Zeljko Bogetic, Country
Economist
X32416

BULGARIA:

TALKING POINTS FOR MR. JAMES D. WOLFENSOHN'S MEETING WITH MR.
CAMDESSUS ON JULY 19, 1996

Issue that Mr. Camdessus will likely raise: IMF staff have indicated that Mr. Camdessus will likely ask whether the Bank could provide greater, and earlier, financial support to Bulgaria.

Background: Bulgaria is in a midst of a financial crisis. The exchange rate fell from 110 leva per dollar in May, 1996, to 187.9 on July 16, 1996. The banking system is in a liquidity and solvency crisis. Two banks were closed, including the largest private bank, and more banks may need to be closed to stem the crisis. Central Bank Reserves have fallen to \$570 million and the country has been facing large external debt payments this year. For 1996 as a whole, Bulgaria will owe in principal and interest \$253.4 million to the IMF, \$250.8 million on Brady Bonds (with a payment of \$125.4 million due on July 28), and \$150 million (due now, in July) on a Eurobond. It will owe the IBRD just \$48.2 million. *for 96* In response to the crisis, but after much delay, the Government has put together an ambitious stabilization program combined with measures to try to rebuild confidence in the banking system. The Government, in consultation with the Bank, has also developed a program of closing 64

and isolating another 70 of the worst performing State-Owned Enterprises whose cumulative losses underlie most of the macroeconomic instability, and has announced its intention to accelerate privatization.

IMF Program: An IMF Stand-by Arrangement for SDR 400 million is scheduled for Board discussion on July 19, the day of your meeting with Mr. Camdessus. This about matches in size the outstanding amount Bulgaria owes the Fund, of SDR 392.3 million. The Fund is concerned that Bulgaria will need a higher level of financial support early in the program than previously anticipated. It therefore now plans (as of July 17) to increase the size of the first purchase (in July) and the second purchase (in September) to SDR 80 million each, from previously planned levels of SDR 50 million each (with later purchases then reduced by an offsetting amount). The Fund called, on July 15, a special meeting with the Executive Directors of the Fund to explore whether further bilateral financial support could be provided. The EU will provide ECU 40 million, and the Fund has also asked whether this could be increased. On July 15 the Fund also asked the Bank whether we could provide greater, as well as earlier, financial support for the program. And on July 17, Stan Fischer called Johannes Linn to ask whether the Bank could provide assurances that the first tranche of the planned FESAL would be available shortly after the Fund makes available the second purchase under the Stand-by, planned for mid-September.

IBRD Program: In direct support to the Bulgarian program, we have prepared on an accelerated basis and sent to the Board a \$30 million Rehabilitation Loan. This operation will finance severance payments the Government is making to the non-viable state enterprises being closed. We are also now preparing a \$200 million Financial and Enterprise Sector Adjustment Loan (FESAL), which would be sent to the Board once key actions have been taken by the Government. These include: (a) the closing of 64 non-viable enterprises (14 have been closed thus far); (b) the financial isolation of a further 70 enterprises has taken place; and (c) the first auction under the mass privatization scheme has been held. While in principle there is no reason these actions could not be undertaken immediately, under current Government plans we do not expect these to be completed until end-September. In addition, provided the IMF program is adhered to, we will only see in September (when the constraints become binding) whether the Government adheres to its commitments on not recapitalizing insolvent banks, limiting to an agreed cap its liquidity support to the banks, and prohibiting new lending by banks with insufficient capital.

Suggested Response to Mr. Camdessus: There are two principal issues the Fund is raising: the timing of the Bank support and its size. On the first, we have conveyed to the Fund our view that the FESAL should be sent to the Board only after the key actions listed above have been implemented. Provided the actions have been taken by end-September, distribution of the documentation for the FESAL operation to the Board could be in early October. It would therefore only be realistic to assume that the Bank funds would be available in the fourth quarter, rather than the third. On the second issue, the size of our program, Bank and Fund staff have discussed the possibility of front-loading the FESAL so that the first tranche is larger than the second (similar to the

front-loading of the Fund Stand-by). This should be accompanied, however, by a commensurate acceleration in the Government's implementation of the structural reforms being supported by the FESAL, and this may not be likely. We would not recommend an increase in the size of our overall program, with the financial implications that would entail for the Bank. And principally due to the much higher repayment obligations to the IMF, the increase in exposure of the IBRD to Bulgaria over 1996 and 1997 (basically the period of the Fund program) will in fact be greater than the increase in the Fund's exposure, at \$227 million for the IBRD vs. \$204 million for the IMF, with the Bank funds of much longer maturity.

OFFICE MEMORANDUM

STRICTLY CONFIDENTIAL

DATE: July 17, 1996

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

TO: Mr. James D. Wolfensohn

FROM: Brian Wilson, Vice President, FPI

B.W.

EXTENSION: 87307

SUBJECT: **Short-Term Risk Monitoring Group Report
on Country Vulnerable to Crisis in the Next 12 Months**

I attach this month's report of the Short-Term Risk Monitoring Group (STRMG) to EXC. We have put Pakistan on our most urgent watchlist of countries vulnerable to a crisis in Tier 1, but have moved Mexico to Tier 2 although we shall still monitor it carefully. We have left Turkey in Tier 2, but the new coalition faces a difficult fiscal situation. As in previous reports, a brief summary of the main risks in vulnerable countries is in Annex A. More detailed notes and data are in Annex B.

Among the main points raised the Group's meeting were:

- **Differences between the authorities in Pakistan and the IMF** about the 1996/97 budget cast doubt on the credibility of the government's macro-economic stance. The authorities have failed to implement expenditure restraint as agreed, and reversed some tax increases after opposition from the population and the business community. Financial markets remain nervous with the parallel exchange rate at 7.5 per cent discount to the official rate. Fears of a depreciation could prompt capital outflows, which would be difficult to handle in view of banks' shortage of liquidity and the relatively low level of foreign exchange reserves. Almost \$8 billion of foreign exchange deposits by non-residents represent a potential call on reserves. The Bank is doing contingency planning, and is in close touch with the IMF. Strong actions by the authorities will be needed before useful support can be provided.
- The **IMF Standby Arrangement for Bulgaria** is due to go to the Fund's Executive Board for approval on July 19, although there is still a question over the authorities' readiness and ability to implement the program. Disbursements from the IMF and the European Union should help the Bulgarians meet external obligations over the coming months. Sentiment in financial markets has improved with Brady bond prices rising. The Bank's structural adjustment loan will depend on the authorities' demonstrating the determination to tackle weaknesses in the financial sector and among state-owned enterprises. The loan is intended currently to go to our Board in early autumn, providing finance in the latter part of the year.

see p. 12

- The new coalition government in **Turkey** faces a debt trap as high real domestic interest rates push the public sector borrowing requirement towards 14 per cent of GDP for this year. The real economy, however, has been growing strongly, and Turkish borrowers have retained access to international capital markets especially in Japan. Heavy repayments on both domestic and external debt in the rest of this year could test the markets' readiness to buy Turkish paper. Official reserves of \$16 billion provide some cushion, but the 1994 experience showed that reserves could be drained quickly. The IMF and EU would probably have to lead any rescue, although support would probably also be sought from the Bank.
- Economic growth appears more firmly established in **Mexico** with private forecasters revising their estimates for the increase in GDP this year up to 3 per cent. Financial markets, however, have been weakened partly by higher interest rates in the US and partly by renewed doubts about the ruling PRI's prospects in local and mid-term congressional elections which may hamper President Zedillo's scope to press ahead with economic and political reforms.

In wider discussion, the Group agreed to consider at a future meeting the diagnosis of crises in financial sectors and the experience of the Bank in helping to resolve these with a view both to spotting such problems promptly and preparing appropriate contingency plans. The Group also agreed to keep under review the classification of countries to ensure that it is sufficiently flexible to allow important developments to be highlighted each month.

Attachment

Numbered copies to:

Messrs./Mmes: Einhorn, Frank, Kaji, Koch-Weser, Lomax, Sandstrom

cc: Mr. Wilton

DECLASSIFIED

MAR 12 2025

WBG ARCHIVES

Post default

DEPT 7531250

WHO ARCHIVE

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

Strictly Confidential

Short Term Monitoring Group Report - July 1996

Tier 1 : Current Concerns about the Most Vulnerable Countries

Among the vulnerable countries that we monitor most closely, it may be helpful to focus on:

• **Bulgaria:** Introduction of a tough fiscal package and a sharp rise in interest rates as part of a program agreed with the IMF have helped to stabilize the macro-economic situation. The measures include a higher VAT rate, increased import tariffs and expenditure restraint. The central bank raised its refinancing rate to 181 per cent. The authorities have also begun closing unviable banks and public enterprises as part of a program of structural reform. The lev, which fell from 110 to the dollar in early May to 200 by the end of May, has since strengthened to about 150-160. Reserves, however, remain perilously low at about \$560 million, equal to four weeks' imports. IMF and Bank disbursements will be key to covering external payments due over the coming months. Swift implementation of the reform of state owned enterprises will be essential if the fiscal and monetary stance is to be sustained. The Bank is requiring credible prior actions before taking a \$200 million FESAL to the Board, probably by the end of July.

Pakistan: Over-runs of budget and balance of payments targets for the last fiscal year, coupled with differences with the IMF over the 1996/97 budget have raised doubts about the government's macro-economic credibility, although the Prime Minister has repeated her commitment to reduce the fiscal deficit to 4 per cent of GDP. The macro-economic situation remains fragile with continued annual inflation above 10 per cent eroding competitiveness and a current account deficit equal to 6 per cent of GDP in 1995/96. The government retreated from some of the revenue raising measures included in the 1996/97 budget in the face of opposition from both the population and the business community. A crucial concern is whether lack of confidence could trigger a run on banks, particularly on their \$7.8 billion of foreign exchange deposits guaranteed by the central bank, which might prompt pressures for exchange controls. Markets remain nervous with interest rates volatile, the market exchange rate at a 7.5 per cent discount from the official rate, equity prices down and banks short of liquidity.

• **Venezuela:** The bolivar has continued stable, interest rates have fallen, spreads on Venezuela's Brady bonds have eased and the monthly inflation rate has dropped as the government's austerity measures have been implemented, although restructuring of the banking system and creation of an adequate social safety net remain key to the success of the program. Domestic 90-day interest rates have fallen to about 30 per cent from more than 70 per cent at the start of the program. The inflation rate fell in June to 7 per cent after the surge to more than 12 per cent in May. The IMF Board is due to discuss the standby arrangement on July 12. The authorities are still negotiating support from multilaterals for restructuring the banking system. A \$200 million loan from the Andean Development Fund was agreed in early July. The government is also still seeking support from the IBRD and IDB for the social safety net.

*Not unviable
of the country are
discussed*

*committed to maintain
but administration unable to handle
foodstuff & other*

Table 1

Countries Vulnerable to Short Term Crises or Systemically Important

Tier 1
*High
Risk
of Crisis*

Bulgaria
Pakistan
Venezuela

Tier 2
*Close
Monitoring
Needed*

Algeria
Lebanon
Lithuania
Mexico
Nigeria
Papua New Guinea
Peru
Russia
South Africa
Turkey

Tier 3
*Potential
Systemic
Crisis/Risk*

Argentina
Brazil
Cameroon
China
Colombia
Cote d'Ivoire
Ecuador
Egypt
India
Indonesia
Jamaica
Jordan
Malaysia
Morocco
Philippines
Thailand
Ukraine

Definitions

Tier 1 - Countries considered most vulnerable to a serious crisis in the near term and warranting continuous monitoring.

Tier 2 - Countries vulnerable to a crisis in the near term and meriting monthly monitoring.

Tier 3 - Includes a larger group of countries that merit periodic scrutiny, either because of their potential vulnerability or their wider systemic or regional importance.

Table 2

SHORT TERM COUNTRY RISK INDICATORS

7/10/96

Country	Regiona depts' shortter concern Tier 1-3	FPICR MT high risk 1995 Yes/No*	FSD financial sector concern Yes/No	Global and/or regional impact Yes/No	IBRD exposure (per cent of total) end-1995	Financial Market Indicators			
						Interest spread basis points		Agency ratings	
						end-Jun Debt(1)	end-Jun Bonds(2)	S & P	Moody's
Bulgaria	1	Yes	Yes	No	0.4	1720		-	-
Mexico	1	Yes	Yes	Yes	12.1	754	341	BB	Ba2
Venezuela	1	Yes	Yes	Yes	1.4	1025		B+	Ba2
Algeria	2	Yes		Yes	1.8			-	-
Lebanon	2	Yes		No	0.1			-	-
Lithuania	2	No	Yes	No	0.1			-	-
Nigeria	2	Yes		Yes	2.8	1258		-	-
Pakistan	2	No	Yes	Yes	2.7			-	-
PNG	2	Yes		No	0.3			B+	B1
Peru	2	Yes	Yes	No	1.5			-	-
Russia	2	Yes	Yes	Yes	1.3	894		-	-
South Africa	2	No		Yes	0		161	BB+	Baa3
Turkey	2	Yes		Yes	4.3		242	B+	Ba3
Argentina	3	Yes	Yes	Yes	4.3	870	428	BB-	B1
Brazil	3	Yes	Yes	Yes	5.3	775		B+	B1
Cameroon	3	Yes		No	0.6			-	-
China	3	No	Yes	Yes	6.3		69	BBB	A3
Colombia	3	No	Yes	No	2.2		189	BBB	Baa3
Cote d'Ivoire	3	Yes		No?	1.4			-	-
Ecuador	3	Yes	Yes	No	0.9	1378		-	-
Egypt	3	Yes		Yes	1.2			-	-
India	3	No	Yes	Yes	8.8			-	-
Indonesia	3	No	Yes	Yes	10.6			BB+	Baa3
Jamaica	3	No		No	0.5			BBB	Baa3
Jordan	3	Yes		Yes	0.6			-	-
Malaysia	3	No		No	0.9		38	B+	Ba3
Morocco	3	No		No	3.5			A	A2
Philippines	3	No	Yes	Yes?	4.4	306		-	-
Thailand	3	No		Yes	1.6		57	BB-	Ba2
Ukraine	3	Yes		Yes	0.4			A	A2

(1) Brady bonds or rescheduled debt

(2) Internationally issued dollar bonds

BULGARIA

July 1996

Summary: Bulgaria is still in the midst of a financial crisis, but the announced reform package helped stabilize the exchange rate. The Government started implementing closures (and isolation) of unviable SOEs and insolvent banks, which are the core of the program agreed with the Bank. The economic situation, however, remains extremely fragile, and fears of wide external payment default (including on the Brady bonds) continue, particularly after the actual default on some bonds held by Japanese investors.

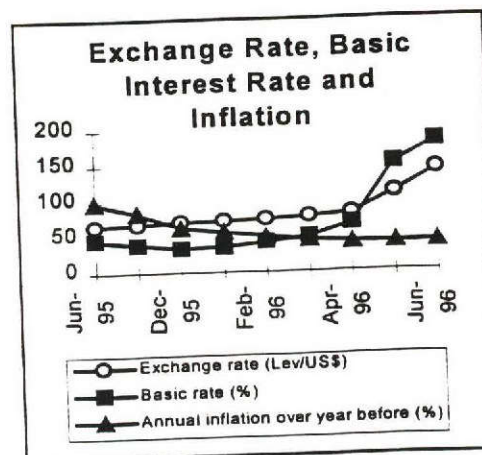
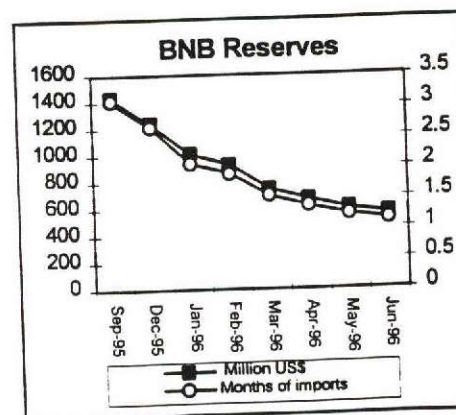
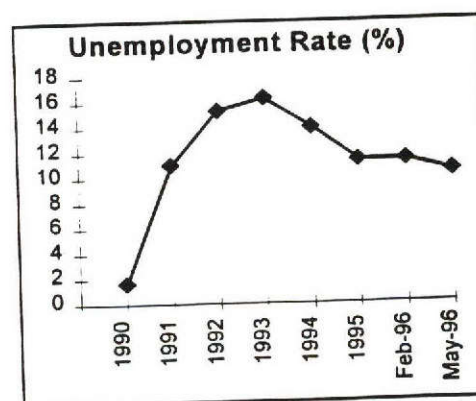
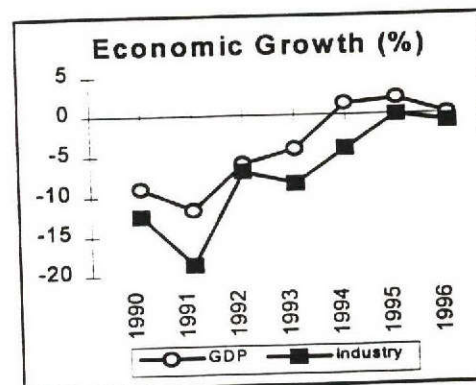
Policies and Recent developments: In early June, the Government announced an agreement in principle with the Fund and the Bank on a tough stabilization program with very ambitious fiscal adjustment; it raised the VAT rate from 18 to 22 percent, doubled several excises and, on June 4, introduced an import surcharge of 5 percentage points, in addition to further restraining non-interest expenditure. Administered prices (e.g., electricity and fuels) have been increased sharply with more adjustments to follow soon. And the Central Bank raised the key interest rate (refinancing rate) to 181 percent per annum and sharply reduced the unsecured credit to the banking system.

The Government jump-started structural reforms aiming at closing 64 unviable state-owned enterprises (SOEs), isolating another 70 loss-makers and accelerating privatization. Several banks, including the largest private bank, have been declared bankrupt and closed. More insolvent/illiquid banks are expected to be closed soon.

The announced reform package helped ease pressures on the foreign exchange market. After falling from 110 leva per dollar in mid-May to about 200 leva per dollar at the end of May, in June and early July the exchange rate strengthened and stabilized in the 150-160 range. As a result, the decline in the Central Bank reserves has slowed significantly, but they are at a dangerously low level of US\$560 million or about 1.1 months of imports. And fears of wider default on external obligations increased after Bulgaria announced its inability to meet obligations on the bonds (owned by Japanese investors) of the now closed Mineral Bank. The June inflation of 17 percent, the result of the April-May exchange rate depreciation, contributes to short-term uncertainty.

Prospects and issues: Short-term macroeconomic risks are extremely high. Unless the announced closures of selected SOEs and banks are implemented swiftly, the extremely tight fiscal and monetary policy stance adopted will not be sustainable.

An IMF follow-up mission is in the field to agree on contingencies in the implementation of a new US\$590 million Stand-by Agreement, which is currently scheduled for the IMF Board discussion on July 18. The Bank is about to take to the Board a \$30 million Rehabilitation Loan in support of the SOE reform, which will provide severance pay to retrenched workers. The Bank is also preparing a FESAL operation of up to US\$200 million in support of the SOE reform, including privatization and bank reform. Credible prior actions by the Government are required before the Bank will take the FESAL operation to the Board.



BULGARIA

	1994	1995	1996	1995	1996						
	Year	Year	Year	Q3	Q4	Q1	Q2	Mar.	Apr.	May	Jun.
Fiscal and Monetary Policy Indicators											
General government balance (LCU billion)	-33.12	-55.90	-72.09	-45.77	-56.69						
(%GDP)	-6.04	-6.67	-5.09	1.90	3.40						
Reserve money (% change, previous year)		47.00		54.50	47.00						
(% change, previous period)		47.00		7.67	16.24						
Broad money (% change, previous year)	78.58	34.39	18.41	9.04	7.51			30.47	33.50		
(% change, previous period)	78.58	34.39	18.41	7.12	11.19			-0.13	4.38		
Domestic credit (% change, previous year)	37.08	19.11	11.42	-10.51	15.70			19.75	22.77		
(% change previous period)	37.08	19.11	11.42	2.33	5.33			1.04	3.13		
1-month interest rate.	72.37	25.29		25.33	25.29						
Exchange rate (LCU/\$, end-period)	66.02	70.70		68.02	70.70			78.83	89.42	147.04	155.46
Real effective exchange rate, (1990 = 100)	197.48	239.04		229.64	239.04			226.28	221.80	170.23	166.43
(% change, previous period)	5.60	21.04		3.50	4.10				-2.0	-23.3	-2.2
Financial Market Indicators											
Stock market prices (1997 = 100, end-period)											
(\$ terms, 1990 = 100)											
Secondary debt price (par bond, end- period)											
International bond traded spread (end-period)											
Foreign currency deposits (\$ billion)											
Output, Demand and Inflation											
GDP (% change previous year)	1.4%	2.0%		4.5%							
Industrial production (1990 = 100)	60.90	63.40									
(change, previous year)	4.10	1.80		2.70	0.90						
Consumer prices (1990 = 100)	3748	4986		4621	4986			5307	5461	6144	7238
(% change, previous year)	121.99	33.05		46.02	33.05			27.20	29.60	43.10	66.9
(% change, previous period)	121.99	33.05		6.90	7.90			1.70	2.90	12.50	17.8
Balance of Payments											
Trade balance (\$ million)	151.60	431.00	449.00	108.60							
Exports of goods, fob (\$ million)	4159	5110	4950	1339							
(% change, previous year)	11.61	22.87	-3.13	29.44							
Imports of goods, fob (\$ million)	4008	4679	4501	1230							
(% change, previous year)	-13.10	16.74	-3.80	26.52							
Current balance (\$ million)	-17.80	277.03	341.84	84.90							
Amortization (\$ million)	400.70	431.00	693.00	31.70							
Debt service (% exports of goods and services)	5.12	15.73	19.15	12.99							
International equity issues (\$ million)											
International bond issues (\$ million)											
Medium term foreign bank loans (\$ million)											
Reserves and External Debt											
Reserves, excluding gold (\$ million)	1311	1236		1434	1236			750	670	600	560
(months of imports of GNFS)	2.91	2.66		3.08	2.66			1.52	1.36	1.22	1.14
Total external debt (\$ million)	10518	10192	9954								
(% exports GNFS)	193.79	156.08	155.70								
Short-term debt (\$ million)											
(% of imports of GFNS)											
IBRD debt outstanding (\$ million)	267.50	413.03	508.60								

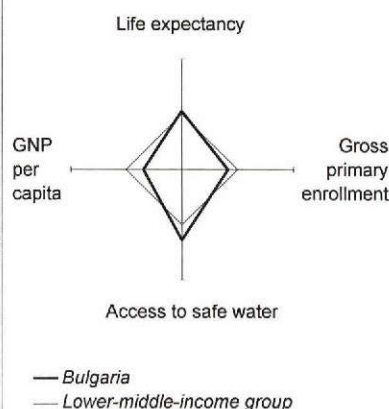
* \$412.4mm as of June 96
 → incorporates 1st tranche of SAR not yet disb.
 for other projects.

Bulgaria at a glance

POVERTY and SOCIAL

	Bulgaria	Europe & Central Asia	Lower-middle-income
Population mid-1994 (millions)	8.4	498	1,097
GNP per capita 1994 (US\$)	1,160	2,430	1,680
GNP 1994 (billions US\$)	9.8	1,209	1,843
Average annual growth, 1990-94			
Population (%)	-0.8	0.5	1.4
Labor force (%)	0.2	..	1.6
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	..	..	..
Urban population (% of total population)	71	64	54
Life expectancy at birth (years)	71	69	67
Infant mortality (per 1,000 live births)	15	19	35
Child malnutrition (% of children under 5)	..	..	..
Access to safe water (% of population)	100	..	78
Illiteracy (% of population age 15+)	..	..	..
Gross primary enrollment (% of school-age population)	86	97	104
Male	87	97	105
Female	84	97	101

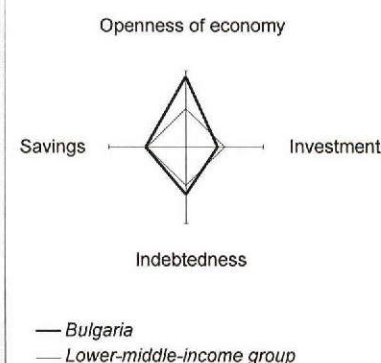
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995
GDP (billions US\$)	..	17.6	10.2	..
Gross domestic investment/GDP	..	32.2	20.8	20.9
Exports of goods and non-factor services/GDP	..	42.8	53.2	49.1
Gross domestic savings/GDP	..	31.8	20.9	24.8
Gross national savings/GDP	..	31.7	20.6	21.0
Current account balance/GDP	..	..	-0.2	0.1
Interest payments/GDP	..	1.2	1.4	5.2
Total debt/GDP	..	21.9	102.6	85.6
Total debt service/exports	..	9.9	13.8	17.1
Present value of debt/GDP	..	..	75.5	86.5
Present value of debt/exports	..	..	139.8	198.4
(average annual growth)				
GDP	..	-3.0	0.5	1.7
GNP per capita	..	-2.4	0.8	4.2
Exports of goods and nfs	..	-21.0	7.5	7.0

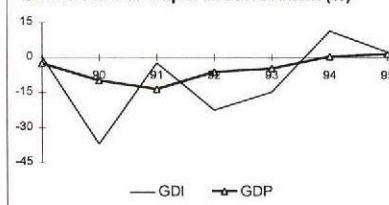
Economic ratios*



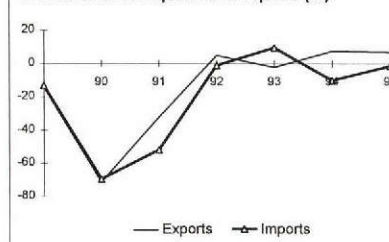
STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	..	11.9	12.7	12.9
Industry	..	62.5	34.6	33.9
Manufacturing	..	..	..	..
Services	..	25.6	52.7	53.2
Private consumption	..	59.8	64.1	60.7
General government consumption	..	8.5	15.0	14.5
Imports of goods and non-factor services	..	43.2	53.1	45.1
(average annual growth)				
Agriculture	..	-1.3	4.0	3.0
Industry	..	-4.9	-4.0	0.0
Manufacturing	..	..	..	..
Services	..	0.0	6.8	3.7
Private consumption	..	-3.8	-1.7	1.1
General government consumption	..	7.8	-11.8	-1.4
Gross domestic investment	..	-7.8	11.4	2.5
Imports of goods and non-factor services	..	-24.9	-9.9	-1.3
Gross national product	..	-3.2	0.3	3.9

Growth rates of output and investment (%)



Growth rates of exports and imports (%)

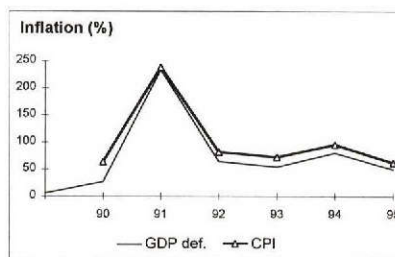


Note: 1995 data are preliminary estimates.

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

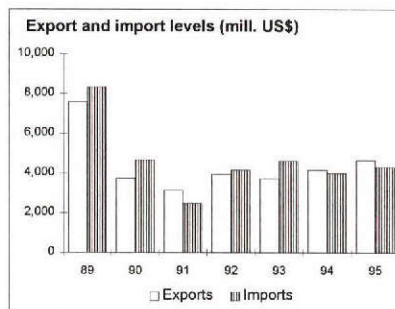
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	..	96.0	62.6
Implicit GDP deflator	..	-1.2	80.8	50.0
Government finance				
(% of GDP)				
Current revenue	..	55.2	37.7	38.2
Current budget balance	..	9.2	-4.7	-5.3
Overall surplus/deficit	..	0.0	-6.0	-6.7



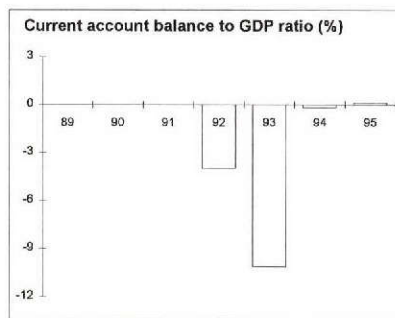
TRADE

	1975	1985	1994	1995
(millions US\$)				
Total exports (fob)	..	10,688	4,159	4,652
Other metals	..	2,125	1,059	1,145
Other agriculture	..	1,791	1,135	1,266
Manufactures	..	..	..	..
Total imports (cif)	..	11,199	4,008	4,316
Food	..	545	906	988
Fuel and energy	..	2,217	986	1,075
Capital goods	..	4,532	1,158	1,263
Export price index (1987=100)	..	112	96	103
Import price index (1987=100)	..	66	132	141
Terms of trade (1987=100)	..	169	73	73



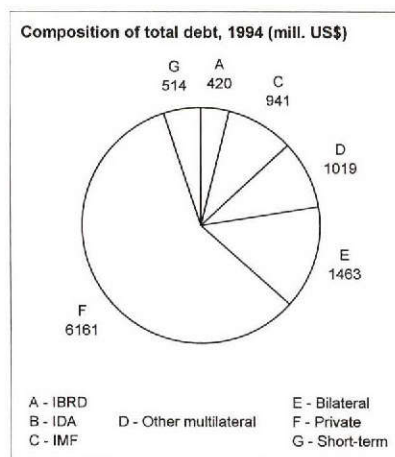
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US\$)				
Exports of goods and non-factor services	..	11,761	5,427	6,069
Imports of goods and non-factor services	..	11,872	5,411	5,583
Resource balance	..	-112	16	486
Net factor income	..	-101	-211	-577
Net current transfers	..	74	175	106
Current account balance, before official transfers	..	..	-21	15
Financing items (net)	..	..	227	435
Changes in net reserves	..	-423	-206	-450
Memo:				
Reserves including gold (mill. US\$)	..	..	1,311	1,564
Conversion rate (local/US\$)	..	1.9	53.7	67.8



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1993	1994
(millions US\$)				
Total debt outstanding and disbursed	20	3,852	12,325	10,518
IBRD	0	0	158	420
IDA	0	0	0	0
Total debt service	2	1,178	295	792
IBRD	0	0	12	15
IDA	0	0	0	0
Composition of net resource flows				
Official grants	0	0	47	102
Official creditors	0	74	-5	281
Private creditors	1	887	-34	-487
Foreign direct investment	0	0	55	105
Portfolio equity	0	0	0	6
World Bank program				
Commitments	0	0	178	175
Disbursements	0	0	3	246
Principal repayments	0	0	0	0
Net flows	0	0	3	246
Interest payments	0	0	12	15
Net transfers	0	0	-9	230



Business Briefing

17JUL96 FRANCE: PARIS CLUB AGREES DEBT RELIEF FOR CONGO.

PARIS, July 17 (Reuters) - The Paris Club of creditor nations said on Thursday it had agreed to write off part of Congo's foreign debt, offering it the most generous terms of debt relief available to the world's poorest countries. It said in a statement the debt relief, agreed after the International Monetary Fund last month approved Congo's plans for economic reform, gave it "Naples terms" of debt relief.

Naples terms allow for a reduction of two-thirds of eligible debt.

The Paris Club is currently considering improving these terms following a call by the Group of Seven rich nations last month to give better debt relief to the world's poorest countries, but has yet to decide on how to do this.

The Paris Club, an informal group of creditor countries mainly from rich industrialised countries, said it agreed on the debt relief at a meeting on July 15 and 16.

"The representatives of the creditor countries noted that Congo's low per capita income and heavy debt burden call for strong (economic) adjustment efforts together with, for the first time, exceptional treatment of debt," it said. The oil-producing central African country has embarked on a reform programme to reduce state control of the economy and slim down the civil service.

The Paris Club agreed it could hold another meeting by mid-1999 to consider Congo's stock of debt. Most Paris Club agreements under Naples terms cover only debt repayments rather than the actual stock of debt.

It also said individual countries could make debt for nature, debt for aid or debt for equity swaps or other local currency swaps, for up to 20 percent of the debts concerned.

(c) Reuters Limited 1996

REUTER NEWS SERVICE

EAA0528 4 I 0165 POR /AFP-UF62

Portugal-Brazil-UN

Brazil deserves permanent UN Security Council seat: Guterres

LISBON, July 17 (AFP) - Brazil should become a permanent member of the UN Security Council as part of an overhauled United Nations, Portuguese Prime Minister Antonio Guterres said Wednesday.

"It would be good for all of us if, in the framework of creating a more democratic United Nations, Brazil were to become a permanent member of the Security Council," he said.

He added that it was important to push for changes to the World Bank, the International Monetary Fund and the Bretton Wood agreement of 1944 that created the two organizations.

Guterres spoke at the founding of the Community of Portuguese-Speaking Countries in Lisbon, bringing together seven nations including Brazil.

Brazil is the biggest nation in South America, which has no permanent seat on the UN Security Council.

The permanent members now are Britain, China, France, Russia and the United States.

ba/rom/js

AFP /AA1234/171745 GMT JUL 96

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Washington D.C.

Jul. 1996
AH
C → Next Breakfast
w/ M Camdessus.

DATE: July 3, 1996

TO: Messrs. J. Wolfensohn and M. Camdessus

FROM: Masood Ahmed and Jack Boorman

SUBJECT: **Mr. Ruggiero's participation in the next Development Committee Meeting**

5th 2

You will recall the discussions about the WTO's access to the Development Committee, which we had with Mr. Ruggiero and his staff at the time of last Spring's meeting. In the process Mr. Ruggiero agreed that under the new format of the Development Committee meetings, the WTO could not expect to be asked to contribute to every meeting, and that access to the restricted session of each meeting would be a function of the agenda for that session. However, we also indicated that given the nature of our respective mandates, we would expect a topic of mutual interest to be on the agenda from time to time. We further indicated that we would try to place such an item on the agenda for the coming meeting, and that Mr. Ruggiero would be invited to speak at that session. The precise modalities of his participation were left to be finalized closer to the date.

As we move towards firming up the agenda for the Fall meeting, we have discussed how best to organize Mr. Ruggiero's participation in the meeting. In terms of the focus of his remarks, we think it would be appropriate for him to give ministers a preview of the key issues that will be raised at the Singapore Ministerial in December. This might also be an occasion to report on the cooperation agreements which the WTO will have (hopefully) concluded with both the IMF and the Bank over the summer. As to modalities, we see the following options:

1. *Mr. Ruggiero is asked to make a statement at the Plenary session. He does not attend a restricted session.*

The advantage of this approach is that it leaves the restricted session free to focus on the main item of HIPC debt. The disadvantage is that Mr. Ruggiero might be expecting more in terms of being invited to attend the restricted session, which he has seen "as the place where the real discussion takes place". Moreover, in this model there would be no opportunity for Ministers to comment on his remarks.

2. *Mr. Ruggiero makes his remarks in a restricted session with a separate agenda item on trade.*

Mr. Ruggiero's remarks could be followed by the two of you making short comments on the cooperation agreements with the WTO. This could be followed by a couple of ministerial interventions, after which this part of the restricted session would be brought to a close. Then we would move on to the next topic (debt), also in restricted session, for which Mr. Ruggiero's presence would not be required. If you wanted him to stay on as an observer, we would simply continue with the session. Otherwise, there would be a short break to allow him to leave and the relevant participants for the next topic to be installed. We would favor this latter approach.

The advantage of the second option is primarily that it would be seen by Mr. Ruggiero and his staff as being more forthcoming. The disadvantage is that it might crowd the agenda for the restricted session.

You should know that Alex Shakow prefers the first approach and believes that some Executive Directors will also prefer it. Our sense is that the first approach will be seen by Mr. Ruggiero as falling short of his expectations both in terms of institutional collaboration and personal relationships with you. However, to make this approach work, Mr. Ruggiero's presentation will have to cover some substantive issues that will stimulate discussion and comments by Ministers.

We would appreciate your guidance, perhaps after your next breakfast meeting, on which of the two approaches to propose to our counterparts in the WTO.

cc. Messrs. Sandström, Bruno, Zhang, Shakow, Winters; Fischer, Narvekar, Uttara, Van Houtzen/Munzberg

E. COMMENTS:

File Location ☐ EXC ☐ IISC ☐ Archives	Cleared By	Date: 09/09/96
--	-------------------	--------------------------

 [View Update History](#)

This item appeared on page 12 of the July 17, 1996 issue of the

FINANCIAL TIMES (UK)

IMF hails 'victory' for Russia's inflation fight

By Chrystia Freeland in Moscow

The International Monetary Fund yesterday declared an unexpected victory for an ambitious Russian anti-inflation programme which was assisted by a \$10bn IMF loan granted in April.

The government's economic policies were also applauded by Mr Al Gore, the US vice-president, who met President Boris Yeltsin yesterday in a sanatorium after a planned meeting on Monday had to be rescheduled.

Observers at the meeting said Mr Yeltsin appeared to be in poor health, walking haltingly and speaking slowly. Concerns about the president have overshadowed financial markets and Russian equity prices have fallen more than 25 per cent since his re-election earlier this month.

There has been concern among western and Russian economists that spending by the government in the first half of the year, as Mr Yeltsin canvassed the nation for votes, could undermine budget forecasts and push the inflation rate higher.

But Mr Stanley Fischer, the

IMF deputy director, and senior US officials accompanying Mr Gore this week, agreed that the Russian government's tough financial stabilisation policies had been a success.

"What happened here was little short of miraculous," Mr Fischer said. "If you had said to anybody that there would be a hotly contested election for the Russian presidency during which inflation would steadily come down and the exchange rate remain stable they would have said you were nuts."

Mr Fischer said that, contrary to the assertions of many domestic and foreign observers, Russia had "come very close" to meeting the tough economic targets agreed with the IMF earlier this year. He said that Russia had not exceeded ceilings on the adjusted budget deficit and that any overstepping of monetary targets was "slight".

"The notion that Russia is being treated leniently is not right, fundamentally. Despite the popular perception, they have come very close to meeting targets," said Mr Fischer. "The

clock is running pretty much on time... and financial stabilisation is basically in reach."

Although Mr Fischer insisted that the credit for this achievement should go entirely to the Russian government, he admitted that Russia's success this year was a vindication for the IMF.

The fund, which had been fiercely criticised by some observers for not giving Russia enough support in the early 1990s, has come under fire from others this spring for being too generous with Moscow.

Although Mr Fischer said he believed the Russian economy was "close to the bottom" and would now begin to follow the upward trajectory of more advanced post-communist economies in countries such as Poland and the Czech Republic, he cautioned that backsliding would always remain a possibility.

Mr Fischer said Russia's biggest challenges were structural, notably the need to boost low levels of revenue collection.

Shaky Yeltsin, Page 2

Business Briefing

16JUL96 GABON: CHIRAC SAYS FRANCE WILL CHAMPION AID TO AFRICA.

By Marie-Benedicte Allaire

LIBREVILLE, July 16 (Reuters) - French President Jacques Chirac began a two-nation African tour in Gabon on Tuesday, pledging that France would champion aid to the world's poorest continent.

Chirac, whose visit has raised hopes of further African debt relief, told the French community in the Central African oil producer that Africa was on the right road and it was right to help it.

"Africa is making progress and needs a brotherly hand," he said. "France has taken a stand to make itself one of the champions of aid to the poor countries... I want France more and more and in an increasing number of African countries to become one of the forces for growth and development."

Chirac arrived in Gabon to the rhythm of drums, singing and dancing, and against a background of hopes that he might unveil a fresh initiative on African debt.

He was to spend a little over 24 hours in Gabon, which has a foreign debt of around \$4 billion and counts former colonial power France as its main aid and trade partner.

"We hope that the French president's visit will also be a signal," Gabon's foreign minister, Casimir Oye Mba told a news conference. "That could be debt forgiveness. Perhaps the signal of a start of new initiatives," he said.

France's former colonies in Africa are busy liberalising to inject new life in their economies since the 1994 devaluation of the CFA franc used in much of French-speaking Africa. For many, servicing debts built up in the heady days that followed independence is a serious obstacle to sustained growth.

Chirac travels to Gabon's fellow Central African oil producer Congo, another former French colony, on Thursday. Congo has an even more pressing debt problem than Gabon.

Its external debt tops \$5 billion but is over 450 percent of its Gross National Product, according to World Bank figures. The figure for Gabon is around 120 percent.

(c) Reuters Limited 1996

REUTER NEWS SERVICE

France writes off part of Gabon's debt after Chirac arrives
(ADDS further details of Chirac talks)

LIBREVILLE, July 17 (AFP) - France Tuesday agreed to wipe out 400 million francs (\$80 million dollars) of Gabon's debt in exchange for a commitment to investment in public works, President Jacques Chirac's spokeswoman said.

Catherine Colonna was speaking at the end of the first day of Chirac's official visit to Gabon, which included talks with President Omar Bongo.

Colonna said that in return for the debt cancellation France's development fund would provide other loans which Gabon pledged to spend on road and health projects, to be carried out by private companies.

Gabon's total external debt amounts to some 4.7 billion dollars, most of it owed to France.

In their hour of talks, Chirac and Bongo also agreed that the joint France-Gabon economic commission, which has not met since 1991, would reconvene early next year.

Chirac stressed the need for proper management of the state in order to attract foreign investment, Colonna said.

At a dinner later at the presidential palace, Chirac urged continued development aid for Africa at a time when this was tending to fall off.

"It is at a time when Africa is full of promise that we must hold good," he said. "It is at a time when Africa is changing that we must keep faith and express our confidence in this continent."

Chirac's third trip to Africa since being elected in May last year will also include a visit to Congo.

In a speech in Gabon on Wednesday, Chirac would underline the "double necessity of keeping up development aid and good management," Colonna said before he left Paris.

phg/cm/js

AFP /AA1234/162349 GMT JUL 96

This item appeared on page 4 of the July 16, 1996 issue of the

FINANCIAL TIMES (UK)

Rich countries ponder how much the 20 poorest can be expected to pay back Deciding a debt the poor can afford

Paris Club will try to decide how much debt to 'forgive', write
Graham Bowley and Robert Chote

In the heart of the French Treasury building overlooking the River Seine an elite club of officials from 18 of the world's richest nations will gather this week.

Their deliberations could determine the economic destinies of up to 20 of the world's poorest countries - and, with them, the reputations of the World Bank and the International Monetary Fund.

On the agenda of the so-called Paris Club is its contribution to the contentious initiative on poor country debt at present being put together by the IMF and the World Bank.

The Paris Club, which quietly celebrated its 40th anniversary this year, shuns publicity, yet its role has been central to the stability of the world's financial system during the debt crises of the past four decades.

Since 1956, when it first tackled Argentina's debt problems, the club has acted as debt collector for the world's biggest creditor nations. With the large debt crises of the 1980s behind it and the biggest deal in its history - the restructuring of Russia's \$38bn debts - successfully completed earlier this year, the Paris Club's role looked set to diminish.

However, the aim of the initiative this week is for govern-

ment, commercial and multi-lateral creditors to reduce the debts of the poor countries to "sustainable" levels. To a considerable extent the fate of the plan now rests in the hands of the Paris Club - since the World Bank and the IMF are reluctant to press on with it until the Paris Club has committed its resources.

Under shrewd French chairmanship, the multinational group of government officials has at its regular meetings managed to steer steadily and successfully more than 72 countries - involving about \$319bn in debt - from default back to participation in the world financial community.

This has been achieved either by rescheduling debt or interest repayments or, in some cases, "forgiving" certain proportions of the debt.

The Paris Club's negotiating terms have gone through several incarnations. In the first deals, debtor countries were required to pay all their loans back. But when it was recognised this was impossible for some poor countries, gradually larger proportions of debt were forgiven.

According to Mr Christian Noyer, president of the Paris Club: "There was no sense in rescheduling the same debt over and over again. It was better for the security of creditors

to accept from time to time debt reductions. It was the only way to let a country have a way back to economic growth and development."

This week it will ponder calls to allow even greater debt forgiveness than the two-thirds of debts incurred by a poor country up to a given cut-off date - the "Naples terms".

With the World Bank and IMF's initiative expected to cost up to \$7.7bn, the issue at stake is one of burden sharing. At their Lyons summit, the

Group of Seven leading industrial nations discomfited the World Bank by recommending that it commit \$2bn to the initiative. The financing of the IMF's contribution has meanwhile become entangled in an acrimonious and almost theological discussion about the status of its gold reserves.

In Lyons, the G7 urged that "the Paris Club countries, where they deem appropriate, on a case by case basis, go beyond the Naples terms for these countries" - a statement

regarded by many as unclear.

Some countries such as the UK have recommended that the Paris Club go as high as 80 per cent on debt forgiveness in certain cases. But also at issue is whether the present cut-off date for eligible debt be extended - so greatly widening the amount of debt to which the write-off terms are applied.

The World Bank and the IMF need a successful conclusion to the initiative. Both face intense scrutiny from budget-conscious governments and high-profile campaigning groups, such as Oxfam and Christian Aid.

World Bank officials would like to see the meeting this week agree roughly what share of the costs the Paris Club will pick up and to ask its secretariat to draw up a menu of options as to how its help might be delivered.

But these are hopes rather than expectations. Other debt negotiations - for Congo and Peru - are on the table and officials fear the Paris Club may not feel that it is under sufficient pressure to take the necessary big decisions.

With the club not meeting again until the autumn, that could leave the initiative in limbo until the eve of the IMF and World Bank annual meetings in early October. While the proposed changes to the Paris Club's terms may seem huge now, the impetus for poor countries' debt relief may be lost, and the change made even more difficult, if the decision is postponed until the autumn.

This item appeared on page 17 of the July 16, 1996 issue of the

FINANCIAL TIMES (UK)

Agreeing to debt relief

The Paris Club of official creditors is rarely in the limelight. This week's meeting is an exception. The officials have to discuss their contribution to the initiative on the debt of highly indebted poor countries put together by the International Monetary Fund and the World Bank. If the package is to be agreed at the annual meetings of the Bank and IMF in September, the Paris Club needs to decide quickly and act generously.

The aim of the scheme is for commercial, bilateral and multilateral creditors to reduce the debts of up to 20 poor countries to "sustainable" levels. This has been agreed, in general terms, not just within the Bank and IMF, but by the leaders of the Group of Seven industrial countries in Lyons last month. The difficulty is turning the broad commitment into decisions on sharing a burden expected to cost \$7.7bn.

This will not be easy. Already there are disputes over the use of the IMF's gold reserves, an idea that has met the opposition of Germany and Japan. The G7 also disturbed the World Bank by recommending that it commit \$2bn to the initiative. The Paris Club itself confronts complex options. In substance, however, its members have two decisions: how much of the burden they should shoulder, and how precisely to formulate detailed proposals.

On the distribution of the burden, the heart of the matter is how much of the burden is borne by developing countries other than the potential beneficiaries. Since the developed country members of

the Paris Club are the dominant shareholders of the World Bank and IMF, the debate is partly about which of their pockets the money will come from. But the more of its resources the Bank uses, the less it will have for other borrowers. Since members of the Paris Club are better able to bear the cost than the other shareholders, they should do so.

The Paris Club should also go beyond the conventional Naples terms, which call for a notional reduction of 67 per cent in the debt burden. But the limitations on coverage mean that the effective debt relief for these 20 indebted countries has been only 36 per cent. What is needed, suggests the World Bank, is a real 67 per cent. This could be achieved by broadening the coverage of debt relief or by deepening the relief on what is now covered.

The Paris Club seems unlikely to agree to specific proposals this week. But its members should not postpone decisions until their next regular meeting, which would be too late to resolve the matter at the Bank-Fund annual meetings. What they should do, instead, is agree on the Club's share of the burden, ask the secretariat to prepare a menu of options and settle on a date for an emergency meeting by early September.

The need to ensure debt sustainability for highly indebted poor countries is urgent. But too many countries have tumbled head-over-heels in debt. A line should be drawn under this episode of profligate lending and insouciant borrowing. It must not be repeated.

This item appeared on page 7 of the July 15, 1996 issue of the

FINANCIAL TIMES (UK)

Peter Norman · Economics Notebook

Gold's place in the German psyche

Bonn wants the IMF to recognise the bitter lesson of Kohl's grandfather

It pays never to underestimate the role of a leader's personal experience or family history in international affairs.

Germany's refusal to allow gold sales by the International Monetary Fund to help put its Esaf concessional lending facility on a permanent footing owes some of its force to an unfortunate investment in war loan during the first world war by Chancellor Helmut Kohl's grandfather.

The issue of financing the IMF's "enhanced structural adjustment facility" - or Esaf - may appear arcane. But the IMF management's proposal to sell \$2bn of the fund's \$40bn gold reserves and invest the proceeds to finance support for some of the world's poorest developing nations is a matter of great importance for the mainly African countries concerned.

Financing Esaf was also one of the few issues to generate any excitement at last month's Group of Seven summit in Lyons, with Chancellor Kohl surprising many with his vehement and high-profile rejection of the gold sales plan.

It is unusual to find Germany taking a tightfisted approach on international aid. As the table shows, it ranks third in the provision of official development assistance among G7 countries while its actual ODA payments last year, at \$7.5bn, exceeded the \$7.3bn provided by the US. Moreover, Kohl is not known for showing an interest in the financial complexities of development aid.

That Kohl should have become personally involved shows how the Esaf issue has touched a raw nerve in Bonn. It has triggered German resentment that other countries

are not taking a fair share of international financial burdens and exposed the deep-seated psychological scars that this century's two currency collapses have left with the government and people.

There is a strong feeling in Bonn that the Esaf issue has been given a high profile by governments, and in particular that of the US, whose support for poorer countries has declined in recent years. With proposals to multilateralise financial support for developing countries, the unwilling donors can disguise their own failure to contribute.

Germany, by contrast, claims it has carried out its obligations to less fortunate countries in full and to the letter. It puts its overall assistance to developing countries since 1990 at DM225.6bn (\$148.4bn).

Germany's philosophical objections to fund gold sales are reflected in its insistence that the move could put the IMF at risk. Bonn claims that such action would send a wrong signal to the financial markets and member countries after 18 months in which the fund has committed itself to providing up to \$17bn of support for Mexico and \$10bn for Russia. It argues that gold sales are illogical when the IMF's leading members have been preoccupied with strengthening the fund's access to emergency funds by doubling its "general arrangements to borrow" and when there are discussions about increasing the IMF's quotas, or membership fees.

Gold sales would indeed run counter to Germany's concept of the IMF as a monetary institution that in an ideal world would not be involved in the long term finance and rescue of impoverished

nations. The Esaf client nations, which are mainly in sub-Saharan Africa, obtain funds for extended periods at the highly concessional rate of 0.5 per cent in return for pursuing market-oriented economic reforms. The German view is that such a transfer of resources from rich to poor should be financed through the bilateral contributions of donors and not through the monetary resources of the IMF provided by central banks.

Germany stresses that it is not opposed to Esaf. It has produced alternative proposals for the interim financing of the facility after the present funds run out in 2000 or 2001 and for a self-sustained Esaf to start in 2004, or 2002 if necessary. It has proposed bilateral contributions from rich countries, with Germany making an appropriate contribution, and tapping another IMF asset known as the "special contingency account - 2".

Such financing would be uncontroversial in Bonn. By contrast, the German government fears that IMF gold sales to help poor nations could set an unhealthy precedent and that before long there would be demands for more gold sales to finance other causes, at home as well as abroad.

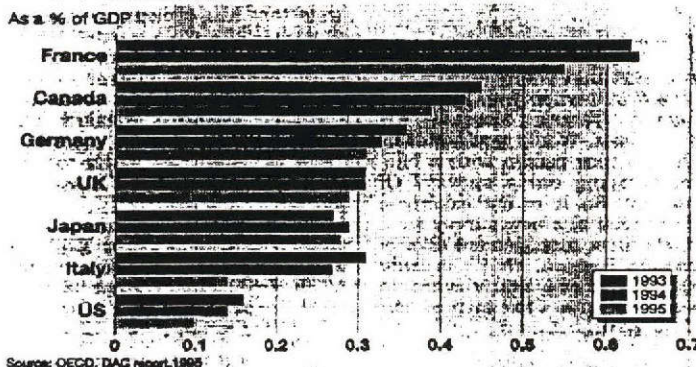
While other central banks have been selling gold, the Bundesbank is sitting on 95m ounces of the yellow metal valued conservatively at DM13.69bn, or an average of DM144 (\$94.77) per ounce against Friday's market price of \$384.

- 2 -

FT

July 15, 1996

P. 7

G7 official development aid

Officials say German approval for IMF gold sales could have triggered a discussion about the Bundesbank gold, possibly reviving opposition proposals to monetise the metal to help plug the nation's deficits. Another fear is that IMF gold sales could weaken government claims that the planned European economic and monetary union will be a zone of stability, with the Euro as strong as the

D-Mark, because the electorate might conclude that Germany would be prepared to sacrifice its own gold on the altar of Emu in negotiations with its European Union partners.

Such arguments appear far-fetched in countries like the UK which have shown scant regard for gold in recent years, consistently backing the IMF gold sales plan. But gold has a special place in the German psyche, partly because many families owe their survival in the chaos at the end of the second world war to having a modest stock of gold to finance their escape from invading forces and partly because the nation has seen the value of its currency wiped out twice this century.

It is here that we come back to Kohl's grandfather. He was a modest man, the head of an elementary school, who ploughed his savings of a few thousand marks into war bonds during the 1914-18 war. He lost his entire investment, a personal catastrophe that still weighs with his grandson.

For by investing in interest bearing bonds, the chancellor's grandfather did on a small scale what Germany's G7 partners want the IMF to do. In the financial crisis that followed the first world war he was left without the security of the "family silver".

Bonn wants the IMF to keep that sort of security because if a really serious financial crisis should break out, the IMF could expect its gold reserves to rise in value while the value of securities shrivelled away. It is an argument that may not appeal to sophisticated financiers but it makes sense to Kohl and the people who vote for him.

This item appeared on page 3 of the July 15, 1996 issue of the

FINANCIAL TIMES (UK)

Swiss unmoved on IMF gold sale

Britain and the US appear to have failed to persuade Switzerland to drop its opposition to sales of part of the International Monetary Fund's gold reserves to help finance debt relief for poor countries. Officials at the Swiss Finance Ministry said selling and reinvesting IMF gold would set an undesirable precedent and was dangerous when the organisation was lending heavily to countries such as Russia and Mexico. Selling IMF gold might also give fresh momentum to a parliamentary initiative to sell part of Switzerland's gold reserves to finance new trans-Alpine tunnels, they warned.

The US and UK have been lobbying to win approval for IMF gold sales, not least because they do not want to have to inject fresh cash contributions themselves to pay for the proposed debt relief initiative. The income from the sale and reinvestment of \$2bn of the IMF's \$40bn gold stock would help pay to put its concessional "enhanced structural adjustment facility" (Esaf) on a permanent footing and extend the maturity of Esaf loans to poor countries. *Robert Chote, London*

EAA0538 3 F 0348 USA /AFP-FX17
US-IMF

IMF considers lengthening loan terms

WASHINGTON, July 15 (AFP) - The International Monetary Fund (IMF) is considering either an expansion in its loan repayment periods or the provision of grants in order to lighten the debt load of the world's poorest countries, an IMF official has said.

Jack Boorman, head of the fund's development policy unit, said in an interview appearing in the publication IMF Survey that the fund was considering two options.

"One is to extend the maturities of IMF claims ... for example, by extending the maturity of such claims from the current 10 years and five years' grace to 20 years and the 10 years' grace.

"Another possibility is to provide a grant to the country to help it service its obligations to the IMF."

The fund, in conjunction with the World Bank, has identified eight countries where the external debt is considered "unsustainable" and 12 others that are classified as "possibly stressed" by their debt burdens.

Most of the 20 states are in Africa.

But the debt relief will not be forthcoming unless countries adhere to economic reform policies for at least three and possibly six years.

"If the IMF is the major creditor to a country, it will provide relatively more assistance to the country than other multilateral institutions," said Boorman.

A country's debt would be deemed sustainable, according to the IMF and the World Bank, if interest payments represent between 20 and 25 percent of export revenues or if the total debt does not surpass 200 to 250 per cent of export earnings.

But other factors will be taken into account, according to Boorman, such as "the country's reserve position, its dependence on a single or small number of commodity exports and the impact of debt service on its fiscal position."

"But it is important to keep in mind that these indebted countries will continue to require bilateral and multilateral assistance ... Indeed even if the debt of a number of these countries were totally written off they would remain heavily dependent on aid."

vmt/nh/jr

152152

AFP /AA1234/151954 GMT JUL 96

Mr Yeltsin's flexible friend

MOSCOW

In the run-up to Russia's presidential election, the IMF turned a blind eye to some of Boris Yeltsin's spendthrift ways. Should it have?

THE International Monetary Fund likes to say that it lends against economic policies, not against governments. But policies and governments do not always fit neatly into separate categories. As this year's Russian presidential election approached, hopes for reform and free enterprise rested on the re-election of Boris Yeltsin. Had voters plumped for Gennady Zyuganov, his Communist rival, the country's economy would probably now be heading back into the dark ages.

The election is over and to almost universal relief Mr Yeltsin is still in office. Now, though, there arises a ticklish question. Did the IMF, in effect, cast a vote for him? In principle, the Fund is apolitical. It is supposed to be bound by strong internal rules and to be a strict enforcer of conditions attached to its loans. But some of its big shareholders, especially America and Germany, clearly cared more about Mr Yeltsin's survival than about a percentage point here and there in Russia's national accounts. Did the Fund take the hint, and treat Russia with special leniency?

One reason to suspect that it did was the Fund's readiness in the first place to grant a

three-year loan of just over \$10 billion—after Mexico's, the second-biggest ever—to Russia in February. This was a clear signal that nobody at the Fund wanted to “lose Russia”. And although the loan was supposedly tied to Russia's meeting a number of strict economic targets, there is a good deal of evidence that lender and borrower colluded to interpret these as flexibly as possible, at least until the election.

Certainly, nobody at the Fund wanted to risk helping the Communists back to power by undermining the core of Mr Yeltsin's campaign: promises of jam today and jam tomorrow. When, after the loan was promised, Russia's budget deficit began to exceed agreed levels and structural reforms languished, the IMF behaved as if it was happy to view many such terms as mere details to sort out once the vote was over.

To judge by its actions, the Russian government took this view as well. Having signed its deal with the Fund, it issued no overall decree to make the package binding on its spending ministries. And, according to one minister, “book-keeping tricks were pulled on both sides”.

When Mr Yeltsin dished out campaign

promises to spend an unplanned \$10 billion, and wrested \$1 billion from a furious central bank in June, the Fund did not blench. Its boss, Michel Camdessus, said in June that Russia was “up to date on performance criteria”. Thomas Wolf, head of the IMF's Moscow office, said last week, “In light of the presidential campaign, the authorities seem to have done well.”

Perhaps. Officially the Fund publishes neither its monthly targets for Russia nor its calculations of Russia's performance. It has declined to comment publicly in any detail. But the evidence is that Russia broke through the ceiling originally agreed for the budget deficit almost immediately, in March (see table on next page). By April it would have been doing so even on the narrower calculation preferred by Russia's finance ministry, which, unlike the IMF, excludes interest paid out on high-yielding treasury bills.

The IMF and Russia were let off this hook by France's and Germany's decisions to lend Russia \$400m and \$2.7 billion respectively in April, and by the Fund's willingness to let Russia treat this as spending money, instead of insisting, as it could have done, that it was used to finance the agreed deficit in place of costly treasury bills.

However, for all Mr Yeltsin's extravagant spending promises, the root cause of the deficit over-run was a collapse in tax collection (a defect that the government said this week it would correct in the second half of the year). Having expected to collect the equivalent of 11.5% of GDP in taxes this year, the government managed to collect only at a rate of 8% of GDP in the first half. And in the weeks before the election, receipts fell to less than half that rate.

Tax, but no brass

This was not entirely the government's fault. The IMF itself made Russia abandon counter-productive excise and wages taxes. In addition, some big companies chose to withhold taxes until they knew who had won the election. But the government made a bad situation worse by granting tax exemptions to some firms, thereby breaching undertakings to the IMF. Some exemptions were, in effect, a surrogate for public spending: firms received tax breaks in exchange for giving goods free to other firms to which the state owed money.

Although Russia had promised to keep this in-kind taxation below a ceiling of \$1.8 billion this year, it already stood at \$3.2 billion by June. The government's lame excuse was that many of the offsets covered debts incurred in 1995, and so should not be reckoned into the current IMF programme.

Russia's record on IMF-agreed monetary targets appears to have been at least as questionable as its record on fiscal targets. The former were fixed in terms of “net domestic assets”, defined as the amount by which the monetary base (roughly, notes and coins in circulation) exceeded the net hard-currency reserves held by the central bank. This formula allowed the money supply to grow so long as official reserves grew too. In the spring of 1995, when the rouble was rising, the central bank printed roubles and used them to buy dollars. Money supply rose by 27% in two months, reserves doubled to \$6 billion and the IMF's targets—set with respect to a preceding, one-year loan—were undisturbed.

This spring the picture was different. Base money grew by 7% in March, and at the same rate in April, but this money was spent buying votes, not dollars. Worried by Mr Yeltsin's extravagance, central-bank officials revealed in June that almost \$3 billion of reserves had been spent during April and May to prop up the rouble. Official numbers have not been published, but the combination of a rising money supply and falling reserves must have pushed up net domestic assets sharply.

If, as the IMF has insisted, monetary targets were met until at least the end of May (June figures have yet to be calculated), it is hard to see how. The IMF's Moscow office worried privately about the effect on the rouble. “The immediate challenge”, said a pre-election memorandum, “is to steer the exchange rate clear of a crisis.”

Some on the Russian side made the same assessment, but thought it an acceptable risk. “A victory would be worth a Black Tuesday,” said one minister in an unguarded moment, referring to the day in October 1994 when the rouble crashed 22%. With the election over, the currency looks much less vulnerable. Although official reserves are down from their peak, the central bank has about \$7 billion in hand, adjusted for short-term liabilities. The government says it is confident that inflows of foreign investment and repatriated capital will support the rouble, so pushing interest

rates down and making the budget deficit cheaper to finance. Annualised treasury-bill yields have fallen below 90%, from a peak of 215% before the election (see box).

Does it matter if the IMF bent over backwards to help Mr Yeltsin? Arguably, saving Russia from communism matters more than the niceties of monthly bookkeeping. And it would not be the first time the Fund has been influenced by the political calculations of its chief shareholders. In 1987, for example, the Germans and Americans urged the IMF to lend to Egypt, a cornerstone of America's Middle East diplomacy, on terms that some Fund officials considered too generous (one resigned over the issue). Some officials also resented America's hustling the Fund to the rescue of Mexico after the peso collapsed in 1994.

Against such precedents, Russia, newly emerged from communism and still bristling with nuclear weapons, was arguably an even more suitable case for rule-bending treatment. But the Fund has been left in a weaker position than it was to extract reforms from Russia. And in its dealings with other countries, the hint of double standards may come to haunt it.

Venezuela Gets IMF Credit, Backing Market Reforms

By PAUL LEWIS

c.1996 N.Y. Times News Service

Venezuela was awarded a \$1.4 billion credit from the International Monetary Fund on Friday, a distinction that also serves as a seal of approval on the country's economic-reform package.

Venezuela's plans to create an open, market-oriented economy, free of the stifling controls and regulations that once characterized virtually all the countries of Latin America, were introduced there in April by the government of President Rafael Caldera.

Announcing the loan, the IMF spoke approvingly of Venezuela's "ambitious and front-loaded economic program." It said the program was designed to redress a dismal economic situation in this potentially rich oil-producing country, which has suffered slow growth, 57 percent inflation, a big budget deficit and difficulties in the banking sector.

Under the new program, Venezuela has already lifted price controls on all goods except medicine as well as controls on currency flows in and out of the country and on interest rates. It is now committed to cutting public spending steeply, strengthening its banks and selling off state-owned telecommunications, aluminum, steel, electrical and petrochemical plants.

But the government will also seek to protect the living standards of the country's 2 million poorest families from the impact of its austerity measures by giving them additional subsidies with help from the World Bank and the Inter-American Development Bank, the Monetary Fund said.

"All the countries of the region, with the exception of Cuba and Haiti, are going after what's known as the Washington consensus on economic policy," said Michael Hood, an analyst at J.P. Morgan in New York who specializes in Latin America.

The Venezuelan finance minister, Luis Raul Matos Azocar, said, "We are all moving in the same direction now." He spoke at a meeting of New York bankers on Thursday at which he previewed the accord with the Monetary Fund and explained his

23:52 EDT JULY 12, 1996

NYT-07-12-96 2304EDT

NYTviaNewsEDGE

:SUBJECT: IMCM IMF VENE

Copyright (c) 1996 The New York Times Co.

Received by NewsEDGE/LAN: 7/13/96 12:02 AM

IMF OKs \$1.4 billion loan to help Venezuela economy

By Paul Hughes

CARACAS, Venezuela, July 12 (Reuter) - The International Monetary Fund approved a \$1.4 billion loan for Venezuela on Friday to help it turn its economy around while reducing inflation.

The IMF said in Washington the deal would reverse the Venezuelan economy's deep-set recession by the end of the year and foster four percent growth in 1997. Inflation will be cut from over seven to one percent per month, it said.

The loan's approval brought to an end nine months of talks and set the stage for a turnaround in fortunes for Latin America's fourth-largest economy.

"They recognised the effort which the country has made to move towards a new future for its economy," Finance Minister Luis Raul Matos Azocar told reporters.

The first \$500-million of the IMF loan will arrive in Caracas before the end of the month, he added.

The IMF's blessing sets free about \$2 billion in additional loans from the World Bank and the Inter-American Development Bank to bolster the banking sector and fund social programmes.

Nine months ago Venezuela's prospects of a deal with the IMF were bleak. International investors shunned President Rafael Caldera's protectionist policies as the Venezuelan leader steadfastly refused "to go down on (his) knees" to the IMF.

Venezuela had the region's highest inflation rate in 1995, at 57 percent. The economy just managed to register its first growth for three years.

But after several months of on-and-off talks Caldera, 80, decided in mid-April to go back on many election promises in a concerted effort to draw international support.

Currency, price and interest rate controls were lifted and gasoline prices, still among the lowest in the world, were raised nearly fivefold. The reform programme has brought currency stability, growing foreign reserves and, most important, renewed investor interest.

In a sign of new-found faith in the markets, the government signed landmark contracts with top international oil companies this week giving them the first chance to explore for oil since the industry was nationalised 20 years ago.

The adjustment has put a heavy burden on long-suffering Venezuelans. Prices have risen 108 percent over the last 12 months, and four out of every five Venezuelans live in poverty, official studies say.

09Jul96 CAMEROON: IMF CHIEF STILL HOPES TO SELL GOLD TO EASE DEBT.

YAOUNDE, July 9 (Reuters) - IMF director general Michel Camdessus said on Tuesday he would still promote a plan to sell gold to ease debt, despite a German veto.

"I was accused of wanting to sell off the family jewels but it's worth it to sell gold if that increases wealth," he told a news conference at a summit of the Organisation of African Unity (OAU) which groups most of the world's poorest states.

"There are some reservations but I am encouraged by the overall response I got in Lyon."

The debt burden facing developing countries was high on the agenda when leaders of the Group of Seven (G7) industrial nations met last month in the French city of Lyon.

They resolved to improve the "Naples terms" of debt forgiveness, but without saying when or by how much.

Camdessus explained to them his plan to sell IMF gold reserves in order to fund measures to help debt-trapped countries which follow austerity programmes backed by international creditors, but Germany opposed the idea.

The IMF chief, speaking after he addressed African leaders at the OAU summit in Yaounde, Cameroon, said he would like the new "Lyon terms" to push debt relief up to 90 percent for approved countries, from 67 percent under the Naples terms.

-- Abidjan newsroom +225-219090

(c) Reuters Limited 1996

REUTER NEWS SERVICE

EAA00123 I 0573 EXT /AFP-TZ63

OAU-IMF

IMF chief tells African leaders to rule well for economic growth
by Susan Njanji

YAOUNDE, July 9 (AFP) - The head of the International Monetary Fund told African leaders here Tuesday that their continent had made significant strides in recent years and encouraged them to continue with restructuring and ensure better management of Africa's resources.

Michel Camdessus, the IMF director-general told reporters that he had advised the 31 heads of state and government attending the Organisation of African Unity (OAU) summit here, to realise the potential of growth that lay on the continent.

Camdessus stressed that good governance coupled with better management of resources, restructuring of public finance systems to remove unproductive expenditure as well as the continuation of structural adjustment programmes, was certain to ensure positive growth.

"I am totally confident of the performance of a new democratic continent," said the IMF chief after holding talks with the leaders gathered here for the annual 32nd OAU summit.

Asked about the response of African leaders to his talk, Camdessus said: "I had the impression that they were listening not only with courtesy but with attention, and they were generous with their applause."

Camdessus was upbeat that Africa was poised for positive economic growth in coming years.

"I am confident there is a possibility of success ...because we are observing that things are moving, things are changing," he said, but stressed that these changes would not apply to states at war or in some form of political struggle.

He said 40 African countries presently posted positive per capita growth compared to only 20 five years ago.

He predicted an average continental economic growth of about five percent or more this year compared to just one percent five years back.

For the success of the programmes, Camdessus urged cooperation from the rich nations of the world.

He called on the industrialised countries to make a significant effort and to "have a special responsibility to promote world economic growth and stability by adjusting their own structures and cooperating among themselves to minimise potential sources of instability".

The world had to open its markets to products from Africa, while creditors had to show their commitment to the reform programme by reversing the declining trend in official development assistance (ODA).

"The lamentable experiences of the past two years during which ODA has fallen at a time when there have been 'peace dividends' must be offset," he said.

Thirty one of Africa's 53 countries are currently undergoing economic reforms, on the continent where 33 of the world's least developed countries are located.

He called on the bilateral creditors to ensure that necessary resources were rapidly provided so long as they were within the framework of comprehensive programmes of macro-economic stabilisation and structural reform.

On debt, Africa's perennial burden which is expected to reach 320 billion dollars by the end of this year, Camdessus was opposed to its total cancellation, but rather preferred reduction to bearable levels.

He urged bilateral creditors and multilateral finance institutions to support the UN special initiative for the development of Africa. The UN last month promised a new partnership for development with the continent.

sn/jb

AFP /AA1234/100102 GMT JUL 96

Brady Bonds End Strong; Venezuela, Ecuador Good Performers

NEW YORK (DOW JONES)--Brady bond prices were ending stronger Tuesday in moderate trade, with Venezuelan and Ecuadorean issues leading the overall market.

Venezuela Brady bonds, which carry relatively high yields, were up from earlier in the session on heavy buying from traders and investors.

The Venezuela Debt Conversion Bonds (DCBs) were up one point to 70.750/71.250, while the Pars Bonds were up 7/8 to 60.125/60.375 at 2015 GMT (4:15 p.m. EDT).

Some traders said that continued market expectations that Venezuela and the International Monetary Fund will soon sign a \$1.4 billion standby credit arrangement has helped bouy the country's bond prices in the last several sessions.

The IMF agreement - which has preliminary approval - is important to ensure that President Rafael Caldera will continue with the strict economic policies required by the IMF, traders said.

'The Venezuelan bonds are being defended very well,' one trader noted. 'The IMF accord is sort of a guarantee that they (the Venezuelan government) will continue with their current economic reform. And if they decide to veer off, there will be someone watching.'

Among other Latin Bradys, Mexico Pars regained some of their earlier losses with the bonds up 7/16 to 63.3125/63.5, while the Discounts were up 1/2 to 78.125/78.4375.

Argentina Bradys also closed up with the Par Bonds 5/16 higher at 52.6875/52.8125, while the FRBs rose 7/16 to 76.8125.

(END) AP-DOW JONES NEWS 09-07-96

2110GMT

(AP-DJ-07-09-96 2110GMT)

:SUBJECT: DI7 DI1 DI6 IMCM DI3 DI2 ARGN ECDR MEX VENE BOND

Copyright (c) 1996 Dow Jones and Company, Inc.

Received by NewsEDGE/LAN: 7/9/96 5:21 PM

This item appeared on page 10 of the July 8, 1996 issue of

libération (France)

Haïti essoufflé sous pression du FMI

«**N**ous avons été humiliés avec toi. Tu nous connais bien, nous t'avons soutenu. Maintenant tu dois nous aider.» Une dizaine de jeunes hommes apostrophent le président haïtien qui s'est exposé à un bain de foule improvisé à deux pas du Palais national, la semaine dernière, à l'occasion d'un tournoi de mini-foot opposant des équipes de gosses des bidonvilles. René Préal fait face et écoute, muet. A ses côtés, le ministre français de la Coopération, Jacques Godfrain, qui patronnait la manifestation et a donné le coup d'envoi. Puis le cortège repart, tournant le dos aux vociférations. «L'humiliation», évoquée par les protestataires, fait allusion aux conditions posées par la communauté internationale pour poursuivre et accroître son aide à Haïti. Les bailleurs de fonds demandent à Préal, en poste depuis cinq mois, de tailler dans les effectifs d'une administration aussi pléthorique qu'inefficace, et surtout de privatiser les entreprises du secteur public pour en finir avec la gabegie et la corruption. Autrement dit, «Aide-toi et le FMI t'aidera». Le Président l'a promis dans une lettre d'intention signée le 25 mai et il vient de soumettre au vote du Parlement un plan de «modernisation» des entreprises d'Etat. Mais le projet risque de s'enliser dans les manœuvres byzantines de la Chambre des députés, dont une fraction notoire ne veut pas entendre parler.

Rumeurs: Cette opposition interne au Parti Lavalas (avalanche), en principe favorable au Président issu de ses rangs et qui dispose d'une majorité écrasante dans les deux chambres, est encouragée en sous-main par l'ancien chef de l'Etat. Jean-Bertrand Aristide, qui avait bloqué le projet l'an dernier, a ainsi récemment déclaré que la privatisation était «un piège», et qu'elle avait appauvri le peuple dans tous les pays qui s'y étaient résignés. Mais si l'ancien «prêtre des bidonvilles» conserve une forte audience dans le pays, sa popularité est sérieusement écornée par des rumeurs concernant son train de vie et l'accusant d'enrichissement personnel.

La course contre la montre est engagée. Il faut que le dossier soit bouclé avant le 29 juillet, date de la réunion du Conseil d'ad-

ministration de la Banque mondiale qui déblocquera les crédits prévus par le FMI. «Si l'accord n'est pas signé, nous perdons 119 millions de dollars (595 millions de F) maintenant et un milliard (5 milliards de F) sur trois ans», a menacé Préal le 14 juin. Il aurait pu ajouter à cette somme, les 148 millions d'Ecus (910 millions de F) promis par l'Union européenne, sous réserve de l'adoption des réformes promises au FMI. L'enjeu est dramatique. Haïti est déjà sous perfusion de l'aide étrangère qui représente 65% de son très modeste budget (l'équivalent de 2,85 milliards de F). Qu'elle vienne à se tarir, le pays perdrait sa dernière chance de stopper sa course au chaos.

Angoisse. «La misère est dure à supporter!» Dans un entretien à *Libération*, René Préal cherche à calmer le jeu. Il dit comprendre l'angoisse de la population, déjà privée de tout et à laquelle l'Etat est impuissant à répondre, «faute des moyens de satisfaire tout le monde». Mais il se défend de passer sous les fourches caudines du

FMI: «Bailleur de fonds ou pas, nous aurions de toutes façons pris les mesures de modernisation qui s'imposent. Il est heureux que nos efforts coïncident avec les vœux de la communauté internationale.»

Le Président minimise par ailleurs l'opposition aux privatisations: «Une manifestation d'hostilité n'a réuni qu'une centaine de personnes le 1^{er} mai. Je dois avouer qu'une manifestation pro-modernisation n'aurait pas mobilisé davantage. Que signifie la privatisation de l'électricité ou du téléphone pour des gens qui n'ont pas de courant et encore moins de ligne? Songez que 3% seulement des Port-aux-Prinçiens ont accès à l'eau potable.» René Préal s'affirme donc confiant dans le vote final du Parlement.

Coopération. Dans ce contexte, la France a décidé d'apporter un sérieux coup de pouce. Elle a déjà fourni 400 millions de francs d'aide depuis la restauration d'un gouvernement démocratique, en octobre 1994, après que les Américains eurent chassé les militaires putschistes. Jacques Godfrain a signé, jeudi, quatre nouvelles conventions de financement pour un montant de 30 millions de francs, plus une aide humanitaire de 15 millions. Et le ministre a annoncé «une grande relance de la coopération française, qui pourrait atteindre dans trois ans, sous réserve d'une stabilisation de la situation politique et sécuritaire en Haïti, un cours annuel de l'ordre de 500 millions. La France contribue enfin au quart des aides accordées à Haïti par l'Union européenne».

Des sommes qui laissent indifférents Gedeon Gegrice, 24 ans, bachelier depuis deux ans et chômeur de naissance. «Je veux du travail et une bourse», a-t-il lancé à Préal en brandissant son diplôme inutile. La population est d'autant plus découragée qu'elle a encore vu ses pitoyables conditions de vie régresser depuis le retour d'exil, il y a bientôt deux ans, du président Aristide. Un revenu moyen par tête de 1.300 F, 85% des gens vivant sous le seuil de pauvreté absolu, presque autant de chômeurs, 77% d'analphabètes, 13,5% des enfants mourant avant l'âge de 5 ans, une économie sinistrée: telle est l'équation impossible dans laquelle se débattent les autorités. Et, si le psychodrame des privatisations se termine bien, permettant une croissance annuelle de 4% par an (c'est la valeur-cible de la Banque mondiale), les habitants d'Haïti, le plus pauvre pays des Amériques, ne retrouveront qu'en l'an 2014, leur niveau de vie de 1991.

HAITI GASPS FOR AIR FROM IMF SUFFOCATION

The World Bank has demanded privatization in Haiti in return for aid, reports *Libération* (7/8, p. 10). If Haiti does not manage to make reforms by July 29, when the World Bank will decide on a credit approval, Haiti will lose \$119 million as well as \$182 million promised by the EU. Meanwhile, the story adds that former Haitian President Jean-Bertrand Aristide continues to block privatization projects and the public are protesting the unemployment believed to be caused from privatization.

This item appeared on page 58 of the July 6, 1996 issue of

The Economist (UK)

The IMF's Chinese dilemma

IN AUTUMN 1997, the International Monetary Fund and the World Bank are due to hold their annual meeting in Hong Kong, which by that time will be part of China. But if some IMF staff members get their way, the Fund may decide to meet somewhere else, in protest at recent Chinese actions.

The issue causing ructions at the IMF is China's arrest and imprisonment of a member of the Fund's staff, Hong Yang. Mr Hong was arrested while on an IMF mission to Beijing last December and charged with corruption in his previous job at China's central bank. Last week he was sentenced to 11 years in prison.

The conviction of a corrupt official would not always be a cause for protest. The problem is that many people at the IMF are convinced of Mr Hong's innocence. Press releases put out by junior members of the Fund's staff suggest that Mr Hong was framed by corrupt officials

at China's central bank. The day after his sentence was announced, around 400 members of the Fund's Washington staff of 2,400 or so held a silent vigil in the atrium of the IMF headquarters, to protest at the sentence and to press for a firm reaction from the Fund.

Senior managers at the Fund have expressed no public view about Mr Hong's guilt or innocence. But they have voiced disquiet about the way his trial was conducted and about "shortcomings and questions regarding the evidence". They are also clearly irked by the manner in which the IMF was misled by China, in an effort to ensnare Mr Hong. Mr Hong, who had been working on matters unrelated to China, was placed on the mission to Beijing at the special request of the Chinese authorities.

Much of the anger at the lower levels of the IMF is now directed not just at China, but at the Fund's senior managers,

who are accused of adopting a supine approach toward the Chinese. In particular, the decision to continue with the Fund's mission to Beijing—even after one of its members had been arrested—has been heavily criticised. After the arrest, the Fund adopted a "softly, softly" approach, arguing that an open confrontation with China could only harm Mr Hong's interests. Critics of this approach argued that the management's real concern was simply to avoid a public clash with an increasingly powerful China.

Now that Mr Hong has received a heavy sentence, the IMF management is once again under pressure to react firmly. Michel Camdessus, the IMF's managing director, has assured his staff that the Fund's executive board is considering "further actions". But moving the IMF's annual meeting is not a decision that the Fund alone can take. Fund spokesmen are quick to point out that such a decision could be made only by the finance ministers and central bankers on the IMF's board of governors.

IMF not moving 1997 meeting from Hong Kong -HKMA

HONG KONG, July 6 (Reuter) - The International Monetary Fund (IMF) does not plan to switch the venue of the 1997 IMF/World Bank annual meeting out of Hong Kong, which will be under the Chinese flag by that time, the territory said on Saturday.

Commenting on press reports speculating on a possible change of location for the conference, the Hong Kong Monetary Authority (HKMA) said it had received confirmation from the IMF that no change was being considered.

The HKMA said in a statement the suggestion of a change of venue came from certain IMF staff in protest at the imprisonment of an IMF employee by the Chinese authorities.

The proposal did not come from IMF management, it said. The Hong Kong government was confident the meeting would go ahead as planned in September next year.

Britain hands Hong Kong back to China at midnight on June 30 next year, ending a century and a half of colonial rule.

The World Bank/IMF gathering would be a showcase event for Beijing, the first time that China has hosted such a high profile international financial conference.

A week ago the IMF voiced concern about China's imprisonment of a member of the IMF's staff, Yang Hong, and said it would support any appeal against the verdict.

Arrested on corruption charges while on an IMF mission to China last December, Yang, a Chinese national who had worked for the IMF in Washington, was jailed for 10 years in Beijing on June 28, according to sources in the Chinese capital.

-- Hong Kong News Room (852) 2843 6441

^REUTER@
Reut02:53 07-06-96

REULBviaNewsEDGE

KEYWORDS: HONGKONG-CHINA-IMF
Copyright (c) 1996 Reuters
Received by NewsEDGE/LAN: 7/6/96 3:02 AM

July 4, 1996

The Japan Times (p.13)

AGENCY HEAD QUESTIONS SENTENCING

China jails IMF worker for 11 years

WASHINGTON (AP) The head of the International Monetary Fund is questioning the sentencing in Beijing Friday of a Chinese employee of the IMF arrested while on a mission for the international agency.

Officials are accusing China of luring Hong Yang back to China from the agency's Washington headquarters by insisting that he join a mission to consult on the country's economy. They've also questioned the way his case was handled and the evidence against him.

Hong was sentenced to 11 years in prison for allegedly taking a \$12,000 bribe while he worked for the Chinese state bank in 1993, the IMF learned

on Friday.

"Our concerns relate to . . . the authorities' pressure to put Mr. Hong on the China consultation mission, and . . . shortcomings in the procedures both before and during the trial and shortcomings and questions regarding the evidence against Mr. Hong," said Michel Camdessus, IMF managing director.

He said the IMF filed two written petitions with the Beijing court to spell out concerns about the legal process.

Camdessus made his views known in a message to IMF staff from Lyon, France, where he attended the Group of Seven economic summit last week.

The IMF Staff Association, representing IMF employees, said Tuesday that China's action violated standards for members of the international lending agency. China is one of the fund's 180 members.

Hong allegedly took the bribe while working for the People's Bank of China, before accepting a one-year contract to work for the IMF.

Camdessus, in the message, said the fund had left senior Chinese officials in no doubt about the concerns.

The consultation mission was sent from Washington to Beijing to review China's economic situation, a routine group similar to those sent to all member countries.

Painting — Total

Curtain

ESSELTE

57705

MADE IN U.S.A.



0 78787 57705 3

Amberg®

Breakfast Meeting: Mr. Camdessus

Wednesday, September 4, 1996

8:30 - 9:30 am

JDW Private Dining Room

b2

we must put the foot - they must act -

Wed Mar 6, 1996

- 8:00a - 8:10a ◦ IN TRANSIT: DRIVE FROM HOME TO WORLD BANK
- 8:30a - 9:30a ◦ **BREAKFAST: CAMDESSUS MEETING (B)** (Confirmed)
 - Venue: IMF (Mr. Camdessus' dining room)
 - Contact: Elfried Archer @ 623-4600
 - EXC: ATSUKO
- 9:30a - 11:00a ◦ **EXECUTIVE MANAGEMENT GROUP MEETING (B)**
 - Venue: E1227 (Conf. Rm.)
 - In attendance: JDW, MDs, Shihata, Zhang, Bruno, MMB, Lomax, Lindbaek, IIDA, Strong
 - EXC: RACHEL
- 1:00a - 12:30p ◦ **DEC: COUNTRY PERFORMANCE INDICATORS "JAM SESSION" (N)**
 - VENUE: E1227 (CONF. RM.)
 - CONTACT: DEBORAH WETZEL @ 31698
 - IN ATTENDANCE: JDW, BRUNO, BRIAN WILSON, MARK BAIRD, ANANDARUP RAY, DEBBIE WETZEL, DAVID DOLLAR, SHAIDA BADIEE, JOHN WILTON, LOMAX, JOSIE
 - EXC: JOSIE
- 12:45p - 1:00p ◦ **MR. COCK-LONDONO (CONFIRMED)**
 - VENUE: E1227 (OFFICE)
 - CONTACT: MARY LOU @ 80092
 - IN ATTENDANCE: JDW, COCK-LONDONO
 - EXC: RACHEL
- 1:00p - 2:00p ◦ **LUNCH: SECRETARY DAN GLICKMAN, DEPT. OF AGRICULTURE (N) (B) (TOTAL: 8)**
 - VENUE: JDW's private dining room
 - CONTACT: DENISE @ 720-2594 / FAX: 720-5042
 - In attendance: JDW, SECRETARY GLIKCMAN & MR. GUS SHUMACHER, UNDERSECRETARY, FOREIGN AGRICULTURAL SERVICE , **McCalla, Binswanger, Piercy, McHugh, Josie**
 - ** JDW REQUESTED THAT THIS BE ARRANGED **
 - (B) McCalla to provide briefing
 - 2/26 - CIHAT
 - EXC: JOSIE
- 2:15p - 5:00p ◦ **CHANGE MANAGEMENT GROUP MEETING W/ CMG (N)**
 - VENUE: E1227 (CONF. RM.)
 - CONTACT: NGOZI @ 32888
 - IN ATTENDANCE: JDW, LOMAX, EMG & CMG
 - NOTICE/ARRANGEMENTS: BY NGOZI OKONJO-IWEALA (KAJI/KOCH-WESER) 3/5
 - EXC: RACHEL LOMAX
- 5:30p - 6:00p ◦ **MR. LUIS HAZA, MUSICAL DIRECTOR, NSO, AMERICAN YOUTH PHILHARMONIC & Co. // PHOTO OP // GIFT PRESENTATION (Confirmed)**
 - VENUE: E1227 (OFFICE)
 - CONTACT: MR. LUIS HAZA @ 703-917-8680 // FAX: 703-917-9622
 - IN ATTENDANCE: **MR. HAZA, MS. SUE OVERSLAUGH, EXEC. DIRECTOR OF THE NORTHERN VIRGINIA YOUTH SYMPHONY ASSOCIATION (NVYSA), AND MS. SHERYL RICHARDSON, PRESIDENT OF BOARD OF DIRECTORS, NVYSA**
 - **NOTE: NORTHERN VIRGINIA YOUTH SYMPHONY ASSOCIATION IS THE PARENT ORGANIZATION OF THE AMERICAN YOUTH PHILHARMONIC**
 - **MR. HAZA WILL PRESENT JDW WITH A GIFT
 - ** PHOTOGRAPHER WILL BE ON HAND TO TAKE PHOTO OF PRESENTATION **
 - 2/28: CFMD. BY FAX (ALI) // 2/27: PHOTOGRAPHER CFMD. BY JDW W/ JANE
 - **PERSONAL **
- 6:00p - 6:30p ◦ **RACHEL LOMAX**
 - VENUE: E1227 (OFFICE)
- 8:00p - 8:30p ◦ **??? IN TRANSIT: DRIVE TO KALORAMA RESIDENCE -- TIME TO BE CONFIRMED ???**

URGENT*→ Shud to A. Ray.*

February 27, 1996

Mr. Selowsky

Marcelo:

Re: Russia: Briefing for Camdessus-Wolfensohn breakfast

Although I had initially thought that there were no outstanding issues for discussion at the March 6 breakfast between Messrs. Camdessus and Wolfensohn on Russia, it subsequently occurred to me that the MD may press the President on the issue of Bank lending in support of economic reform in the light of the large EFF program.

The attached brief is addressed to that issue. Although he has not seen it, Yukon has approved its contents in principle. I understand you are coordinating this process with DEC which is putting together the Bankwide brief for the breakfast by cob today.

Pradeep
Pradeep

cc: Mr. Huang

RUSSIA: Briefing for Mr. Wolfensohn's breakfast with Mr. Camdessus
March 6, 1996

Key Messages

- **Bank-Fund Collaboration.** There has been close collaboration between the IMF and the Bank in preparing the three-year \$10.2 billion Extended Fund Facility (EFF), the negotiations on which were recently concluded in Moscow. Bank staff helped develop the agenda of wide-ranging structural reforms in the program and will be called upon to help monitor progress jointly with the IMF.
- **Bank Lending in the light of the EFF.** Given the Fund's willingness to commit one of the largest programs in its history at this juncture in Russia, Mr. Camdessus may ask about the Bank's intentions in accelerating fast-disbursing lending in support of the Government's reform program. The Bank is working on three sector adjustment loans—in coal, agriculture and the social sectors (\$500 million each)—which the Government had requested be "fast-tracked" during your visit to Russia. However, in your communications, you have made clear to the Government that our ability to process these loans will be tied to the pace of policy reform. In response to Mr. Chernomyrdin's request to you, and an encouraging beginning to the dialogue, we are working to process the coal SECAL expeditiously and hope to present it to our Board this fiscal year *provided the Government undertakes the necessary reforms*. Progress on the social SECAL and the agriculture SECAL has however been slow due to the Government's inability to forge an internal consensus on the necessary reform program.

1. **Bank-Fund Collaboration.** Bank and Fund teams have worked closely on Russia in the preparation of the EFF program. The Bank has participated in Fund missions and our staff have developed an agenda of structural reforms in areas such as privatization and restructuring, banking, inter-governmental fiscal relations, trade reform, social safety net, tax administration, agriculture and the coal sector. The Bank has also worked with the Fund to develop procedures for monitoring the program and participated in negotiations with the authorities. The EFF will provide a potentially important avenue for continued dialogue on structural policies.

2. **Bank Lending in parallel with the EFF.** Fund management has expressed to our management the view that fast-disbursing Bank lending in support of the structural reforms articulated in the EFF would be desirable. As you know, Prime Minister Chernomyrdin recently confirmed to you the Government's strong interest in the coal SECAL. This was subsequently reconfirmed by first Deputy Prime Minister Kadannikov to Mr. Linn during the occasion of the latter's recent visit to Russia. We are working to process the coal SECAL as expeditiously as possible and would hope to present it to our Board this fiscal year *provided the Government undertakes the necessary reforms*. We do not, however, expect that the social and agriculture SECALs can be processed as rapidly. In order to help develop a consensus on the reform program in the social sectors, the Government is in the process of establishing a steering committee and working group for this operation and is preparing a response to a concept paper prepared by the Bank. We have informed the Government that we would send a preparation mission only when these steps are taken. Finally, while the Government recognizes the importance of addressing the major problems in the agriculture sector, it does not currently appear to be in a position to undertake the necessary policy reforms. Given the importance of these sectors, we plan however to continue working with the Government on these operations and if agreement can be reached, they could complement the EFF during the latter years of what is a three-year program.

OFFICE MEMORANDUM

DATE: February 29, 1996

TO: Ms. Atsuko Horiguchi, EXC

FROM: Anandarup Ray, DECV 

EXTENSION: 31443

SUBJECT: Camdessus Breakfast: March 6

1. We propose the attached Russia issues for the breakfast on March 6. I have requested Mr. Mitra to send you clean copies.
2. Mr. Walton may send us a brief on Indonesia by Friday. We will decide at that time whether it should also be included.

cc: Mr. Baird, Ms. Salop

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

DATE: 05-Sep-1996 10:34am

TO: MARK BAIRD (MARK BAIRD @A1@WBHQB)
TO: ANANDARUP RAY (ANANDARUP RAY @A1@WBHQB)

FROM: Atsuko Horiguchi, EXC (ATSUKO HORIGUCHI)

EXT.: 84256

SUBJECT: Briefs for Wolfensohn/Camdessus Breakfasts

Mark/Anandarup

* Thanks for your EMs. I will de-brief you on these breakfasts whenever JDW de-briefs us!

* I just saw Anandarup's EM requesting briefs for the next breakfast. I'm wondering if -- given the evolving nature of some of our borrower countries -- a week in advance as deadline isn't too far away from their actual meeting. Just a thought, since we've experienced people rushing in with last minute inputs (Bulgaria earlier in summer, Bosnia last time).

* Just a reminder, MC and JDW will see each other on the Sunday before in NY (15th) with BBG and RR, for which we've requested briefs already. WTO, Joint Declaration for Africa (Alan Winters' EM of August 30), G7 Communique, etc. can be taken up here.

* On briefs for JDW, we sent all VPs guidelines (prepared by Josie and Geoff in our office) a while back, but perhaps they weren't widely distributed? I'll ask Wendy to forward you copies.

* There is no definitive format since each meeting differs in nature. For these breakfasts, a 1-2 page cover note from one of you (Mark, Masood, Anandarup) summarizing major issues, backed up by 1 page on each country is plenty. Please include Country-at-a-Glance for each country, as well as short-term risk reports (Brian Wilson/John Wilton) as appropriate for countries under watch.

Thanks and all the best

Atsuko

CC: MASOOD AHMED (MASOOD AHMED @A1@WBHQB)
CC: Wendy Plumley (WENDY PLUMLEY)

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

DATE: 04-Sep-1996 04:50pm EST

TO: Atsuko Horiguchi (ATSUKO HORIGUCHI@A1@WBWASH)

FROM: Anandarup Ray, DECVF (ANANDARUP RAY@A1@WBHQB)

EXT.: 31443

SUBJECT: RE: Wolfensohn/Camdessus Breakfast, September 4, 1996

Atsuko:

Many thanks for the debrief. We hope that such debriefs will be routinely available in future.

One remark about Bosnia. I was reluctant to send up the last-minute note from ECA because our Fund counterparts had already informed me that Bosnia was not going to be an issue. The Fund's brief for MC included a para updating MC on the situation, but no issues were proposed for discussion. Christine was misinformed by the Area Department concerned, ie that Department's suggestion got filtered out in PDR.

We would appreciate any good examples of formats that you may have from previous times so that we can elicit better-written briefs.

Regards

Ananda

OFFICE MEMORANDUM

DATE: August 28, 1996

TO: Ms. Atsuko Horiguchi, EXC

FROM: Mark Baird, DECVF

TENSION: 31666

SUBJECT: Camdessus-Wolfensohn Breakfast, September 4

JBW • Your last breakfast w/ Mr Camdessus was on 19 July.

• Your Wyoming weekend w/ MC + BBG, scheduled for 26-28 July, was cancelled.

• You, Mr Camdessus & Mr Ruggiero will meet at Mr Bouros-Ghali's residence on 15 Sept for half day session. Oh

PS Mr Camdessus just returned from a month in Bramitz.

For the breakfast meeting please find an agenda suggestion and three potential issues that may arise:

- Argentina. Attached is a suggestion from the LAC Region. The bottom line is a proposal to set up "a joint Fund-Bank task force that looks at the best way to support Argentina with a medium-term view". (para 12).
- Russia. Attached is an em from the ECA Region providing a brief on the scope and pace of structural reforms in Russia and the collaboration between the Bank and the Fund in support of such reforms. These issues may be brought up at the meeting.
- ← Multilateral Debt. A separate briefing is being prepared for Mr. Wolfensohn on this by Nawal Kamel. It will report on last week's discussions with donors and the Paris Club. This will be cleared with Sven Sandstrom and sent through him. ~~There are no specific issues to raise at the breakfast.~~ →
Bulgaria: only if Mr Camdessus raises it.
- WTO.

Mr Camdessus is undecided re: his attendance.

Mr. Wolfensohn may care to inform Mr. Camdessus that he is not attending the WTO Singapore Ministerial meeting* due to other constraints on his time. Mr. Kaji will represent the Bank in Singapore. *mid-Dec It clashes w/ MDB Presidents' mtg in London (hosted by J de Larosière)

- * The Bank WTO and Fund WTO Cooperation agreements will probably be ready for signature before the Singapore meeting. We should know by mid-October, and Mr. Ruggiero will undoubtedly refer to these in his remarks in Singapore. A signing ceremony, however, could easily be arranged in Washington for a later date.

- * Mr. Ruggiero will be attending the Development Committee meeting on September 30. He has been invited by the Chairman to address part one of the restricted session (from 10:00 to 10:30) on the prospects for the WTO's First Ministerial Meeting, including implications for

developing countries. He may provide a background note for his intervention.

Attachments

cc: Ms. Salop, Mr. Ray.

August 26, 1996

ARGENTINA POST-CAVALLO ERA

1. A month has passed since Mr. Cavallo left the Ministry of Economy, on July 26. The transition to a new minister was much smoother than feared in domestic and international markets. This is a testament both to President Menem's political skills in orchestrating the initial transition, and Minister R. Fernandez' perceived credentials to sustain the Convertibility Plan.
2. With Minister Fernandez at the helm, it became public that the fiscal deficit Argentina is facing this year will be much higher than Minister Cavallo had suggested. From an IMF-targeted \$2.5 billion fiscal deficit for 1996, Mr. Fernandez predicted that Argentina, would have a deficit of \$6.6 billion (including some trust funds which makes the comparison not exactly equivalent). Minister Fernandez set out to address the fiscal problem by announcing a new package of fiscal measures focused mostly on higher taxes and little on spending cuts. Hastily put together, the package, which requires Congressional approval, satisfied few. The financial markets reacted negatively, as did the labor unions and the industrialists. It became evident that the new economic team will need to work harder to reestablish its tarnished credibility.
3. Last week an IMF mission arrived in Buenos Aires to address non-compliance with their ongoing program and to negotiate new fiscal targets for the remainder of the year and 1997. The Bank has worked closely with the Fund towards the preparation of their mission, and recommended to the Fund and the Government, via a letter from the LA1 Director, Mr. Nankani to Minister Fernandez the day the package was announced, that to reestablish credibility, the economic team, in addressing the fiscal issue, will need to address as well the pending structural reform agenda.
4. An important development last week, was the initiation of a process to establish a swap arrangement with commercial banks, in order to deal with the thorny problem of absence of lender of last resort to the banking system in a financial crisis. In an auction, the Central Bank received offers from 13 banks for a total of over \$6 billion. The Central Bank has started discussion with the Argentine private banks that will have to fund the scheme before deciding on the amount of the package and selection of offers. Nevertheless, this important development was sidetracked by news that the fiscal package's discussion in Congress may be delayed until October, reducing its impact for 1996.

Financial Markets Reaction

5. **International Reserves.** Between July 26 and August 20, international reserves have reportedly increased by \$538 million, out of an outstanding balance of \$19.4 billion.

6. **Banking System.** There are signs of further dollarization of the financial system. Approximately 10 percent of maturing peso term deposits over the above period, were transferred to dollar deposits. While overall deposits between July 26 and August 12 declined by 1.6 percent, dollar deposits grew. Differentiating between public and private deposits, overall private deposits actually increased by \$300 million.

7. **Interest Rates.** The main impact of the change so far (to 8/12/96) has been on interest rates. Interbank interest rates and prime lending rates have increased since the change in ministers. The peso rate increase has been about 310 basis points for interbank rates, and about 120 basis points for the prime lending rate.

8. **Exchange Rate Risk.** Peso interest rates have risen more than dollar rates, reflecting a higher perceived exchange rate risk. That perceived risk was nearly non-existent in the interbank market before the change, but has increased significantly since. Interbank perceived exchange rate risk rose from nil on July 25, to 220 basis points on August 12.

9. **Country Risk.** There have not been significant changes in the country risk, although there have been fluctuations. The yield on Argentina's FRB bonds on July 25 was 8.43 percent, and on August 23 was 8.20 percent.

10. **Stock and Bond Markets.** The stock market has also gyrated with events, losing some ground following the announcement of fiscal package, on the fear that it would prove to be recessionary. The Merval index stood at 541 on July 24, and at 500 on August 26. Peso bond yields increased, with 90-day LETES yields rising from 7.4 percent on average in July, to 9.9 percent on August 22.

Comments and Recommendation

11. Despite a better than anticipated transition, the new economic team is yet to establish its credentials in a convincing way. Therefore, it will be prudent to put Argentina on a watch list (Category II country), until greater clarity in economic management is established. A new and more credible program with the IMF (backed by Congressional approval of a core fiscal package), and renewed emphasis on structural reforms (in labor markets, capital markets, state reform and provincial reforms) could strengthen the credibility of the new team. The next two months would be critical for regaining the lost initiative.

12. In the medium term, once transition difficulties are overcome, Argentina could still face some volatility in capital flows, until structural reforms have been substantially completed. Such volatility would put intermittent stress on Argentina's currency board mechanism. Thus, it could be useful to set a joint Fund-Bank task force that looks at the best way to support Argentina with a medium-term view. Argentina's stability is just too important from a regional point of view and the questions posed by the currency board scheme are complex enough to warrant a deeper and fresher look at its specificity.

Russia

World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: August 28, 1996 12:50pm

TO: Marcelo Selowsky (MARCELO SELOWSKY@A1@WBWASH)

FROM: Costas Michalopoulos, EC3DR (COSTAS MICHALOPOULOS@A1@WBWASH)

EXT.: 32410

SUBJECT: JDW/Camdessus Breakfast - Russian: Structural Reforms

The scope and pace of structural reforms in Russia and the collaboration between Bank and the Fund in support of such reforms may be brought up at the breakfast meeting. While there are no issues that need to be resolved between the two institutions, the MD may wish to enlist your support for a greater effort by the Bank in support of such reforms much as Vice President Gore did earlier this month. Such a message was conveyed by many IMF ED's during the IMF Board's approval of the July drawing under the EFF last week.

Key Messages

The Record of Reform and Future Prospects. In the run-up to the elections, progress on structural reforms was spotty. The government moved to address issues in some areas e.g., the coal (based on which we made a policy based loan) but let others languish-- e.g. privatization. The Bank is prepared to play an increased role, provided the government is committed to the implementation of reforms. Discussions with the new Government undertaken in the context of the most recent review of the IMF's EFF program this past week (with the participation of World Bank staff) indicate a commitment of the new team to implement most of the undertakings made earlier on a delayed schedule. But there are some concerns about continued lags in implementation of regulation of monopolies and improvements in the budgetary system.

Bank-Fund Collaboration. The relationship has been excellent. The main focus has been the review and future progress of structural reforms in the context of the EFF. Its main operational focus in the next few weeks will be in joint work in support of banking reform. The World Bank, in response to a request by the Government is sending a large diagnostic mission in September (with IMF staff participation); the mission will also participate in an IMF organized conference on technical assistance in Banking to be held in Moscow in mid-September.

Bank Lending in Support of Structural Reforms. We continue our plans to focus in five priority areas (noted in your discussion with Vice- President Gore): Social Protection and Financial Sector--in which sector adjustment operations are at various stages of preparation for implementation FY97-- Fiscal

management (especially the expenditure side), Private sector development and Agriculture, where our programs are less well developed.

CC: ANANDARUP RAY
CC: Richard Westin
CC: Yukon Huang

(ANANDARUP RAY@A1@WBHQB)
(RICHARD WESTIN@A1@WBWASH)
(YUKON HUANG@A1@WBWASH)

HIPC DEBT INITIATIVE Delivering the Program of Action

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

I. Refining the April Framework

Progress has been tangible. We have been working closely with the Fund to develop the Program of Action for consideration by Ministers at the Development Committee meeting September 30th. We have further developed the key building blocks, reflecting suggestions made by the Boards of the two institutions, as well as external commentators, including creditors, prospective donors and NGOs.

- *A joint Bank/Fund paper has been distributed to the Boards of the two institutions earlier this week, providing a comprehensive description of how the process for implementing the HIPC Debt Initiative would work. In addition, a companion paper was distributed to our Board, which further describes the instruments of the Bank's participation in the Initiative. For its part, the Fund's companion paper on financing a continuation of ESAF reflects progress in the Fund's participation through special ESAF operations in the form of escrowed loans or grants to cover principal payments on debt owed to the Fund. These three papers are attached to this brief, and their main highlights summarized below.*

front
packet

Beyond the April proposal. As reflected in the attached Board papers, five refinements are being proposed to the April Framework:

(i) Commitments are based on real outcomes, rather than projections. We have clarified that the commitments to provide debt relief under this Initiative, so as to reduce debt to a sustainable level, is based on real outcomes, rather than projections. In this regard, two refinements were introduced in the design of the framework -- in terms of country eligibility, and in terms of the amount of debt relief extended to a beneficiary:

- **Eligibility of "borderline cases".** Countries which seem to be "borderline" cases for eligibility based on projections, would still be given the option to participate in the Initiative. Such countries could now request to defer the Paris Club stock-of-debt operation to the Completion point, and enter into the second stage of the Initiative. The country might, therefore, benefit from enhanced assistance from some multilaterals during this second stage. It would also benefit from enhanced assistance at the Completion point, if it turned out that, based on real outcomes, such assistance were indeed needed to achieve debt sustainability.
- **Amount of Debt Relief.** The committed amount of debt relief, based on projections, would be adjusted at the Completion point, to reflect real outcomes. In this regard, when a debtor's situation turns out to be worse than expected, creditors would be expected to increase their support to the country, so as to enable it to reach debt sustainability. Conversely, if the situation were better than expected, the amount of debt relief would be reduced, if this was primarily due to factors beyond the country's control, rather than its own improved policy performance.

WBG ARCHIVES

(ii) **The “3+3” performance period.** Greater flexibility is now envisaged in the required six-year performance period. It is now clear that countries which have already embarked on Bank/Fund programs would be considered to be already engaged in the first stage of the Initiative, and some would even be considered to have reached the Decision point. In addition, countries which have gone off-track in their first adjustment program may now be able to receive credit for earlier good performance.

(iii) **Social conditionality.** Performance criteria to be monitored under the Initiative would include specific “social criteria” to be monitored by the Bank. These would be the key structural and social development criteria already identified by the Bank under the CAS and the PFP. They would be selected according to their effect on reducing poverty, including especially actions to improve basic health care and education. Bank Board approval of these social criteria would be sought as part of a “Bank HIPC Report”, to be reviewed on an annual basis while monitoring performance under the HIPC Debt Initiative.

(iv) **The HIPC Trust Fund.** The proposed HIPC Trust Fund has been further developed as a key instrument to deliver the debt relief to be provided at the completion point by participating multilateral development banks (MDBs). Based on recent discussions with key MDBs in Paris, we will be ready to submit to the Board a proposal to establish the HIPC Trust Fund shortly after the Development Committee meeting.

- *A meeting of key MDBs potentially involved in the HIPC Debt Initiative took place in Paris last week. The meeting was a great success, with thirteen out of sixteen invited MDBs attending, holding more than 95 percent of MDBs’ claims on potentially eligible countries. Participants welcomed the Bank/Fund leadership in addressing the debt problem of poor countries, expressed broad support to the HIPC Debt Initiative and the envisaged program of action for its implementation. They also expressed great appreciation of the collaborative approach adopted by the Bank, including the opportunity to comment on the draft paper on the Bank’s participation to the Initiative and the design of the HIPC Trust Fund. Several MDBs intend to recommend formal endorsement by their institution in the coming weeks (including the Asian Development Bank, the Inter-American Development Bank, and the African Development Bank). Participants were also broadly comfortable with the basic design of the HIPC Trust Fund, and some have expressed interest in participating in it, although it was too early to make commitments in terms of financial contributions.*

(v) **IMF’s participation in the Initiative.** The IMF’s participation to the HIPC Debt Initiative has further been refined. They are now considering the use of special ESAF operations, either in the form of grants or loans (or a combination of both) for their contribution to debt relief at completion points. On the issue of ESAF funding, including for the HIPC Initiative, the Board paper circulated recently proposes, once more, the combination of three sources: investment income from profits from gold sales of up to 5 million ounces (5 percent of IMF’s gold); bilateral contributions from donors; and the use of resources from the reserve account of the ESAF. Income from gold sales would provide up to SDR1.3 billion of the overall SDR2.5 billion needed to finance a self-sustained ESAF.

II. The Paris Club Secretariat: the Stumbling Block

France's political support for the Initiative. The Lyon Summit has endorsed the objective of an "exit" strategy from unsustainable debt for HIPC's, and has urged the Paris Club to go "beyond the Naples terms" in the context of this Initiative. President Chirac, in his closing remarks, referred to the new "Lyon terms" as a major accomplishment of the Summit. France has thus a particular political stake to deliver the success of the "Lyon terms". Mr. Chirac is reportedly personally committed to this objective, as part of his announced "development agenda", as well as his role in leading the G7 at Lyon.

- *Sven has recently met in Paris Mr. Cirelli, Economic Adviser to Mr. Chirac, who has been closely involved in shaping the G7 communiqué -- including the reference to "going beyond the Naples terms". Mr. Cirelli confirmed France's support to the Initiative, and its commitment, as indicated in Chirac's follow-up letter to you, to "reaching a concrete solution by the autumn on alleviating the debt burdens of the poorest, most indebted countries".*

The Paris Club Secretariat does not support the Initiative. Given France's visible political commitment, we had hoped that the Paris Club Secretariat could play a key role in helping build a consensus amongst Paris Club creditors in dealing with HIPC debt. In fact, French officials at the Paris Club Secretariat are not supportive of the Initiative, reflecting lower-level bureaucratic jurisdictional attitude (e.g. Lyon's follow-up was not put on the agenda of the last Paris Club meeting in July, and there are no plans in sight to do this at the next regular meeting on September 23rd). In fact, it is now clear that the Secretariat is more likely to be a stumbling block, rather than a catalyst for any Paris Club decision on a new treatment of HIPC debt beyond Naples terms. In effect, they are not able to separate their role of chair of the Paris Club from their position as the French Treasury.

- *The position of Paris Club Secretariat towards the Initiative became clear at the meeting held in Paris last week (which Sven attended) with key officials from the Secretariat (including the co-president of the Paris Club, Mr. Francis Mayer). The attitude of the French officials was very unhelpful, and their views clearly demonstrated disagreement on the basic principles underlying the Initiative:*
- ⇒ *On the key target of debt sustainability. They do not accept the very basic objective of targeting debt sustainability. They prefer the current approach based on providing the debtor with "some" relief, taking into account available resources, rather than needed relief to achieve debt sustainability.*
- ⇒ *On the comprehensiveness of the approach. They feel that bilaterals have been doing their part, and the only novelty in the Initiative is that multilaterals now agree to participate in the provision of debt relief. They argued that there could be no agreement within the Paris Club to provide deeper debt relief-- say 80 percent -- as the Bank and Fund should first do more.*

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

- ⇒ *On burden sharing amongst creditors. They argue that the Paris Club has gone far enough with 67 percent of eligible debt, and now is the time for multilaterals to go as far as they can. In this regard, they would like to see how the ESAF discussion will evolve and how the IMF will be able to contribute; how exactly the Bank will participate, and whether other MDBs will follow. In their opinion, multilateral creditors should aim at "maximizing" their own contributions.*
- ⇒ *On the timeframe for the Initiative. They pointed out that agreement within the Paris Club has to follow its own pace, and takes months to reach -- implying that, in any case, they could not be ready for a decision in time for the Development Committee meeting in September. Likewise, they do not envisage participation of the Paris Club in treating the first candidate (Uganda) on our expected timeframe by the end of the year.*

Bottom line bureaucratic concern of the Paris Club Secretariat. Lower-level French officials at the Secretariat are resisting a framework that runs the risk of eroding their power. Indeed, under the current approach, the Secretariat has a key role in determining the amount of debt relief to be provided to a debtor country. Although the Secretariat relies on advice from the Fund during rescheduling sessions, and tolerates the Bank as an observer on a selective basis, it has the key role in negotiating the amount of debt relief deemed "sufficient" for a country to be able to fully finance its adjustment program. By contrast, the proposed framework under the Initiative envisages that the amount of debt relief be determined on the basis of a debt sustainability analysis, conducted by the Bank and the Fund, and agreed by the debtor country. This would then form the basis for action by all creditors, including the Paris Club. The Secretariat may thus fear that the center of negotiations regarding debt relief for these countries could effectively shift from Paris to Washington.

III. Breaking the Bureaucratic Deadlock

Decision on "principles" is needed from Paris Club creditors -- before the Annual meetings. In order to deliver the program of action for the Development Committee, Paris Club creditors would need, at a minimum, to match the type of commitment already made by the Bank, the Fund, and expected from other multilateral development banks -- namely that they would cover their proportionate share of the burden. Specifically, this requires Paris Club creditors to:

- Endorse the overall objective to target debt sustainability for HIPC.
- Agree that, within this framework, they would be willing to go beyond the current Naples terms, on a case by case basis, so as to deliver their *proportionate share* of the additional debt relief needed, beyond current mechanisms, for these countries to reach debt sustainability.

Paris Club menu options could be determined at a later stage -- after the Annual meetings.

Delivery of such relief from Paris Club creditors could be based on a menu of options involving *deepening* the debt relief beyond 67 percent, as well as *broadening* the current basis to which this relief is applicable. Such a menu of options, implemented on a case by case basis, could be developed at a later stage, after endorsement of the program of action by the Development Committee.

A Two-track Strategy to move ahead. In order to bring along the Paris Club, we need to act swiftly, at the highest level, on two fronts:

- (i) *Convince France to take the lead.* Given France's political commitment, it should be natural to expect that it takes the lead in delivering the "Lyon terms". We should be able to build on this political support for the Initiative to help bring along France's Treasury officials (in particular the Paris Club Secretariat), still dithering about debt relief in the form proposed.
 - (ii) *Persuade key Paris Club creditors (in particular G7) to act within the Paris Club.* We should also aim at enlarging action beyond the French, and seek active participation of some key Paris Club creditors in building consensus within the Paris Club. They need to be alerted to the fact that their active involvement is needed, if the Initiative is to succeed. We understand that pressure is already building on the Secretariat (e.g. from Germans and Nordics) to call a special meeting of the Paris Club to discuss follow-up of Lyon. Also the Secretariat is currently drafting a response to the letter from Minister Maystadt to Christian Noyer, president of the Paris Club.
- ⇒ *Until recently, some have been reluctant to take action within the Paris Club in the absence of a settlement of the gold issue for ESAF financing. The Fund's own position seems to have shifted recently in this regard. It has now become clearer that Camdessus accepts that the IMF is committed to making its fair contribution to the Initiative when required, regardless of the state of the negotiations on gold sales or on new contributions to financing a self-sustained ESAF. While Camdessus would not like to say so too loudly in public, the Fund's representative at the MDBs meeting in Paris last week made a statement clearly based on this "new" position.*

IV. Swift Action Needed

Board Decisions in the run-up to the Development Committee meeting. A Board meeting September 10th is to consider the elaboration of key features and procedural steps of the HIPC Debt Initiative, as well as the Bank's participation in the Initiative. The IMF, for its part, has scheduled a Board meeting on September 11th, to discuss the HIPC Debt Initiative, along with ESAF Financing and Modalities. Immediately following these two Board meetings, a joint Bank/Fund summary paper for the Interim/Development Committees will be issued for Bank's Board consideration in a Committee of the Whole on September 17th (and Fund's Board consideration on September 18th).

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

- *The September 10th Bank Board meeting will consider both the joint Bank/Fund paper elaborating on the HIPC Debt Initiative and describing the key features and proposed procedural steps for its implementation. It will also consider a companion paper further describing the instruments for the Bank's contribution to the Initiative, including the Trust Fund. Likewise, the September 11th IMF Board meeting will discuss the joint Bank/Fund paper, along with a companion paper on Financing of ESAF and the Fund's participation in the HIPC Debt Initiative. All three papers are attached to this briefing.*

Action needed at the highest political level to bring along the Paris Club. Your personal involvement is now needed to break the deadlock with the Paris Club. We suggest:

- That you raise the issue in your **meetings early September** with **Dr. J. Stark**, State Secretary of Finance and G7 Sherpa for Germany, and **Mr. Poul Nielson**, Minister of Development Cooperation, Denmark (see appropriate briefings) and ask for their support in getting the needed commitments from the Paris Club before the Annual meetings.
- That you use your personal contacts at ministerial level with other Paris Club creditors, to help spur their action towards the Paris Club.
- That you discuss the issue at the coming breakfast with **Michel Camdessus** to agree on a common course of action. 
- Finally, possibly following further discussions with the French (Sven will be pursuing the matter with Mr. Autheman on Tuesday over lunch) you may also want to **call Mr. Chirac**, to seek his support to unlock the Paris Club's position.

You may want to bring to his attention the following specific points:

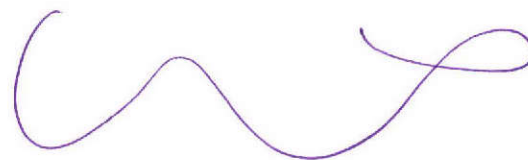
- ⇒ *The Paris Club Secretariat is now the stumbling block in delivering the program of action that governments committed to deliver by October -- both at the last Development Committee meeting, and at Lyon. His direct intervention is needed at this stage.*
- ⇒ *Unless the Paris Club participates on an appropriate burden sharing basis, the Bank will be forced to recognize that we have reached a deadlock, and that the Initiative cannot proceed further.*
- ⇒ *What is needed from the Paris Club before the Development Committee meeting on September 30th is an endorsement of the overall objective of debt sustainability, and a commitment that the Paris Club would deliver its proportionate share of the debt relief needed beyond Naples terms.*

DECLASSIFIED
FEB 19 2025
WBG ARCHIVES

Making the Case for Paris Club action. In making the case for Paris Club action, you may want to convey some key messages:

- That the success of the Initiative in reaching its overall objective of **debt sustainability** calls for debt reduction from all creditors involved, and in particular from the Paris Club which currently holds close to 60 percent of the HIPC debt. Multilateral action, in itself, would not be sufficient to deliver debt sustainability for the bulk of the HIPCs.
- The Bank is committed to the success of the Initiative, and would provide its full share of the burden, but would like to see other creditors, in particular the Paris Club, participate in the same spirit, beyond current mechanisms. The multilaterals have no desire simply to enhance the recoverability of the Paris Club debt. This would be a very poor use of limited resources.
- In the absence of decisive Paris Club action, costs to the Bank are untenable, both in terms of the amounts involved, and in terms of the downside risks related to weaker export performance. Our estimates indicate that if action by the Paris Club were significantly below 90 percent, and if export growth were lower than the baseline projection, multilaterals would likely be bearing a disproportionate share of the burden.

⇒ *Indeed, under a hypothetical 80 percent scenario, multilaterals would be providing two-thirds of the total costs, while their exposure to these countries would then be less than one half. Furthermore, for some countries, even moderately poorer export performance would result in multilaterals carrying a larger share of the overall debt reduction than bilaterals - considering "effective" debt relief. This would raise questions about the multilaterals preferred creditor status.*
- Finally, timely delivery of the program of action by the Annual meetings, as requested by the Development Committee, and endorsed by the Lyon summit, is key to the success of the Initiative.



Nawal Kamel
Washington, August 30, 1996
parisdb

cc. Sven Sandström

DECLASSIFIED
FEB 19 2025
WBG ARCHIVES

OFFICE MEMORANDUM

DATE: August 30, 1996

TO: Ms. Atsuko Horiguchi, EXC

FROM: Mark Baird, DECVF 

EXTENSION: 31666

SUBJECT: Camdessus-Wolfensohn Breakfast, September 4

In addition to the agenda items we sent to you in my memo of August 28, attached is a note on Bulgaria, which we have just received from the ECA Region. It updates the note and its revisions we sent you for the last breakfast meeting. According to the Region, this brief should not be used unless the issue is raised by Mr. Camdessus, and the likelihood of Mr. Camdessus' raising it is low.

Attachment

cc: Ms. Salop, Mr. Ray.

BULGARIA:

TALKING POINTS FOR MR. WOLFENSOHN'S BREAKFAST MEETING WITH MR. CAMDESSUS

Background: For much of 1996, Bulgaria has been in a midst of a financial crisis. While the Government has been responding by taking a number of measures, their implementation has not been sufficient to reverse the loss of confidence in the largely insolvent banking system. The exchange rate fell from 110 leva per dollar in May, 1996, to 197 on August 26, 1996. The banking system is in a liquidity and solvency crisis. Two banks were closed, including the largest private bank, and more banks may need to be closed to stem the crisis. Central Bank Reserves have fallen to below \$500 million or about one month of imports. The situation is compounded by the foreign exchange market implications of a looming shortage of grain and the highly uncertain balance of payments outcome, putting additional pressures on the exchange rate. Although the country made large payments on Brady bonds in late July, amidst wide speculation of possible default, the threat of default in the near term cannot be completely ruled out. After a delay of over eighteen months, and amidst the crisis, the Government has put together an ambitious stabilization program combined with measures to try to rebuild confidence in the banking system. The Government, in consultation with the Bank, has also developed a program of closing 64 and isolating another 70 of the worst performing State-Owned Enterprises whose cumulative losses underlie most of the macroeconomic instability, and has announced its intention to accelerate privatization; these are the most critical conditions for the Bank to proceed with processing the Financial and Enterprise Sector Adjustment Loan (FESAL). However, implementation of liquidation has been slow, tied up in courts. Only 8 out of 64 SOEs have been liquidated.

IMF Program: An IMF Stand-by Arrangement for SDR 400 million was approved on July 19, the day of your last meeting with Mr. Camdessus. The first, front-loaded tranche of SDR 80 million was disbursed, but the second, SDR 80 million tranche is contingent on the on-going review of the program and the progress on structural reforms, particularly in the enterprise sector. But it is uncertain how long this program can hold, given significantly higher inflation and exchange rate depreciation and no evidence of a real turnaround of confidence in the banking system. The IMF mission is now in Sofia, reviewing these worrisome developments. The outcome of this mission is uncertain. The Fund staff have indicated that the second tranche of the Stand-by may be contingent on the Bank's submitting to the Board the FESAL, as an indication of sufficient progress on structural reforms.

IBRD Program: In direct support to the first stage of the Bulgarian program, we have prepared on an accelerated basis and sent to the Board a \$30 million Rehabilitation Loan, which was approved on August 1. This operation will finance severance payments the Government is making to the non-viable state enterprises being closed. In addition, on September 3, the Board will discuss a \$US 24.3 million Social Insurance Administration project in support of pension reform in Bulgaria.

We have also been preparing a \$200 million Financial and Enterprise Sector Adjustment Loan (FESAL), which would be sent to the Board once key actions have been taken by the Government. These include: (a) the closing of 64 non-viable enterprises; (b) the financial isolation of a further 70 enterprises has taken place; and (c) the first auction under the mass privatization scheme has been held. These actions have been pending for much of the summer, although in principle there is no reason these actions could not be undertaken immediately. Under current Government plans we do not expect these to be completed until end-September, which would likely be the earliest time for the appraisal of this loan.

Issue that Mr. Camdessus may raise: Mr. Camdessus may ask about the status of the Bank's preparation of the Financial and Enterprise Adjustment Loan (FESAL) in support of the structural reforms in Bulgaria.

Suggested Response to Mr. Camdessus: There are two key issues: the timing of the Bank support and its size.

On the first, we have conveyed to the Fund our view that the FESAL should be sent to the Board only after the key actions listed above have been implemented, and there is full agreement on this among the Bank and Fund staff, regardless of the fact that the Fund may be anxious to see the Bank step in and provide additional financial support. Provided the required actions have been taken by end-September, distribution of the documentation for the FESAL operation to the Board could still occur in early October. It would therefore only be realistic to assume that the Bank funds would be available in the fourth quarter, rather than the third.

On the second issue, the size of our program, Bank and Fund staff have discussed the possibility of front-loading the FESAL so that the first tranche is larger than the second (similar to the front-loading of the Fund Stand-by). This should be accompanied, however, by a commensurate acceleration in the Government's implementation of the structural reforms being supported by the FESAL, and this may not be likely. We would not recommend an increase in the size of our overall program, with the financial implications that would entail for the Bank.

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

FOR
EXECUTIVE
DIRECTORS'
MEETING

DECLASSIFIED
FEB 19 2025
WBG ARCHIVES

For consideration on
Tuesday, September 10, 1996

SecM96-926

FROM: Vice President and Secretary

August 26, 1996

World Bank Participation in the Heavily Indebted Poor Countries' Debt Initiative

Attached is a paper entitled "World Bank Participation in the Heavily Indebted Poor Countries' Debt Initiative" which is a companion to the joint Bank/Fund paper entitled "The HIPC Debt Initiative – Elaboration of Key Features and Possible Procedural Steps". The two papers provide a comprehensive description of how the process for implementing the HIPC Debt Initiative is currently envisaged, and how the Bank would participate in this Initiative.

These two papers will be considered together at a Board meeting scheduled for September 10, 1996. In addition a Technical Briefing is scheduled for September 5, 1996, to provide an opportunity for Executive Directors and their staff to ask questions on technical aspects of the papers and to get clarifications in advance of the Board meeting.

Questions should be referred to Ms. Kamel (X85587).

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC and MIGA

CONFIDENTIAL

DECLASSIFIED
FEB 19 2025
WBG ARCHIVES

WORLD BANK PARTICIPATION
IN THE
HEAVILY INDEBTED POOR COUNTRIES'
DEBT INITIATIVE

August 26, 1996

**WORLD BANK PARTICIPATION IN THE
HEAVILY INDEBTED POOR COUNTRIES' DEBT INITIATIVE**

Table of Contents

	Page Number
I. Introduction	1
II. The HIPC Debt Initiative	2
III. Instruments of the Bank's Participation	5
A. HIPC Trust Fund	5
B. IDA Grant Financing	7
C. Supplemental HIPC IDA Allocations	8
IV. World Bank Financial Contribution	9
V. Issues for Discussion	12
 ANNEX. HIPC Debt Initiative Trust Fund	

Memorandum to the Executive Directors

World Bank Participation in the Heavily Indebted Poor Countries' Debt Initiative

I. Introduction

1. On April 23, 1996, the Development Committee welcomed the framework for resolving the debt problems of the heavily indebted poor countries (HIPC), proposed by the President of the World Bank and Managing Director of the IMF.¹ It requested the IMF and World Bank to work together, in close collaboration with involved creditors and donors, to produce a program of action as soon as possible, with the aim of reaching decisions on this program by the time of the Annual Meetings.
2. This paper discusses the instruments the Bank would use to participate in the HIPC Debt Initiative, and provides preliminary cost estimates for the use of these instruments. It is accompanied by a joint Bank/Fund paper which contains a detailed description of the framework, and an illustration of its use through two case studies.² The work has benefited from the ongoing consultative process with the Boards of the two institutions³, and preliminary discussions with bilateral and multilateral creditors and potential donors⁴.

¹ "A Framework for Action to Resolve Debt Problems of the Heavily Indebted Poor Countries", DC/96-5, dated April 12, 1996.

² "The HIPC Debt Initiative -- Elaboration of Key Features and Possible Procedural Steps," Sec M96-927, dated August 26, 1996.

³ Since the April Development Committee Meeting, the papers discussed by the Executive Boards include: Joint Bank/Fund "Technical Note on Preliminary Costing of the Proposed Framework for Resolving the Debt Problems of the Heavily Indebted Poor Countries," SecM96-572, dated June 4, 1996; "Status Report on World Bank Participation in the HIPC Debt Initiative," SecM96-571, dated June 4, 1996; and "ESAF Financing Modalities—Further Considerations," EBS/96/76, dated May 15, 1996. There also have been a series of informal seminars to keep the Directors informed of progress on the HIPC Debt Initiative and to provide a forum for additional feedback.

⁴ On August 22-23, a meeting hosted by the Bank and the Fund was held in Paris with other multilateral creditors to discuss the general framework for the HIPC Debt Initiative and the structure of the HIPC Trust Fund. Discussions are ongoing with bilateral creditors/donors to ensure full participation in the Initiative, and the viability of the HIPC Trust Fund.

II. The HIPC Debt Initiative

Overview

3. The HIPC Debt Initiative involves a commitment by the international community to reduce an eligible country's debt burden to sustainable levels, provided the country successfully completes an extended period of satisfactory policy performance. The process of debt relief would build on the existing three-year track record needed to qualify, under Naples terms, for a stock-of-debt reduction of 67 percent on eligible debt from Paris Club creditors (this would be the first stage in the process). At the end of this period, an assessment would be made as to whether, with Naples terms and comparable treatment from other bilateral and commercial creditors, the country's debt would become sustainable. If this were enough to achieve sustainability, the country would seek a stock-of-debt operation on these terms and would therefore exit from further debt rescheduling.

4. For countries where Naples terms and other existing mechanisms are not enough to achieve debt sustainability, a second 3-year performance period is envisaged. During this period, the Bank and the Fund would help formulate and support a broad-based program of macroeconomic, structural, and social development policy reforms. In addition to sound macroeconomic management, particular emphasis would be placed on improving the quality of public expenditures, strengthening institutional capacity, and enhancing the delivery of social services. This program, together with comprehensive treatment of the country's debt, would provide a basis for sustained, poverty-reducing growth.

5. The comprehensive treatment of debt offered to qualifying HIPCs would consist of:

- sustained balance of payments and adjustment support from multilateral institutions and donors, including enhanced terms where needed, so as to ease the burden of multilateral debt service during the second stage;
- debt flow relief from Paris Club creditors involving deeper reduction of up to 90 percent during the second stage in the form of concessional flow rescheduling, together with further action at the end of the second stage to reduce the stock of eligible debt toward sustainable levels. As per current practice, the country would be required to seek at least comparable treatment from bilateral non-Paris Club and commercial creditors; and
- at the end of the second performance period, action to ease the burden of debt owed to multilateral institutions, sufficient to reduce debt burdens to sustainable levels, if the additional debt relief from bilateral and commercial creditors is not sufficient to reach this objective.

Box 1. Defining External Debt Sustainability

External debt sustainability would be assessed jointly by the Executive Boards of the Bank and the Fund, on a case-by-case basis. This assessment would be based on the following indicators (as described in SecM96-94):

- (a) The debt-to-export ratio (on a present value basis) should be expected to fall within a range of 200-250 percent, or below, by the completion point;
- (b) The debt service-to-export ratio should be expected to fall within a range of 20-25 percent, or below, by the completion point;
- (c) Within these prescribed ranges, debt sustainability would be determined in conjunction with various measures of vulnerability, including the burden of external debt service in the government budget, the diversity of the country's export base, its reserve coverage, its underlying resource balance, and any other relevant factors.

Summary of Process for Implementing the Initiative⁵

6. Towards the end of the first stage (the "decision point") a Debt Sustainability Analysis (DSA) would be agreed upon by the Government and IMF/Bank staff. If this analysis showed that the country's debt would become sustainable following the application of Naples terms (together with current instruments for debt relief by multilateral institutions), the debtor could seek a stock-of-debt reduction on these terms from Paris Club creditors and comparable treatment from other bilateral and commercial creditors, and exit from the rescheduling process.

7. If, however, the DSA suggested that Naples terms were unlikely to bring about sustainability, a country could seek enhanced debt relief under the Initiative. As part of an agreement on a new three-year program supported by the Bank and Fund, macroeconomic, structural, and social development policy criteria would be established. In addition, a target would be set for the net present value of debt-to-export ratio (along with a range) and debt service-to-export ratio at the end of the program (the "completion point"). This would determine the extent of the expected additional debt relief likely to be required from creditors. This analysis, and a description of the agreed policy performance criteria, would be presented to the Executive Boards of the two institutions in a joint HIPC Initiative Board Document.

8. During the second stage (the "interim period"), the Paris Club would be expected to provide its share of debt relief to the country through a flow rescheduling involving a reduction in the net present value of obligations falling due on eligible debt of up to 90 percent, and a goodwill clause indicating a willingness to provide a stock-of-debt reduction on eligible debt at the completion point. Multilateral institutions as well as bilateral donors would continue to provide sustained assistance to the country during the interim period, including balance of payments and adjustment support on enhanced terms where necessary. Multilateral creditors

⁵

A detailed description of the process for implementing the HIPC Debt Initiative is contained in the joint Bank/Fund paper, "The HIPC Debt Initiative--Elaboration of Key Features and Procedural Steps." *op. cit.*

also would commit to take action at the completion point to reduce the present value of their claims by an amount sufficient to reach the target debt-to-export ratio, provided performance is sustained.

9. In a few borderline cases, the debt sustainability analysis might indicate an expectation that the country's debt would become sustainable with the application of Naples terms, but that there is a significant degree of risk that sustainability would not be achieved. In these cases, the country would be given a choice between seeking an immediate stock-of-debt operation on Naples terms and exiting from further rescheduling, or participating in the HIPC Debt Initiative. If they opted to participate, the country would agree to a new three year program with the Bank and Fund, during which they would continue to receive flow rescheduling from Paris Club creditors on Naples terms. The country might also benefit from enhanced assistance provided by some of the multilateral creditors during the second stage. At the completion point, if sustainability was not achieved, additional action by creditors would be taken to achieve sustainability. If the debt was sustainable with Naples terms, the country would receive a stock-of-debt operation on these terms and exit from further rescheduling.

10. The commitments made by creditors to take sufficient action by the end of the program to achieve debt sustainability would give the participating country a clear assurance that its debt problems will be resolved decisively by the completion point if its policy performance is sustained. As the country approaches the completion point, the Government, Bank, and Fund would update the DSA and measurements of debt-to-export and debt service-to-export ratios. This review would be presented to the Executive Boards in an updated joint HIPC Initiative Board Document. If these ratios fall into the ranges established earlier at the decision point, the creditors would proceed to deliver the actions promised at the decision point. If the results were outside the agreed ranges, a reassessment of the amount of debt relief required to achieve sustainability would be made by Bank and Fund, and other multilateral creditors would be asked to review the amount of debt relief to be provided.

11. The objective of the actions taken by multilateral creditors would be to complement other creditors in a concerted effort to reduce the present value of the country's debt to a sustainable level. The burden of this action at the end of the second performance period would be shared by the multilateral creditors in proportion to the present value of their claims at the decision point. Different international financial institutions would contribute to this Initiative in a variety of ways, consistent with their charters and financial policies, to provide assistance commensurate with their present value share of debt. The IMF would continue to provide adjustment support during the interim period through an Enhanced Structural Adjustment Facility (ESAF). It also is expected to provide special ESAF operations at the completion point in the form of escrowed grants or escrowed loans on extended maturities to be used to cover principal payments to the IMF in order to reduce the net present value of their claims. The main instrument for reducing the present value of debt owed to the Bank and some other multilateral development banks is expected to be a HIPC Trust Fund. Moreover, during the second stage, where appropriate, the Bank expects to provide a degree of additional relief through the use of IDA grants and also will provide additional external financing through supplemental IDA allocations, as described in Section III.

Monitoring the Country's Performance

12. The joint HIPC Initiative Board Document would specify the performance criteria to be monitored under the HIPC Debt Initiative. These criteria would include macroeconomic and structural indicators monitored under the IMF's ESAF, as well as key structural and social development policy indicators monitored by the Bank under the CAS and the PFP. Bank Board approval of those structural and social development policy criteria to be monitored under the Initiative would be sought in a companion Bank HIPC Report to be considered along with the joint HIPC Initiative Board Document.

13. The Bank would ensure that the structural and social development policies to be monitored under the Initiative were selected according to: (a) their importance within the Government's reform program; and (b) their effect on reducing poverty, including especially actions to improve basic health care and education. In this context, special attention would be given to public expenditures for basic social services.

14. Progress in complying with the performance criteria would be evaluated on an annual basis in a review of the Bank HIPC Report. This paper would review the performance criteria and the use of IDA grants and supplemental allocations for those countries which qualify for such interim measures. In cases where a country is experiencing delays in implementing its reform program, the review of the Bank HIPC Report also would discuss nonperformance and evaluate its impact on the country's prospects for reaching the completion point. On the basis of this review, and the IMF review of performance under the ESAF, the World Bank and IMF staff would jointly prepare an annual review of the HIPC Initiative Board Document which would be presented to their Boards for information, and which would be circulated to other participating multilateral creditors.

III. Instruments of the Bank's Participation

15. During the interim period, countries that qualify for the HIPC Debt Initiative would—by virtue of their policy performance—receive relatively high new IDA allocations, including appropriate balance of payments and adjustment support as determined by the CAS. A number of these countries also would benefit from existing World Bank instruments, such as the Fifth Dimension and the Debt Reduction Facility. Moreover, under the framework of this Initiative, a degree of additional relief would be provided during the interim period through the use of IDA grants. It also is expected that the Bank will provide additional external financing through supplemental IDA allocations. Finally, the Bank intends to participate at the completion point through contributions to a HIPC Trust Fund.

A. HIPC Trust Fund

16. The HIPC Trust Fund, to be administered by IDA, would be used to finance all or a portion of the debt relief to be provided at the completion point on debt owed to participating multilateral creditors. There are a number of important advantages in the use of a Trust Fund: (a) it facilitates concerted action among multilateral creditors participating in the Initiative; (b) it addresses specific resource constraints by certain multilateral creditors and the financial policy constraints of others; and (c) it provides a focal point for donors to consolidate and leverage resources earmarked for debt relief in those countries.

17. This Trust Fund would become effective upon approval by the Executive Directors of the IBRD and IDA., after which it could begin to accept contributions from donors. As discussed below (para. 33), the Bank's initial contribution would be made only after other multilateral and bilateral creditors have agreed to meet their share of the costs. The Trust Fund would commence operations following the approval of action under the Initiative to provide debt relief to an eligible country by those multilateral creditors that have contributed to the Trust Fund. The proposed structure and operation of the Trust Fund is described in more detail in the Annex.

18. In addition to contributions from IBRD, as recommended by its Executive Directors and approved by its Board of Governors, the Trust Fund would consist of contributions from participating multilateral creditors and from bilateral donors.⁶ Donors could provide their funds without pre-allocating them, or could choose to earmark the use of their funds to provide relief on debt owed by a specific country or on debt owed to a specific multilateral creditor.⁷ Decisions on the use and distribution of the unallocated funds would be taken by the trustee and the donors of the unallocated funds.

19. Funds from the HIPC Trust Fund could contribute to debt relief at the completion point in two basic ways: (a) on behalf of the country, the Trust Fund could prepay, or purchase, a portion of the debt owed to a multilateral creditor; or (b) on behalf of the country, the Trust Fund could commit to pay a portion of the future debt service owed to a multilateral creditor as it comes due. The decision on which approach to take would need to take into account the liquidity position of the Trust Fund, country-specific factors such as the debt profile of the country receiving the debt relief, and preferences of the participating multilateral creditors.⁸ Whatever the mechanism, the commitment at the completion point by the Trust Fund to reduce the present value of a country's debt would be unconditional (as would be commitments by creditors to take parallel action), thereby effectively removing that portion of the debt owed to participating multilateral creditors from the country's books.

20. To make an unconditional commitment, the Trust Fund must either have sufficient resources on hand to provide the committed debt relief, or unconditional commitments by the multilateral creditors and bilateral donors of future contributions. In order for the Trust Fund to provide timely assurances of its ability to contribute to the required relief, these resources would have to have been committed by contributors by the time of the decision point for each qualifying HIPC.

⁶ Multilateral creditors that choose not to participate in the HIPC Trust Fund would provide their share of the agreed debt relief in parallel, through other instruments. The IMF, for example, is expected to participate in the HIPC Debt Initiative through special ESAF operations which would achieve the targeted reduction in the present value of debt owed to the Fund through escrowed grants, or escrowed loans on extended maturities which will be used to make principal payments to the IMF. These instruments are described in "Financing a Continuation of the ESAF and the Fund's Participation in the HIPC Initiative", EBS/96/133, dated August 23, 1996.

⁷ Contributions to the HIPC Trust Fund would be invested by the trustee and interest earned would be credited to each of the components in proportion to the amount earmarked by the donors for each component.

⁸ If the present value of the debt is less than its par value, some multilateral creditors may be precluded from receiving prepayments or buybacks as this may constitute a write-down. The second option—payments by the Trust Fund of debt service as it comes due—would be more appropriate for these institutions.

21. The relief provided by the Trust Fund on debt owed to a particular multilateral creditor could be combined with other instruments to achieve the total debt relief agreed by that multilateral creditor at the completion point. If there were inadequate resources in the Trust Fund to provide a portion of the relief committed by a participating multilateral creditor, that creditor would provide the remaining debt relief through a parallel action. It also is possible that the Trust Fund could work in cooperation with other donors through parallel financing or cofinancing mechanisms which would channel bilateral support for specific debt relief measures.

22. The design of the Trust Fund will be developed further, or modified as needed, on the basis of consultations underway with all potential participants. Management's intention is to submit to the Board for approval a proposal for the establishment of the Trust Fund shortly after the September 30 meeting of the Development Committee.

B. IDA Grant Funding

23. Most of the countries eligible for the HIPC Debt Initiative already receive high levels of IDA assistance, providing for substantial positive net transfers to these countries during the interim period, and for years thereafter.⁹ However, the substantial projected net transfers are expected to cause the present value of these countries' debt to IDA to continue to rise throughout the interim period and beyond. To mitigate the rise in the present value of debt to IDA, Management proposes to provide a portion of normal IDA allocations as grants on a selective basis.¹⁰ These grants would be part of the normal IDA assistance program in the country as determined in the CAS.

24. The use of IDA grants would be related to the amount expected to be needed by each country to reach the sustainability target at the completion point. Specifically, eligible HIPCs would be provided grants during their interim period if they fall in one of the following three categories:

- for countries with projected debt-to-export ratios (on a present value basis) between 250-300 percent at their completion point, grants would account for one-third of their IDA program;
- for countries with projected debt-to-export ratios (on a present value basis) between 300-350 percent at their completion point, grants would account for one-half of their IDA program; and
- for the few countries projected to have debt-to-export ratios (on a present value basis) in excess of 350 percent at their completion point, grants would account for three-fourths of their IDA program.

⁹ The exception is those countries that have recently become IDA-only and have significant IBRD debt outstanding.

¹⁰ In the context of IDA's Eleventh Replenishment, IDA's Board of Governors have agreed to the use of grants "in a limited number of exceptional cases" as approved by IDA's Executive Directors.

25. By providing grants in place of normal IDA credits, the present value of debt owed to IDA is reduced. Because IDA credits have roughly a 70 percent grant element, replacing these credits with grants reduces the present value of the country's future debt service by an amount equal to about 30 percent of the grant.¹¹ This reduction in present value also would count as part of the Bank's contribution at the completion point, provided that the grants are fully disbursed in a timeframe consistent with the timing of the completion measures. Consistent with this, where IDA operations in qualifying countries have a financing package consisting of a grant portion and a credit portion, the grant portion would be disbursed first.

26. We have estimated the possible provision of grants for potentially eligible countries based on the assumptions used in the joint Bank/Fund debt sustainability assessment, and the Bank/Fund preliminary estimates of costs.¹² Under these assumptions, and assuming adequate IDA resources, potentially eligible countries that are expected to reach their completion point before 2003 would be expected to receive between US\$0.8 billion-US\$1.0 billion (US\$0.6 billion-US\$0.8 billion in 1996 present value terms) of grants between 1997-2002.¹³ If the grants were fully disbursed, this volume of grants would reduce the present value of the debt these countries owe to IDA by about US\$0.2 billion (in 1996 present value terms). To the extent the grants were less than fully disbursed, the present value reduction would be somewhat less.

C. Supplemental HIPC IDA Allocations

27. Of the countries potentially eligible for the Initiative, three have only recently become IDA-only, and as a result of the nonconcessional nature of their outstanding IBRD loans, these countries could face higher debt service on Bank loans than they receive in new disbursements.¹⁴ During the interim period such negative net transfers could make it difficult for a country to finance the needed reform programs. Thus, for countries eligible to participate in the HIPC Debt

¹¹ Assuming a 7 percent discount rate. This is the discount rate used for the U.S. dollar throughout the joint Bank/Fund analyses of the HIPC Debt Initiative. Actual calculations of the present value of debt outstanding, and the corresponding amounts of debt reduction, will be based on the latest six-monthly average of the currency-specific interest reference rates published by the OECD.

¹² For the purpose of this exercise, potentially eligible countries are those classified as "Possibly Stressed" or "Unsustainable" (excluding Sudan) based on the joint Bank/Fund assessment in "Debt Sustainability Analysis for the Heavily Indebted Poor Countries", SecM96-94, dated January 31, 1996. The estimated volume of grants is based on assumptions in the joint Bank/Fund "Technical Note on Preliminary Costing of the Proposed Framework for Resolving Debt Problems of the Heavily Indebted Poor Countries", *op.cit.*

¹³ Under baseline export growth assumptions, four countries are projected to have debt-to-export ratios within 250-300 percent, one within 300-350 percent, and two over 350 percent. Eight countries have projected debt-to-export ratios below 250 percent (six below 200 percent). No grants are estimated for the remaining four countries assumed to reach their completion points after 2002, given the high level of uncertainty surrounding, among other factors, future IDA lending levels in these countries.

With 2 percent lower export growth, five countries are projected to have debt-to-export ratios within 250-300 percent, two within 300-350 percent, and two over 350 percent. Six countries are projected to have ratios below 250 percent (four below 200 percent). As above, no grants are projected for the four countries expected to reach their completion points after 2002.

¹⁴ The countries in this category are Cote d'Ivoire, Cameroon, and Congo.

Initiative, the Bank would be prepared to provide supplemental IDA allocations in an amount commensurate with the achievement of positive net transfers from the Bank Group during their interim period, assuming sufficient IDA resources are available.¹⁵

28. The level of supplementary IDA lending to be provided to these countries during the interim period would depend on a number of factors, including the timing of their decision points and the availability of IDA resources. However, for indicative purposes, if these three countries reach their decision points as currently envisaged, and the debt service and IDA assistance at that point correspond to currently projected levels, supplementary allocations over the interim periods of these countries (1998-2002) would total approximately US\$300 million-US\$350 million.¹⁶ Total IDA allocations to these countries would, as a result, be composed of 25-35 percent in supplemental allocations, assuming a relatively high regular allocation that would reflect the high performance required of beneficiaries of the HIPC Debt Initiative.

29. The US\$300 million-US\$350 million in supplemental IDA allocations would help the country achieve debt sustainability by providing additional external financing support during the interim period. Due to the concessional nature of IDA financing, these allocations would have a grant element of approximately US\$210 million-US\$250 million.

IV. World Bank Financial Contribution

30. At the completion point, the Bank will deliver on its commitment to take action, in concert with all creditors, to reduce the present value of the country's debt to a sustainable level. The Bank is expected to deliver its share of the reduction through IDA grants and through its contribution to the HIPC Trust Fund.

31. The preliminary estimates of the potential cost of the completion measures, shown in Table 1, are based on a 90 percent debt reduction on eligible debt by Paris Club creditors, together with comparable treatment by other bilateral and commercial creditors.¹⁷ Under this approach to burden sharing, the multilateral creditors would provide whatever residual assistance is needed to achieve debt sustainability. Although it is not yet clear how the Paris Club will choose to make its contribution to the HIPC Debt Initiative, a lower Paris Club share under this formulation could significantly increase the residual risk to multilaterals, given that the multilaterals would be obligated to provide whatever debt relief is needed at completion on a case-by-case basis. Bank/Fund estimates indicate that if a lower Paris Club contribution were assumed, and if export growth were lower than the baseline projection, the share of debt relief that would be provided by the multilateral creditors could be highly disproportionate to their

¹⁵ While the amount of supplemental IDA allocations would be based on the estimated amount needed to achieve positive net transfers during the interim period, actual net transfers would depend on the pace of disbursements on existing and new credits, including adjustment operations.

¹⁶ These amounts exclude US\$100 million-US\$150 million which would also be available under the Fifth Dimension.

¹⁷ Preliminary cost estimates are set out in joint Bank/Fund paper on the "Technical Note on Preliminary Costing of the Proposed Framework for Resolving the Debt Problems of the Heavily Indebted Poor Countries", *op. cit.*

share of the debt that would have remained at the decision point following the full implementation of currently available mechanisms. Paris Club contributions to the Initiative would, therefore, have to allow for protecting the multilaterals' preferred creditor status, and would need to deliver equitable burdensharing of action under this Initiative.

Table 1: Sensitivity of Costs at the Completion Date to Changes in Export Growth Assumptions for the Countries Classified as "Unsustainable" or "Possibly Stressed" (excluding Sudan) ^{a/}
(In billions of U.S. dollars, in 1996 net present value terms)

	Baseline Export Growth Assumptions	Lower Export Growth by	
		1 Percent	2 Percent
Bilateral and commercial creditors ^{b/}	3.6	3.7	3.8
Paris Club creditors	2.9	3.0	3.1
Other official bilateral creditors	0.6	0.6	0.6
Commercial creditors	0.1	0.1	0.1
Multilateral creditors	2.0	2.9	3.9
World Bank	0.7	1.1	1.5
IMF	0.5	0.7	0.9
Other Multilateral Creditors	0.8	1.1	1.5
Total	5.6	6.6	7.7

- a. Excludes Sudan, whose total external public debt (including arrears) amounted to about US\$18 billion at end-1995. Debt to multilateral creditors was about US\$4.1 billion (of which debt to the IMF was US\$1.8 billion, and the World Bank US\$1.1 billion), while debt to official bilateral creditors amounted to about US\$10.4 billion. The present value debt-export ratio was about 3,200 percent at end-1995.
- b. Assuming up to 90 percent net present value debt reduction by bilateral and commercial creditors, with comprehensive coverage of pre-cutoff date debt, topping-up of debt previously rescheduled on concessional terms (Toronto, London and Naples), and increased concessionality of pre-cutoff ODA debt.

Source: Table 7 from "Technical Note on Preliminary Costing of the Proposed Framework for Resolving the Debt Problems of the Heavily Indebted Poor Countries", SecM96-572, dated June 4, 1996. Box 3 of this note describes the assumptions underlying these estimates.

32. As indicated, under the baseline export growth assumptions, preliminary estimates of the total costs of the HIPC Debt Initiative are US\$5.6 billion (in 1996 present value terms), with the Bank's share estimated at US\$0.7 billion. If annual export growth were two percent lower, total estimated costs would rise to US\$7.7 billion, and the share of the Bank would be US\$1.5 billion (1996 present value terms). Of course, the estimated share of Bank costs is highly tentative at this stage, as the actual costs will depend on the pace at which countries qualify for debt relief under the Initiative, the actual growth of export values for qualifying countries, and on the agreed burden sharing between multilateral and bilateral creditors.

33. The Executive Directors of the World Bank have approved a set-aside of US\$500 million in Bank surplus to be used in support of this Initiative, provided there is agreement on an equitable cost-sharing basis, and only in the context of concerted action by all creditors¹⁸. To this end, the Directors recommended to the Board of Governors that the US\$500 million set aside in surplus be transferred to the HIPC Trust Fund, when, in Management's judgment, other creditors have agreed to meet their share of the costs under the HIPC Debt Initiative. This would represent the Bank's initial contribution to the HIPC Trust Fund. In the future, it is Management's intention to propose to the Executive Directors additional allocations of net income or surplus to the Trust Fund, as needed to cover the Bank's share of the debt relief under this Initiative.¹⁹ All such future proposals would be in the context of the normal Bank income allocation framework and would require the approval of the Board of Governors.

34. The amount needed for future IBRD net income allocations in current dollars would depend on the timing of future allocations as well as on the contribution of IDA grants toward the completion measures. IDA grants are estimated at about US\$0.2 billion (in 1996 present value terms), or somewhat less considering that grants may not be fully disbursed by the completion point. Taking into account the US\$500 million of Bank surplus earmarked for the HIPC Trust Fund and the estimated contribution of grants, the future needs for net income allocations are estimated at between US\$0.1 billion-US\$0.9 billion in 1996 present value terms, or US\$0.1 billion - US\$1.1 billion in current dollars, depending on the timing of future income allocations. This suggests that, at the upper end of the range, annual allocations of IBRD net income of approximately US\$200 million-US\$220 million for five years could be needed. Management recommendations on future net income allocations would be based on the availability of net income and on annual assessments of the costs of the HIPC Debt Initiative and Trust Fund resource needs.

¹⁸ Allocation of FY96 Net Income, Transfers of Surplus and Plan for FY97", R96-160, dated July 17, 1996, discussed by the Directors on August 1, 1996.

¹⁹ Contributions of IBRD net income to the Trust Fund will be earmarked to provide debt relief on debt owed to the Bank. HIPCs which are expected to require debt relief from the Trust Fund at their completion points owe the great bulk of their Bank debt to IDA. IBRD debt will therefore not be involved.

V. Issues for Discussion

35. In addition to general comments on the approach to the HIPC Debt Initiative, and to comments on specific issues raised in the joint Bank/Fund paper which accompanies this report²⁰, Directors may wish to comment on the following aspects of Bank participation in the HIPC Debt Initiative:

- The HIPC Trust Fund is designed to be a highly flexible one -- aimed at facilitating contributions from different sources and at accommodating the constraints of various creditors. This design has been validated, informally, in a recent meeting of multilateral creditors. Its viability, however, will depend on bilateral donor contributions. Do Directors agree with the proposed design of the HIPC Trust Fund, and the Bank's role in its establishment and management?
- The use of IDA grants during the interim period reflects an attempt to balance the Board agreement that "grants will be used in a limited number of exceptional cases" and the desirability of an IDA mechanism to provide flexibility during the second stage of the HIPC Debt Initiative. While grants are not expected to represent more than seven percent of total IDA lending in any given year, they will provide significant additional concessionality to a number of countries. Do Directors agree with the proposed criteria for the selective use of IDA grants under the HIPC Debt Initiative?

and

- Supplemental IDA allocations under the Initiative are designed to assist potentially eligible countries facing a particularly tight balance of payments situation during the interim period, by providing supplemental allocations commensurate with avoiding negative net transfers to the Bank. Do Directors agree with this approach in the framework of the HIPC Debt Initiative?

²⁰ "The HIPC Debt Initiative -- Elaboration of Key Features and Possible Procedural Steps", *op. cit.*

HIPC DEBT INITIATIVE TRUST FUND

Legal Structure:	Trust Fund
Trustee:	IDA
Eligible Countries:	All HIPC countries for which Eligible Creditors have agreed to afford debt relief on Eligible Debt under the HIPC Debt Initiative.
Eligible Creditors:	IBRD and IDA and other multilateral creditors that have contributed to the Trust Fund (or on whose behalf contributions have been made by other donors).
Eligible Debt:	Debt owed by Eligible Countries to Eligible Creditors for which debt relief is to be accorded under the HIPC Debt Initiative.
Format:	The Trust Fund would have the following components: (a) an <u>unallocated component</u>, which would be a general fund which could be used to finance the relief to be provided on debt owed to any Eligible Creditor by any Eligible Country; (b) <u>country specific components</u>, which could be used only to finance the debt relief to be provided on debt owed to any Eligible Creditor by a specific Eligible Country; and (c) <u>multilateral creditor components</u>, which could be used only to finance the debt relief to be provided on debt owed by Eligible Countries to a specific multilateral creditor which is able to access that component. Separate multilateral creditor components would be established for each Eligible Creditor. It is expected that each Eligible Creditor would direct all of its contributions to the Trust Fund exclusively to the multilateral creditor component established to address debt owed to it. IBRD's contributions to the Trust Fund would be directed to the IBRD/IDA component. All other donors (i.e., bilateral donors) would be able to elect to direct their contributions to one or more specific multilateral creditor components, to one or more country specific components or to the unallocated component or to any combination thereof. Funds contributed to country specific components could only be used to finance debt relief for the relevant Eligible Country, but such funds would not be designated by the donor to any specific Eligible Creditor.
Effectiveness:	The Trust Fund is expected to become effective upon approval of resolutions authorizing the establishment thereof by the Executive Directors of IBRD and IDA. At that time the Trust Fund could begin to accept contributions from donors. The Trust Fund would, however,

commence operations for an Eligible Country only following the approval of debt relief for that country by Eligible Creditors under the HIPC Debt Initiative.

Sources of Funding: The Trust Fund would consist of contributions by bilateral donors and multilateral creditors including the World Bank. The Bank's initial contribution would consist of the proposed US\$500 million grant to be provided by IBRD from surplus, which would be deposited in the IBRD/IDA component, subject to approval by the Board of Governors, when the other creditors of the Eligible Countries have agreed to meet their share of the costs of the HIPC Debt Initiative. Subject to the availability of resources and the approval of IBRD's Executive Directors and Board of Governors, it is anticipated that IBRD would make further grants consistent with its share of debt relief to be provided under the HIPC Debt Initiative. The Trust Fund would be authorized (and would be expected) to accept grant contributions from other multilateral development banks and bilateral donors.

**Payment of
Contributions:**

IBRD would transfer the full amount of its initial contribution at the time specified above. IBRD would transfer any subsequent contributions to the Trust Fund following approval of the contribution by IBRD's Executive Directors and Board of Governors. Other donors would be encouraged to transfer the full amount of their contributions to the Trust Fund as soon as practicable in order that such contributions may be invested by the trustee and the income therefrom added to the Trust Fund. In this manner, the amount of the Trust Fund would build up and be able to provide the necessary amount of debt relief as Eligible Countries reach the completion point of the HIPC Debt Initiative.

Donors would, however, be free to elect whether to transfer their contributions in full at the time they agree to contribute or to transfer the contribution in periodic installments or as and when needed by the Trust Fund to finance the debt relief to be provided by the Trust Fund for an Eligible Country.

As in the case of other trust funds, if donors do not transfer the full amount of their initial contribution in cash, they would provide non-negotiable, non-interest bearing promissory notes payable to IDA as trustee of the fund, either in installments or on demand, as the case may be. If the notes are payable in installments, the donor would transfer its contribution to the Trust Fund in accordance with the payment schedule stated in the notes. IDA would be entitled to encash notes which are payable on demand as needed to meet disbursement requirements.

Contributions could be denominated and payable in any freely convertible currency. Upon receipt of contributions, however, IDA would have the right to convert all contributions into one or more other currencies to facilitate administration of the Trust Fund.

**Trust Fund
Operations:**

IDA, as trustee of the Trust Fund, would agree to make grants from the Trust Fund to finance the debt relief to be provided to Eligible Countries on debt owed to Eligible Creditors under the HIPC Debt Initiative. Such debt relief would be provided either by: (a) providing grants to prepay a portion of the Eligible Debt; or (b) providing grants to pay a portion of the debt service on such Eligible Debt as it falls due. Alternatively, the Trust Fund could purchase a portion of the Eligible Debt from an Eligible Creditor, and then cancel that debt, or make other financial commitments to Eligible Creditors which have the effect of reducing the present value of the debt service owed by an Eligible Country to such Eligible Creditors. The amount and form of debt relief to be provided by the Trust Fund on behalf of an Eligible Country would be determined by the trustee in consultation with the Eligible Creditors. Subject to the availability of funding, the commitment to provide such debt relief would be unconditional and irrevocable. (The amount of debt relief to be accorded to an Eligible Country and the amount of funding to be sought from the Trust Fund with respect thereto would be determined solely by the Eligible Creditors and the Eligible Country under the HIPC Debt Initiative.)

In providing funding on behalf of an Eligible Country, the trustee would follow the following priorities in utilizing the funding allocated to the various components of the Trust Fund. The trustee would first apply in full the amount of the Trust Fund allocated to the country specific component for that Eligible Country. In so doing, the trustee would apply such amount on a pro rata basis to the debt relief to be provided by each Eligible Creditor under the HIPC Debt Initiative. Second, the trustee would apply that portion of the amount of the Trust Fund allocated to the unallocated component that has been approved by the donors to that component to provide debt relief for such Eligible Country. Such amount would be applied to fund the debt relief on debt owed to each Eligible Creditor in the proportion approved by such donors. Third, the trustee would apply that portion of the amount of the Trust Fund allocated to the multilateral creditor components in the amount needed to provide the full amount of the financing to be provided from the Trust Fund for relief for debts owed by such Eligible Country to each Eligible Creditor.

**Rights and Duties
of Trustee:**

The trustee will keep the Trust Fund assets separate and apart from the assets of IBRD and IDA but may commingle them with other Trust Fund assets maintained by IBRD or IDA. The trustee will exercise the same care in the discharge of its functions as trustee as it exercises with respect to its own affairs and shall have no additional liability with respect thereto. The trustee will not receive any compensation for acting as trustee.

**Privileges and
Immunities:**

The privileges and immunities accorded to IDA shall apply to the assets, income and operations of the Trust Fund.

Investment:

Pending disbursement, the trustee will invest the funds in the Trust Fund, in accordance with its normal practices. All the income from such investments will be credited to the relevant components of the Trust Fund in proportion to the amounts such components bear to the overall amount of the Trust Fund. All income will be used exclusively for the purposes of the Trust Fund.

Reporting:

As soon as practicable after the end of each of IDA's fiscal years, the trustee will provide each donor to the Trust Fund: (a) a report on the operations of the Trust Fund; and (b) a financial statement for the Trust Fund.

Termination:

The Trust Fund shall be terminated if the trustee determines that the Trust Fund has fulfilled its purpose, or can no longer do so. Any such termination would not affect the obligations of the trustee under commitments made prior to such termination. Upon termination, unless otherwise agreed with the donors, the trustee would distribute the remaining assets of the Trust Fund to the donors in accordance with the remaining balances of their contributions. That portion attributable to IBRD's contribution would be transferred to IDA.

**Resignation and
Removal of
Trustee:**

The trustee may resign as trustee, or may be removed as trustee upon the decision to do so by those donors whose contributions represent at least a majority of all contributions to the Trust Fund. Any such resignation or removal will take effect upon the appointment of a successor trustee, approved by a majority of donors, determined in the foregoing manner.

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

FOR
EXECUTIVE
DIRECTORS'
MEETING

DECLASSIFIED

MAR 19 2025

WBG ARCHIVES

For consideration on
Tuesday, September 10, 1996

SecM96-927

FROM: Vice President and Secretary

August 26, 1996

The HIPC Debt Initiative -- Elaboration of Key Features and Possible Procedural Steps

Attached is a joint Bank/Fund paper entitled "The HIPC Debt Initiative -- Elaboration of Key Features and Possible Procedural Steps", which is a companion to the paper entitled "World Bank Participation in the Heavily Indebted Poor Countries' Debt Initiative". The two papers provide a comprehensive description of how the process for implementing the HIPC Debt Initiative is currently envisaged, and how the Bank would participate in this Initiative.

These two papers will be considered together at the Board meeting scheduled for September 10, 1996. In addition, a Technical Briefing is scheduled for September 5, 1996, to provide an opportunity for Executive Directors and their staff to ask questions on technical aspects of the papers and to get clarifications in advance of the Board meeting.

Questions should be referred to Ms. Kamel (X85587).

Distribution:

Executive Directors and Alternates
President's Executive Committee
Senior Management, Bank, IFC and MIGA

DECLASSIFIED

MAR 19 2025

WBG ARCHIVES

CONFIDENTIAL

INTERNATIONAL MONETARY FUND AND THE WORLD BANK

**The HIPC Debt Initiative--Elaboration of Key Features
and Proposed Procedures**

Prepared jointly by the staffs of the International Monetary Fund and The World Bank

Approved by Jack Boorman and Michael Bruno

August 26, 1996

Contents	Page
I. Introduction	1
II. Proposed Principles and Procedures	3
A. Principles	3
B. The Key Building Blocks	3
Eligibility	3
Debt sustainability analysis	5
Performance period	6
Performance criteria	6
Participation by all relevant creditors	8
C. Procedures for Implementing the Initiative	10
Procedures leading up to the decision point	10
Procedures immediately after the decision point	13
Procedures during the second stage and at the completion point	14
III. Issues for Discussion	16
Boxes	
1. Defining External Debt Sustainability	5
2. The Contribution of Enhanced Assistance during the Second Stage to Action Required at the Completion Point	9
3. Definition of the NPV Debt-Export Ratio and Debt-Service Ratio	11

Charts	
Chart 1: Summary of the HIPC Debt Initiative	2
Appendix I: HIPC Debt Initiative: Proposed Procedures	18
A. Before Decision Point	18
B. Immediately after Decision Point	19
C. During Second Stage from Decision Point to Completion Point	20
Annex I: Case Studies of Action Under the HIPC Debt Initiative	21
I. Uganda	21
A. Procedure before the Decision Point	21
Reconciliation of debt and examination of export data	21
Joint IMF and World Bank mission to reach preliminary agreement on the DSA	22
IMF and World Bank Executive Board meetings	22
Consultation with creditors and donors	25
IMF and World Bank joint mission to reach a formal agreement on the DSA	25
IMF and World Bank Executive Board meetings at the decision point	26
B. Procedures after the Decision Point	27
Paris Club meeting	27
Debt Workout meeting	28
IMF and World Bank Executive Board review of outcome	28
C. Procedures during the Second Stage	29
Implementation of the adjustment program	29
D. Procedures at the Completion Point (Spring 2000)	29
The outcome at the completion point is as expected	29
Better-or worse-than-expected outcomes at the completion point	32
II. Nicaragua	33
A. Establishing the Track Record during the First Stage	33
B. Steps Ahead of the Decision Point	33
C. Paris Club Meeting to Agree Flow Rescheduling	36
D. Remaining Steps at the Decision Point and Completion Point	36
Boxes	
Box I-1. Uganda: Debt Targets and Action Required by Creditors	23
Box I-2. Uganda: Action by Creditors to Achieve the Debt-Service Ratio Target	24
Box I-3. Procedures in the Event of Delays in Program Implementation	30

Box I-4. Nicaragua: Debt Targets and Action Required by Creditors	35
Tables	
Table I-1. Uganda: Summary of Debt Sustainability Analysis	36
Table I-2. Uganda: Debt Indicators, 1995/96-2014/15	37
Table I-3. Uganda: NPV of Debt at the Completion Point Before and After Action under the Initiative	38
Table I-4. Uganda: Illustrative Scenarios: Adjustment for Better- or Worse-than-Projected Outcomes at the Completion Point	39
Table I-5. Nicaragua: NPV of Debt at the Completion Point Before and After Action under the Initiative	40
Annex II: Assessment of the Appropriate Debt Sustainability Targets for Uganda	41
Tables	
Table II-1: HIPC Vulnerability Indicators	43
Table II-2: HIPC Vulnerability Indicators	44
Charts	
Chart II-1. Uganda: Coffee Export Volume and Unit Values, 1983/84-1997/98	45

The HIPC Debt Initiative--Elaboration of Key Features and Proposed Procedures

I. Introduction

The Interim and Development Committees at their Spring meeting welcomed the framework for action to resolve the external debt problems of the heavily indebted poor countries (HIPC) proposed by the Managing Director of the IMF and the President of the World Bank (ICMS/Doc/46/96/3, April 15, 1996) as an appropriate basis for further work and requested the IMF and the World Bank to work together, in close collaboration with involved creditors and donors, to put forward specific proposals as soon as possible, with the aim of reaching decisions by the time of the next Annual Meetings. This paper presents some key features of the HIPC Debt Initiative and lays out in detail the proposed procedures for an eligible country to achieve a sustainable debt situation under the Initiative, with the support of the international community. Case studies for Uganda and Nicaragua are used to illustrate the procedures. The need for all relevant creditors and donors to coordinate their action under the Initiative requires a number of steps to be taken at each stage of the Initiative. Of course, the procedures proposed here are subject to the approval of Executive Directors and could be revised or streamlined, as experience is gained in operating under the Initiative.

The key features and procedures for an eligible country and all its relevant creditors and donors are laid out in general terms in Section II and are summarized in Chart 1 and in Appendix I, distinguishing between (1) the decision point, (2) the second stage of the Initiative (i.e., the interim period between the decision point and the completion date), and (3) the completion point. The case studies of Uganda and Nicaragua are presented in Annex I, following issues for discussion in Section III. Throughout the paper it is assumed that:

- the Initiative would be in place by the fall of 1996;
- Paris Club creditors would indicate a willingness to provide an NPV reduction of up to 90 percent on eligible debt, on a case-by-case basis;
- non-Paris Club bilateral and commercial creditors would provide debt relief on terms at least comparable with Paris Club terms;
- the World Bank would provide support under the Initiative through a combination of contributions from net income to the HIPC Trust Fund (as outlined in the separate paper on "World Bank Participation in the HIPC Debt Initiative", SecM96-926 of 8/26/96), IDA grants, and supplemental IDA allocations;

Chart 1: Summary of the HIPC Debt Initiative

First stage

- ♦ Paris Club provides flow rescheduling as per current Naples terms (up to 67 percent reduction, on a net present value basis).
- ♦ Other bilateral and commercial creditors provide at least comparable treatment.
- ♦ Multilateral institutions continue to provide adjustment support in the framework of Bank/IMF-supported adjustment program.
- ♦ Country establishes first three-year track record of good performance.

Decision Point

- ♦ Either Paris Club stock-of-debt operation under Naples terms (up to 67 percent NPV reduction of eligible debt) and comparable treatment by other bilateral and commercial creditors is adequate for the country to reach sustainability by the completion point – country not eligible for HIPC Debt Initiative.

- ♦ Or Paris Club stock-of-debt operation (on Naples terms) not sufficient for the country's overall debt to become sustainable by the completion point– country requests additional support under the HIPC Debt Initiative, and Executive Boards determine eligibility.

- ♦ Or for borderline cases, where there is doubt about whether sustainability would be achieved by the completion point under a Naples terms stock-of-debt operation, the country would receive a further flow rescheduling under Naples terms.
If the outcome at the completion point is better than or as projected, the country would receive a stock-of-debt operation on Naples terms from Paris Club creditors and comparable treatment from other bilateral and commercial creditors.
If the outcome at the completion point is worse than projected, the country could receive additional support under the HIPC Debt Initiative.

Second stage

- ♦ Paris Club provides more concessional flow rescheduling including up to 90 percent NPV debt reduction (as needed on a case-by-case basis).
- ♦ Other bilateral and commercial creditors provide at least comparable treatment.
- ♦ Debt Workout meeting to agree on a financing plan and identify additional assistance needed for the country to achieve debt sustainability at the completion point.
- ♦ Donors and multilateral institutions provide enhanced support.
- ♦ Country establishes a second track record of good performance under Bank/IMF- supported programs.

Completion Point

- ♦ Paris Club provides deeper stock-of-debt reduction of up to 90 percent in NPV terms (as needed on a case-by-case basis).
- ♦ Other bilateral and commercial creditors provide at least comparable treatment.
- ♦ Multilateral institutions take such additional measures, as may be needed, for the country to reach a sustainable level of debt, each choosing from a menu of options, and ensuring broad and equitable participation.

- the IMF would provide support through special ESAF operations (as outlined in EBS/96/133 of 8/23/96);
- other multilateral creditors would provide support either by way of contributions to the HIPC Trust Fund or by parallel action to reduce the NPV of their claims on the country concerned;
- bilateral donors would provide support both through sustained assistance to the country and through contributions to the HIPC Trust Fund.

II. Proposed Principles and Procedures

A. Principles

The proposed framework is based on the following six guiding principles¹ which were endorsed by the Committees: (1) the objective should be to target overall debt sustainability on a case-by-case basis, thus providing an exit strategy from the rescheduling process; (2) action will be envisaged only when the debtor has shown, through a track record, ability to put to good use whatever exceptional support is provided; (3) new measures will build, as much as possible, on existing mechanisms; (4) additional action will be coordinated among all creditors involved, with broad and equitable participation; (5) actions by the multilateral creditors will preserve their financial integrity and preferred creditor status; and (6) new external finance for the countries concerned will be on appropriately concessional terms.

B. The Key Building Blocks

The HIPC Debt Initiative has been developed around the following key building blocks: (i) eligibility; (ii) debt sustainability analysis (DSA); (iii) performance criteria governing actions by the country concerned in the second stage; and (iv) participation by all relevant creditors.

Eligibility

Eligibility of a country to participate in the Initiative would be based on criteria regarding income and indebtedness, i.e., eligibility would be limited to IDA-only countries that are not expected to achieve a sustainable external debt situation (using the criteria for debt sustainability described in Box 1) after debt relief to the full extent of current mechanisms. A

¹ "A Framework for Action to Resolve the Debt Problems of the Heavily Indebted Poor Countries", DC/96-5, dated April 12, 1996.

given country's eligibility would be predicated on performance (see section on performance criteria) and the need for exceptional assistance to achieve debt sustainability (see sections on DSA and participation of all relevant creditors). Decisions by the IMF and World Bank Executive Boards would be made on the basis of a DSA jointly undertaken by the Government, and IMF and World Bank staffs, and specific assessments by the joint staffs regarding the exceptional assistance needed to attain external debt sustainability at the completion point.

It is expected that three situations could occur (Chart 1):

First, there are those countries that are expected at the decision point to achieve a sustainable debt position by the completion point, once they have benefited from a stock-of-debt operation by the Paris Club under Naples terms (with an NPV reduction of up to 67 percent), along with comparable action by other bilateral and commercial creditors. These actions would enable these countries to exit the rescheduling process with a sustainable debt situation without needing support under the Initiative.

Second, there are countries that qualify for support under the Initiative, namely where the DSA suggests that a stock-of-debt operation by Paris Club creditors under Naples terms and comparable treatment by other bilateral and commercial creditors would not be sufficient to reduce the overall debt to a sustainable level by the completion point. Therefore, additional action by bilateral and multilateral creditors under the Initiative would be required to achieve debt sustainability.

Third, there are borderline cases, namely those countries that (i) face a debt burden above, or in the upper end, of the thresholds for debt sustainability (200-250 percent NPV of debt-export ratio and 20-25 percent debt-service ratio) at the decision point and (ii) where, although a stock-of-debt operation on Naples terms from Paris Club creditors, together with comparable action by other non-multilateral creditors, is projected to allow a country to achieve debt sustainability at the completion point, there is a reasonable degree of uncertainty about this outcome. In these cases, a refinement is proposed to the framework endorsed at the spring 1996 meetings of the Interim and Development Committees. In particular, it is now proposed that such a borderline country could request to defer a stock-of-debt operation by the Paris Club to the completion point and receive a further flow rescheduling under Naples terms during the second stage.² By opting for a further flow rescheduling, a country could benefit from enhanced assistance from some multilaterals during the second stage (see discussion of supplemental IDA allocations below). Furthermore, if the outcome at the completion point was worse than projected, and the target ranges for debt sustainability were

² If such a country did not opt for a further flow rescheduling but opted for a Naples terms stock-of-debt operation at the decision point, it would be ineligible for further consideration under the Initiative.

not achieved, bilateral and multilateral creditors would consider additional action under the Initiative.

Box 1. Defining External Debt Sustainability

External debt sustainability would be assessed jointly by the Boards of the IMF and World Bank, on a case-by-case basis. This assessment would be based on the following indicators:

- (i) The ratio of the net present value of debt to exports (the NPV debt-export ratio) should be expected to fall within a range of 200-250 percent, or below, by the completion point;
- (ii) the debt-service to exports ratio should be expected to fall within a range of 20-25 percent, or below, by the completion point;
- (iii) within these prescribed ranges, debt sustainability would be determined in conjunction with various measures of vulnerability, including the burden of external debt service on the government budget, the diversity of the country's export base, its reserve coverage, its resource balance, and any other relevant factors.

Debt sustainability analysis

Based on the definition of debt sustainability in Box 1, at the decision point the World Bank and IMF staffs would jointly recommend targets for the completion point for the NPV debt-export ratio and for the debt-service ratio. A target range for the NPV debt-export ratio would be specified (+/- 10 percentage points of the target) to allow for some variability in the outcome without the need for creditors to adjust their committed action (see discussion of better and worse than expected outcomes below). Consistent with these targets and the assumed actions by bilateral and commercial creditors, the staffs would estimate the U.S. dollar equivalents of the NPV reduction required by multilateral creditors.

The action by bilateral and multilateral creditors to reduce the NPV of debt to the assumed target would need to be delivered in a way that ensured that projected debt-service ratios would be at, or below, the target.³

³Multilateral creditors would need to tailor their action to smooth the future debt-service profile. In the event that, despite such smoothing, the bunching of debt-service payments would leave the debt-service ratio above the target range (after action to reduce the NPV of debt to its targeted level), bilateral creditors may need to reschedule on non-concessional terms debt service falling due. This would not necessarily involve a cost to creditors in NPV terms. If such additional action was insufficient to achieve the targets for the debt-service ratio, further action to reduce the NPV of debt and thereby achieve the debt-service ratio targets could be agreed.

Performance period

The decision point under the Initiative would be reached only after a country completes a three-year IMF-supported adjustment program with a good payments record to creditors. Countries which have already been granted a stock-of-debt operation by the Paris Club on Naples terms could be considered to have completed the first stage and other countries that have embarked on IDA- and ESAF-supported programs would be considered to be already engaged in this first stage.⁴ If a country went off-track during the first stage, some flexibility would be needed in determining whether a satisfactory track record has been established. It is proposed that if a country went off-track during the first stage, credit could be given for implementation during the first stage of ESAF arrangements prior to going off-track, depending on the extent of deviation from the original program objectives. The credit would be conditional on the country successfully implementing at least one further annual ESAF arrangement immediately prior to the decision point, as part of a three-year track record. In any case, judgments would need to be made by the Boards of the Bank and the IMF, on a case-by-case basis, as to whether the first three-year track record had been established.

Performance criteria

Performance criteria, derived from policy objectives set out in the PFP, would need to be met by the country to receive support under the Initiative. The criteria could center on (i) macroeconomic indicators, (ii) progress on key structural reforms (e.g., trade, financial and enterprise sectors, public expenditure management), and (iii) social reforms (e.g., improving basic health care and education,⁵ and reducing poverty levels). Both IMF and World Bank Boards would approve the key performance criteria which would be included in the joint HIPC Initiative Board document.⁶ While both the World Bank and the IMF would monitor together macroeconomic developments and structural and social reforms during the second stage, the ESAF-supported program would be one of the main instruments through which compliance with a macroeconomic and structural adjustment program would be monitored.

⁴For example, the case study for Uganda (see Annex I-I) assumes that Uganda has completed the first stage once the Initiative is approved, with a completion point three years after the decision point in the Spring of 1997. It is noteworthy that Uganda has a successful six-year track record under the current and previous ESAF arrangements and received a stock-of-debt operation from Paris Club creditors in February 1995.

⁵For example, among the possible social programs that could be monitored are the allocations within the total education budget and total health budget to basic education and primary health care, respectively.

⁶A HIPC Initiative Board document would be presented to both the IMF and World Bank Executive Boards at the decision point (as discussed below).

The World Bank would be responsible for monitoring the Government's progress in implementing structural and social reforms identified in a companion Bank-only HIPC report, presented to the Bank Board along with the joint HIPC Initiative Board document. An annual review of this Bank HIPC report, which would be discussed by the Bank Board, would be one of the means for monitoring performance. On the basis of the Bank's HIPC report, the World Bank Board would approve the Bank's specific actions, including annual use of IDA grants under the interim measures (see section on the World Bank's participation).

Nonperformance either in the macro realm or in implementing structural and social reforms during the second stage would delay or terminate enhanced assistance under the Initiative during the second stage and at the completion point. In the case of significant delays in the World Bank and IMF-supported programs, enhanced assistance under the Initiative during the second stage would be ended and the country would need to return to the end of the first stage and restart the decision point process.⁷

In the case of delays that did not have a significant adverse impact on the original objectives of the World Bank and IMF-supported programs, the completion point could be delayed, and delays in implementing the structural and social reforms monitored under the Bank's HIPC report could cause delays in the use of IDA grants during the second stage.⁸ Clearly this would be a decision for both the World Bank and the IMF Executive Boards to make on a case-by-case basis, and the completion point would not be reached for a given country unless agreement was reached on this issue by both Boards.

In the event of such implementation delays, the targets set for the NPV debt-export ratio and debt-service ratio would be presumed to remain the same, but the resulting change of the completion point would mean that action by creditors would be on the basis of the NPV of debt at the new completion point based on the latest debt-stock data available.⁹

⁷In particular, eligibility would need to be re-established for support under the second stage implying the need for a new DSA, a new three-year ESAF arrangement, a new PFP, reassessment of the Bank's lending program (especially adjustment credits) and preparation of a new Bank HIPC report and a new joint HIPC Initiative Board document.

⁸Such delays could also be reflected in delays in the ESAF-supported program if the lack of World Bank support led to doubts about financing of the ESAF program.

⁹The latest data available would be expected to be for a date less than one year before the completion point.

Participation by all relevant creditors

The HIPC Debt Initiative would build on existing mechanisms for providing debt relief from Paris Club and other bilateral and commercial creditors and assistance from multilateral creditors, including concessional lending, the Fifth Dimension, and the IDA Debt Reduction Facility. In order to help achieve a sustainable debt position at the completion point and to assure broadly equitable burden sharing in providing exceptional assistance, creditors may need to take additional action beyond the existing mechanisms, as outlined below:

- While the Paris Club is still considering its contribution to the Initiative, the proposed procedures assume that **Paris Club creditors** would go beyond Naples terms and provide debt relief equivalent to a NPV debt reduction of up to 90 percent on a case-by-case basis on eligible debt. Based on the DSA and the financing needs for the interim period, the Paris Club is assumed to agree on a flow rescheduling during the second stage of the HIPC Initiative. At the completion point, the Paris Club is assumed to implement the stock-of-debt reduction committed at the decision point.¹⁰

- **Non-Paris Club creditors and commercial creditors** would be expected to provide debt relief on terms at least comparable with the Paris Club arrangement.¹¹

- **Multilateral creditors** would be expected to take action to reduce the burden of their claims on a given country at the completion point if the planned actions by bilateral and commercial creditors (NPV debt reduction of up to 90 percent on eligible debt) are insufficient to achieve a sustainable debt position at the completion point. In this case, multilateral creditors as a group would be expected to take action to reduce the level of debt to sustainable levels, each in proportion to their share of the NPV of multilateral debt at the decision point. During the second stage, any multilateral may decide to take some of the action required of it at the completion point; such interim measures would count toward action required at the completion point, as described in Box 2. In addition, multilateral creditors may provide supplemental financial support to help cover the external financing needs of a given country, in conjunction with support from the rest of the international community. The World Bank and the IMF intend to participate in the Initiative in the following ways:

¹⁰ As noted earlier, it is proposed that borderline countries that face uncertain prospects of achieving debt sustainability by the completion point could request to defer a stock-of-debt operation by the Paris Club to the completion point and receive another flow rescheduling under Naples terms during the second stage.

¹¹ If the country still needs to settle its commercial bank debt, it may have the possibility of accessing the IDA Debt Reduction Facility for IDA-only countries, where applicable.

Box 2. The Contribution of Enhanced Assistance during the Second Stage to Action Required at the Completion Point

Some multilaterals may take measures during the second stage that could count toward the required reduction in the NPV of their claims on a given country at the completion point. Such action would count toward action required of multilaterals at the completion point if assistance projected from a multilateral creditor in the DSA (prepared at the decision point) for the second stage is provided on more concessional terms than the terms built into the projections.¹

For instance, assume that new financing of US\$100 million from the IDA (on normal IDA terms with a grant element of about 70 percent) was projected for the second stage and was built into the projection for the NPV of debt to the World Bank at the completion point. If this assistance was instead delivered as a grant over the second stage rather than as a loan, this would lower the projected NPV of the World Bank's claims on the country at the completion point relative to the projected level. In this case, the added grant component in the IDA grant (about US\$30 million) relative to an IDA loan (with a grant equivalent of US\$70 million) would count toward the action required at the completion point.

¹ The grant element of new financing from multilaterals during the second stage built into the baseline projections would be based on the terms of assistance normally provided to HIPC's by the multilateral concerned.

The IMF would reduce the burden of its claims on a country at the completion point through a special ESAF grant or loan which would be paid into an escrow account and used to cover certain debt service to the IMF (see EBS/96/133 of 8/23/96).

The World Bank would participate in the Initiative during the second stage and at the completion point, where necessary (see SecM96-926 of 8/26/96). The two measures envisaged for the second stage are:

-- First, IDA grant financing is proposed selectively for a portion of the normal IDA program depending on the severity of each HIPC's sustainability problem, i.e., the use of

grants would be related to the expected distance of each country from the sustainability threshold at the completion point.¹²

-- Second, **supplemental HIPC IDA allocations** could be proposed for a few eligible countries that register negative net transfers vis-à-vis the Bank, and require substantial balance of payments support in order to finance their reform programs. These allocations would be above the normal IDA allocations that are determined annually through an internal Bank review of the country's overall performance. The supplemental IDA allocations could assure a level of IDA commitments that would be commensurate with the achievement of positive net transfers from the Bank to these countries during the second stage.

At the **completion point**, the Bank's share in exceptional assistance would be delivered through the HIPC Trust Fund, which would prepay or buy back a portion of the debt owed to the World Bank, or commit to pay a portion of the future debt service owed to the World Bank as it falls due.

Other multilateral creditors would decide on the instruments of their participation, including the possibility of participating through the HIPC Trust Fund.

C. Procedures for Implementing the Initiative¹³

Procedures leading up to the decision point

A first step in the procedures leading up to the decision point (summarized in Appendix I-A), would be the preparation of debt and exports data as a basis for projecting the NPV debt-export and debt-service ratios (see Box 3). A reconciliation of creditors' records of claims with the country authorities' records would be required, and debt data used in the DSA would be based, ideally, on the World Bank's debtor reporting system (DRS) database. Regarding exports, the statistical methodology for preparing the data would need to be based

¹²It is proposed that the grant portion of the IDA program is linked to the country's projected NPV debt-export ratio at the completion point. Thus,

- for countries with projected NPV debt-to-export ratios between 250-300 percent at their completion point, grants would account for one third of their IDA program;
- for countries with projected NPV debt-to-export ratios between 300-350 percent at their completion point, grants would account for one half of their IDA program; and
- for the few countries projected to have NPV debt-to-export ratios in excess of 350 percent at their completion point, grants would account for three fourth of their IDA programs.

¹³A matrix summarizing the procedures in three parts, namely before the decision point, immediately after the decision point, and from the decision point to the completion point (during the second stage) is contained in Appendix I.

on the definitions in the Fifth Edition of the IMF Balance of Payments Manual (see Box 3), and the staffs would need to be confident that the data provided a sound basis for preparing the export projections.

Box 3. Definition of the NPV Debt-Export Ratio and Debt-Service Ratio

The NPV debt-export ratio is defined as the net present value (NPV) of outstanding public and publicly guaranteed external debt at the end of the period, expressed as a percentage of exports for the previous 12 months. Currency specific discount rates would be used to discount the stream of all scheduled debt-service payments on the outstanding debt. The debt-service ratio is defined as the scheduled debt service (interest and principal payments due) for the same coverage of debt as in the NPV debt-export ratio, expressed as a percentage of exports for the current year. The definitions of debt, the discount rate, and exports are outlined below:

- The debt covered by the proposed Initiative would be limited in all cases to public and publicly guaranteed external debt. Unguaranteed private sector debt to private sector external creditors would be excluded from the NPV debt-export ratio and debt-service ratios used under the HIPC Debt Initiative (however, in some cases this type of financing may provide a significant source of new financing, and conservative projections of such financing would be incorporated in the DSAs).
- The currency-specific discount rates would be the latest available six-monthly average of the OECD's commercial interest reference rates.
- The denominator for the NPV debt-export ratio would normally be limited to exports of goods and services, based on the definition in the IMF Balance of Payments Manual, Fifth Edition, 1993 (summarized on page 43 of the manual, item 1A.). Where workers' remittances make a significant contribution to the country's debt servicing capacity, such inflows would be included in the denominator for the NPV debt-export ratio.

Once a HIPC has established a two-year performance record and is on track with its macroeconomic, structural, and social reform program during the third year of the first stage of the Initiative, a preliminary agreement on the medium-term macroeconomic framework and DSA would be reached between the Government, and IMF and World Bank staffs. The agreement would be reached during a joint IMF/World Bank mission about nine months before the decision point and coincide with an ESAF review mission by the IMF. The World Bank, for its part, would identify those structural and social development policies from within the Country Assistance Strategy (CAS) and PFP that it would monitor under the Initiative. On this basis, the staffs would jointly assess whether or not the country is likely to be eligible under the Initiative. This would require close collaboration between the staffs of the IMF and the World Bank. If the analysis shows that the country faces an unsustainable debt situation, the staffs would jointly make a preliminary assessment of the amount of exceptional assistance that would be required to achieve a sustainable debt position at the completion point. The staffs would also make an assessment of the action that would be required by the

relevant multilateral creditors, based on assumptions about action by bilateral and commercial creditors. In forming these preliminary assessments, the staffs would have informal contacts with the relevant creditors and donors to assess whether the action required was feasible.

IMF and World Bank Board meetings on preliminary DSA. The preliminary medium-term macroeconomic framework, DSA, and staff assessments would be circulated to the Executive Boards of the IMF and World Bank about six months before the decision point for their review and comments on (i) the eligibility of the country under the Initiative, (ii) the need for additional action under the Initiative, and (iii) assumptions on required actions by other creditors, including the Paris Club. The Boards would be asked to endorse the recommendations or assumptions on these elements as a basis for consultation with creditors and donors.

Following the Board meetings, World Bank and IMF staffs would initiate the **consultation process with other creditors**, who would also receive the preliminary DSA. Based on the DSA and the recommendations made during the IMF/World Bank Board meetings, the staffs would seek preliminary views on the actions assumed from the Paris Club, non-Paris Club bilateral creditors, and other multilateral creditors. In addition, the staffs would seek to ascertain donor support for the country concerned under the Initiative (which could be done during a possible Consultative Group meeting). In parallel to these consultations, the Trustee of the HIPC Trust Fund would review resource availability in light of amounts expected to be provided, and, where necessary, consult with donors on possible allocations of resources to the qualifying country.

This extensive consultation process among creditors and donors should ensure that the **final DSA** reflects the likely response of the international financial community to the country's external debt position. This DSA is expected to be formally finalized with the Government during the joint IMF/World Bank mission that negotiates the PFP (at the same time as the ESAF-supported program is negotiated with the IMF), about three months prior to the decision point.

Upon return of the mission, IMF and World Bank staffs would prepare a **HIPC Initiative Board document** consisting of (1) a formal Government request for support under the Initiative, (2) the DSA jointly prepared by the Government, and IMF and World Bank staffs, and (3) joint staff recommendations on: (i) eligibility, (ii) the targeted range for the NPV debt-export ratio and a target for the debt-service ratio at the completion point, (iii) assumed contributions by bilateral and commercial creditors, (iv) proposed action by multilaterals to achieve these targets, and (v) key performance criteria under the Initiative.

The IMF staff would circulate the HIPC Initiative Board document to the IMF Board together with the ESAF Board document and the PFP. In the case of the World Bank, the HIPC Initiative Board document and the PFP would be circulated to the Board in parallel with the Bank HIPC report, containing a separate request for (i) Bank Board approval of those

structural and social development performance criteria from within the PFP and the CAS to be monitored under the Initiative, and (ii) approval of the Bank's action under the Initiative, including the use of IDA grants or supplemental allocations, where applicable. The request for Bank Board approval would explain to the Board how the support for a comprehensive debt workout fits within the overall IDA country assistance strategy, including the rationale for monitoring key structural and social development policy areas under the Initiative.

The IMF and World Bank Board meetings on the HIPC Initiative Board document would be the **decision point**. It is expected that the Boards would endorse in principle, subject to confirmation of action by other creditors: (i) eligibility, (ii) the debt targets and target range, (iii) the action proposed by multilaterals to achieve those targets, and (iv) the key performance criteria. In addition, the IMF Board would approve in principle a three-year ESAF arrangement and the commitment of special ESAF grants or loans required at the completion point. The Bank's Board would approve in principle any proposed use of IDA grants or supplemental allocations and the World Bank's commitment to the completion mechanisms. Approval in principle would be necessary to avoid the possibility of the IMF and the World Bank approving actions to alleviate the debt burden of a given country without commitment to action by other relevant creditors and/or donors who are key to help achieve a sustainable debt situation for such a country.

Procedures Immediately after the decision point¹⁴

Following the IMF and World Bank Board meetings the **Managing Director of the IMF and the President of the World Bank would send a joint letter to Paris Club, non-Paris Club bilateral, and multilateral creditors as well as to potential donors, informing them of the Board decisions in principle and seeking confirmation (from Paris Club and multilateral creditors) of their envisaged actions within a period of two months.**

In the context of the proposals under the Initiative, **Paris Club creditors** would be requested to convene a meeting within two months of the decision point to consider a Government request for a treatment of their eligible debt beyond Naples terms, to agree on (i) a flow rescheduling during the second stage, involving an NPV reduction on eligible debt of up to 90 percent, (ii) a goodwill clause to consider a stock-of-debt operation at the completion point, thereby reducing the NPV of eligible debt by up to 90 percent provided that the country remains on track with the ESAF program and maintains a satisfactory record of payments to Paris Club creditors during the second stage, and (iii) a standard clause requiring at least comparable treatment of other bilateral and commercial creditors. In parallel or around the same time as the Paris Club meeting, the **other multilateral institutions** would be expected to take decisions on their participation in the Initiative, consistent with their own internal procedures.

¹⁴See also Appendix I-C.

Debt workout meeting: Following the Paris Club meeting and decisions made by the other multilateral institutions, a debt workout meeting would be convened immediately (or soon) thereafter. The meeting would be co-chaired by the World Bank and IMF and attended by representatives of the debtor country authorities, multilateral creditors, and possibly representatives of Paris Club and non-Paris Club bilateral creditors. The main objective of this meeting would be to confirm the willingness of other **multilateral creditors** to take the required actions at the completion point. In addition, creditors would establish a "de minimis" clause, i.e., multilaterals with an exposure of less than a certain amount (e.g., US\$1 million) to the qualifying country would not be expected to make a commitment to reduce the NPV of their claims on such a country.

The possible attendance of **Paris Club creditors** or their representatives could provide them with the opportunity to present to other creditors the agreement reached at the Paris Club meeting. **Non-Paris Club bilateral creditors** would be expected to provide debt relief on terms at least as concessional as Paris Club creditors. Provided the debtor country had made best efforts to reach agreement on these terms, continuing arrears to non-Paris Club bilateral creditors would not preclude it from benefiting under the Initiative.

There could also be a **Consultative Group meeting** of the government with donors and attended by representatives of the World Bank, the IMF, and other multilateral organizations (depending on whether a Consultative Group meeting had taken place prior to the decision point). During this meeting, donors would be urged to pledge concessional resources at least sufficient to cover the financing of the agreed adjustment program associated with the Initiative.¹⁵

The conclusions of the debt workout meeting would be made public. If the workout meeting was successful and conformed with the assumptions of the DSA and the decisions made by both Boards regarding eligibility and multilateral action under the Initiative, the results of this meeting would be communicated to the Boards of the IMF and the World Bank and the actions previously agreed in principle would be approved on a no-objection basis by the Boards. If, however, the workout meeting did not produce a satisfactory outcome to achieve debt sustainability at the completion point, both Boards could meet to discuss the results of the Debt Workout meeting. Under these circumstances, support from the World Bank and IMF would not be confirmed, pending review.

Procedures during the second stage and at the completion point

Monitoring of the performance criteria between the decision point and the completion point would be assured by relying on existing IMF/World Bank instruments. The IMF Board would monitor macroeconomic and structural developments through its ESAF-

¹⁵Pledging of assistance for three years of the second phase may not be possible for those donors that do not have budgetary authority to make such commitments.

supported program on a semiannual basis, and would scrutinize PFPs annually. In the case of the World Bank, the staff would need to prepare an annual review of the Bank HIPC report. This report, in conjunction with the annual PFP, would provide the basis for the World Bank Executive Directors to review performance, as well as the use of IDA grants under the HIPC Initiative (these grants could count as interim measures toward the costs at the completion point faced by the World Bank, as would qualifying action by other creditors, see Box 2). In addition, progress in implementing structural and social development policies would also be followed up by supervision of existing and new IDA-financed adjustment operations.

The World Bank and IMF staffs would jointly prepare an annual review of the HIPC Initiative Board document, which would be presented to both Boards, and would be circulated to all relevant creditors or their representatives. The joint review would also include an **updated DSA**, and would be presented to the Boards of the IMF and World Bank, in conjunction with the approval of the second and third year ESAF arrangements and World Bank discussions of the annual review of the Bank HIPC report.

As a given country approaches the completion point, the Government, and IMF and World Bank staffs would use actual outcomes for updating the DSA and calculating the NPV debt-export ratio and the debt-service ratio at the completion point.

- **Results within target range.** If there was no significant delay in the implementation of the IMF- and Bank-supported programs and if the NPV debt-export ratio fell into the range established at the decision point (and the debt-service ratio was at or below the target), after assuming committed action by multilaterals and envisaged stock-of-debt operation by Paris Club creditors (together with comparable action by other non-multilateral creditors), individual creditors would proceed in taking these measures (allowing for measures taken during the second stage--see Box 2).

- **Better or worse than expected outcomes:** Where the updated DSA showed that the action committed by multilaterals at the decision point (after the assumed stock-of-debt operation from Paris Club creditors and comparable treatment from other non-multilateral creditors) would not result in achievement of the debt target range, World Bank and IMF staffs would reassess the situation.¹⁶ If the NPV debt-export ratio after assumed action by all creditors was higher than projected, multilateral creditors would be expected to increase their support to enable the country to reach the upper end of the original debt sustainability target range. Conversely, if the NPV debt-export ratio was lower than projected and this was primarily due to exogenous factors rather than the country's own policy performance, multilaterals' support could be reduced, consistent with achieving the lower end of the original target range. In exceptional cases, where unanticipated developments in the

¹⁶Developments including debt trends in relation to the targets should also have been considered at earlier discussions, e.g., on the annual ESAF arrangements and reviews of the Bank document.

second stage suggested the need for a reappraisal of the earlier debt targets, new targets could be agreed. Such new targets, and where needed, upward or downward revisions of the amounts to be provided by multilateral creditors, would have to be approved by both the IMF and Bank Boards and the other multilateral creditors concerned before the completion point.

Completion point actions: At the completion point the **Boards of the IMF and the World Bank** would confirm that the country had reached the completion point, possibly on a no-objection basis. The HIPC Trust Fund would implement the action committed by the World Bank and, likely, **other multilateral creditors**. The latter could also confirm use of any other instrument to meet their commitments. The IMF Board would approve the use of special ESAF resources to be provided to an escrow account and decide whether this should be in the form of grants or loans. The IMF Board would also consider the country's request for a successor ESAF arrangement as required for a Paris Club stock-of-debt operation.

Paris Club: The proposal assumes that a Paris Club meeting would be convened to consider the Government's request for a stock-of-debt operation with a NPV debt reduction of up to 90 percent. **Non-Paris Club creditors** would be expected to take action on at least comparable terms with the Paris Club stock-of-debt operation, immediately or soon after the government concludes such an agreement with the Paris Club.

III. Issues for Discussion

Directors may wish to comment on the following specific issues, aside from general comments on the procedures outlined in the paper:

1. It is proposed that a country with an uneven performance under ESAF-supported programs could nonetheless gain credit toward the track record required under the first stage for annual ESAF arrangements implemented in recent years (prior to going off-track). A further period of implementation of at least one annual ESAF arrangement immediately ahead of the decision point would be required as part of a three-year track record. Do Directors agree with this approach to assessing whether a country has established the three-year track record required for the first stage?
2. It is suggested that countries with uncertain prospects of achieving debt sustainability (after the full application of debt relief under current mechanisms) might choose to defer a stock-of-debt operation on Naples terms from Paris Club creditors until their completion point. This would enable them to seek a further flow rescheduling on Naples terms from Paris Club creditors and exceptional assistance from some multilaterals in the interim period and leave open the possibility of exceptional action at the completion point, if the situation was worse than projected. Do Directors agree with this approach to eligibility?

3. A preliminary assessment of the likely eligibility of a country for support under the Initiative about six months ahead of the decision point would give Directors an early opportunity to review a country's eligibility for the Initiative and the appropriate level of the debt targets and endorse these as a basis for consultation with other creditors. Do Directors agree that preliminary staff assessments be presented to the Executive Boards of the World Bank and IMF?
4. Do Directors agree with the proposal that the Executive Boards of the IMF and World Bank approve in principle a country's eligibility for support under the Initiative, subject to implementation by other relevant creditors of the actions assumed and recommended by the Boards?
5. In the case of outcomes for the NPV debt-export ratio within +/- 10 percent of the target, no adjustment to creditor commitments is proposed. In the case of a worse-than-expected outcome, it is proposed that multilateral creditors take further action to reduce the NPV debt-export ratio to sustainable levels, subject to decisions by the World Bank and IMF Executive Boards. However, in the case of better-than-expected outcomes, no claw-back of assistance is proposed unless this was clearly due to exogenous factors. Do Directors agree with this approach?

Appendix I: HIPC Debt Initiative: Proposed Procedures 1/ A. Before Decision Point

Joint IMF/World Bank Action on HIPC Initiative	Expected Output	Parallel Action	Timing (Months before Decision point)
1. Preparation for Debt Sustainability Analysis (DSA) – Debt data reconciliation (by Government, WB, and IMF staff) – Where necessary, reexamination of export data (by Government, WB, and IMF staff)	Agreement on latest debt stock and debt-service data. Agreement on exports classification (exports of goods and services) consistent with BOP manual.	Review of HIPC Trust Fund resource adequacy. Replenishments to be sought as required.	9 months
2. Preliminary Debt Sustainability Analysis (DSA) Joint IMF/WB mission to agree on DSA and medium-term macroeconomic framework.	Preliminary DSA paper jointly prepared by the Government, IMF, and WB. The DSA would reflect informal consultations with principal creditors. IMF/WB staffs make joint preliminary recommendations on : (i) eligibility under the Initiative, (ii) possible targets under the Initiative, (iii) required action by multilateral creditors (based on assumptions of action by nonmultilaterals), (iv) projected donor support.	Review under third annual ESAF arrangement.	8-9 months
3. IMF/WB Board meetings	Discussion of preliminary DSA and staff recommendations. Endorsement of DSA and staff recommendations/assumptions as basis for consultations with principal creditors and donors.	Completion of ESAF mid-term review.	6 months
4. Consultations with creditors and donors Preliminary DSA paper will be shared with principal creditors, including Paris Club, non-Paris Club bilateral and other multilateral creditors, and bilateral donors.	Understanding with Paris Club creditors to consider measures beyond Naples terms. Indications of bilateral and multilateral support for debt workout.	HIPC Trust Fund trustee will consult with donors on possible allocation of resources to the qualifying HIPC. Possible Consultative Group meeting.	4-5 months
5. DSA	Completion of tripartite DSA paper. Agreement on key performance criteria under the HIPC Initiative to be monitored under the ESAF and Bank HIPC report.	Agreement on PFP Agreement on new three-year ESAF arrangement. Agreement on performance criteria for structural, social, and other key policy areas to be monitored under the Bank HIPC report.	3 months
6. Circulation of HIPC Board document	HIPC Initiative Board document, consisting of: (i) government request for support under the Initiative, (ii) tripartite DSA paper, (iii) WB/IMF staff recommendations, including request for decisions on eligibility, target range for NPV debt-exports ratio and target for debt-service ratios at completion point, assumed contributions by bilateral creditors, and proposed action by multilaterals to achieve targets including the presumption on the adjustment of this action if targets not achieved, and key performance criteria.	PFP Board document ESAF Board document accompanied by request for Board approval of special ESAF resources (grants or loans) at the completion point. Bank HIPC Board document with (i) social and structural performance criteria, (ii) use of IDA grants or supplemental allocations, where applicable, and (iii) WB commitment. Agreement between the Trustee and donors on set aside to supplement resources in the MDB component of the HIPC Trust Fund.	1 month
7. IMF/WB Board meetings to discuss HIPC Initiative Board document	IMF/WB approval in principle (subject to actions other creditors) of: (i) eligibility, (ii) target range for NPV debt-exports ratio and target for debt-service ratio at the completion point and beyond, (iii) proposed action by multilaterals to achieve these targets. (iv) key performance criteria.	PFP discussion. IMF Board approval in principle of three-year ESAF arrangement and of use of special ESAF resources at the completion point. WB Board discussion of the Bank HIPC report. WB Board approval of (i) use of IDA grants or supplemental allocations, where applicable, (ii) social and structural performance criteria under the HIPC initiative, and (iii) the WB's commitment to the completion measures.	Decision point

1/ Assumes approval of framework of action proposed by the Managing Director of IMF and President of WB in ICMS/DOC/46/96/3, April 15, 1996.

Appendix I: HIPC Debt Initiative: Proposed Procedures (continued)
B. Immediately after Decision Point

Joint IMF/WB Action on HIPC Initiative	Expected Output	Parallel Action	Timing after Decision Point
1. Communication of decisions of IMF and WB Boards and the DSA	Joint Letter by IMF Managing Director and WB President to creditors and donors.		0
2a. Paris Club Meeting	Agreement on (i) flow rescheduling during the interim period with concessionality beyond Naples terms 1/ (ii) goodwill clause to consider stock-of-debt operation with concessionality beyond Naples terms at the completion point, 1/ and (iii) standard clause requiring at least comparable treatment of other bilateral and commercial creditors.		0-2 months
2b. Decisions by other multilaterals	Approval in principle of their participation.		0-1 months
3. Debt workout meeting attended by authorities, IMF, WB, other multilaterals, and possibly Paris Club representatives, and non-Paris Club creditors.	Formal confirmation of participation of each multilateral creditor. Indications of support from other creditors.	Possibly a separate Consultative Group Meeting.	1-2 months
4. Report to IMF and the WB Boards	Assuming outcomes consistent with IMF and WB Boards' assumptions and recommendations, a report would be prepared on Paris Club and Debt Workout meetings and Boards would approve (on no-objection basis) decisions in HIPC Initiative document. If not consistent, then a rethinking of the strategy would be required.	IMF Board confirms (on no-objection basis) approval of three-year ESAF arrangement.	1-2 months

1/ For borderline case it is proposed that a further flow rescheduling and a goodwill clause for a stock operation on Naples terms could be agreed.

Appendix I: HIPC Debt Initiative: Proposed Procedures (concluded)
C. During Second Stage from Decision Point to Completion Point

Joint IMF/WB Action on HIPC Initiative	Expected Output	Parallel Action	Timing after Decision Point
1. Monitoring of macroeconomic indicators and of performance in social reform and other key policy areas	Annual review of joint Bank/Fund HIPC Initiative Board document.	PFPs prepared. IMF Board approval of annual ESAF arrangements and mid-term reviews. WB review of Bank HIPC report.	annually semi-annually annually
2. Debt sustainability analysis	Updated DSA. Analysis of interim period is based on actual outcomes. Assessment of whether the NPV of debt-exports ratio is within the ranges and whether the debt-service ratio is at or below target, as agreed upon at the decision point, after committed action by multilaterals and assumed Paris Club stock operation, together with comparable action by other nonmultilateral creditors. If actual outcomes outside these ranges, assessment of revised need for multilateral action at the completion point, guided by the presumption established at the decision point unless exceptional unanticipated developments during the second stage suggested new debt targets would be appropriate. 1/	Agreement between Trustee and creditors on how set-aside amounts are to be used.	3 months prior to completion point
3. IMF/WB Board meetings a. <u>If outcome within targeted ranges:</u> b. <u>If outcome outside targeted range</u> [If necessary] Further Debt Workout Meeting Report to Boards of IMF and WB	Completion point review of revised HIPC Initiative Board document. Boards informed, and where necessary confirm (no-objection basis): (i) compliance with conditionality and country at completion point (ii) envisaged action by multilaterals Joint letter WB President, IMF Managing Director informing creditors and donors and requesting agreed action. (i) Boards agree compliance with conditionality and country at completion point (ii) Boards decide proposed action by multilaterals. Joint letter IMF Managing Director/WB President to creditors and donors informing them of situation and (if necessary) requesting additional action by multilaterals. 1/ Agree additional action by multilaterals. 1/ Assuming other creditors agree, approval on no-objection basis of revised action.	IMF Board confirms (no-objection basis) use of special ESAF resources; decides whether grants or loans. WB Board reviews performance under the Bank HIPC report. HIPC Trust Fund confirms action earlier agreed. IMF Board agrees in principle new commitment of special ESAF resources; approves (in principle) new ESAF arrangement. WB Board agrees revised Bank HIPC report. HIPC Trust Fund considers new commitment of resources, in consultation with each participating MDB. IMF Board confirm approval (on no-objection basis) of special ESAF resources; decides whether grant or loans; confirms approval new ESAF arrangement. WB Board confirms approval of revised commitments.	Completion point
4. Paris Club meeting	Approval of stock-of-debt operation.	Non-Paris Club official bilateral and commercial creditors provide relief on comparable terms.	0-2 months after completion point
5. Other Multilaterals	Implement action committed at decision point.		0-2 months after completion point

1/ Assumes Paris Club and other non-multilateral creditors were already committed to NPV reduction of 90 percent of eligible debt; if not, further action would be requested from these creditors.

Annex I. Case Studies of Action Under the HIPC Debt Initiative

I. Uganda

Uganda can be considered to have successfully established the first three-year track record required under the Initiative, as it received a stock-of-debt operation on Naples terms from Paris Club creditors in February 1995. No further allowance is made in this case study for Uganda's successful six-year track record under the current and previous ESAF arrangements and the fact that it already received a stock-of-debt operation. On the basis of the latest DSA,¹⁷ Uganda would likely require assistance under the HIPC Debt Initiative to achieve external debt sustainability, i.e., it would fall into the second category discussed above (Section II). The steps that Uganda and the international community could take under the proposed Initiative are outlined below.

A. Procedure before the Decision Point

Given that Uganda is assumed to have already established the track record required in the first stage, the procedures before the decision point would differ from the general case (as outlined in Chart 1 in the main text). In particular, the first steps would not take place in conjunction with the approval of a third annual arrangement under Uganda's first ESAF-supported program, as Uganda implemented a four-year ESAF arrangement over the period 1989-94 and completed the second annual review of an additional three-year ESAF arrangement in May 1996. Therefore, transitional arrangements would be necessary for Uganda, as discussed below.¹⁸

Reconciliation of debt and examination of export data

As a first step, a reconciliation of creditors' records of claims with the Ugandan authorities' records would be required. The authorities would need to collaborate closely with bilateral and multilateral creditors to reach a full reconciliation of their records with creditors' records ahead of the final decision point, ideally based on the World Bank's DRS database. A joint IMF and World Bank technical assistance mission in late 1996 (about six months ahead of the decision point) would assist the authorities with this process, which may take several months, in close collaboration with other relevant creditors. Agreement would

¹⁷Summarized in "Debt Sustainability Analysis of the Heavily Indebted Poor Countries", SM/96/22; SecM96-94, January 31, 1996.

¹⁸Transitional arrangements would also be needed for other cases considered to have completed the first stage before the Initiative is in place, i.e., the remaining countries that have agreed stock-of-debt operations on Naples terms with Paris Club creditors--Bolivia, Burkina Faso, Guyana, and Mali.

also need to be reached between the staffs of the IMF and World Bank and the Ugandan authorities on the export figure for 1995/96 that would be used as the base for export projections (see Box 3 in the main text).¹⁹

Joint IMF and World Bank mission to reach preliminary agreement on the DSA

A joint IMF and World Bank mission in the fall of 1996 could seek to reach a preliminary agreement with the authorities on a medium-term macroeconomic framework and the DSA. On this basis, the staffs would form a preliminary assessment of (i) Uganda's eligibility for support under the Initiative, (ii) the appropriate level of the debt targets at the completion point required to reach external debt sustainability (taking into account the various vulnerability factors), and (iii) assumptions on required actions from relevant creditors to achieve the debt targets. In forming the preliminary view, the staffs would have informal contacts with the relevant creditors and donors to assess whether the action required of these parties was feasible.

IMF and World Bank Executive Board meetings

The preliminary medium-term macroeconomic framework and DSA, along with the preliminary staff assessments concerning eligibility and the appropriate debt targets could be presented to the Executive Boards of the IMF and World Bank in late 1996, about six months before the decision point. The IMF Executive Board meeting could be held in conjunction with Uganda's request for a third annual ESAF arrangement. The Boards would review the assessment and comment on (i) eligibility of Uganda under the Initiative, (ii) the need for additional action under the Initiative, and (iii) assumptions on required actions by other creditors, including the Paris Club. The Boards could endorse the preliminary staff assessment as a basis for consultation with creditors and donors. Boxes I-1 and I-2 illustrate the actions required of creditors, assuming a NPV debt-export target of 200 percent at the completion date and a 90 percent NPV reduction on eligible debt from non-multilateral creditors.

Given the three-year track record required under the second stage of the Initiative, the earliest possible completion point would be the spring of 2000. Action would be based on the most recent annual data available at that time, namely NPV debt-export and debt service ratios for Uganda's fiscal year ending June 1999. This assumes full implementation of the

¹⁹A recent IMF statistical mission to Uganda pointed out some serious flaws in the balance of payments methodology, including the measure of exports of goods and services.

new three-year ESAF arrangement by Uganda assumed to be approved in the spring of 1997.²⁰

Box I-1. Uganda: Debt Targets and Action Required by Creditors

Targets for NPV Debt-Export and Debt-Service Ratios: Based on the latest DSA (summarized in Tables I-1 and I-2) and an assessment of the vulnerability factors (see Annex II), the target for the NPV debt-export ratio at the completion point would likely be set at the lower end of the 200-250 percent range. For the purpose of this exercise, a hypothetical level of 200 percent is assumed, with a target range of 190-210 percent for end-June 1999 (the latest date for which data would be available ahead of the completion point). Similarly, the target for the debt-service ratio in this exercise was set at the low end (20 percent) of the range of 20-25 percent for 1999/2000 onwards. These targets are presented here for illustrative purposes only.

Action Assumed for Non-Multilaterals: In this case study, a 90 percent reduction in the NPV of eligible debt is assumed from non-multilateral creditors. Such action would reduce the NPV of debt at June 1999 by US\$150 million (expressed in June 1999 NPV terms), and thereby reduce the projected NPV debt-export ratio from 265 to 242 percent (see Table I-3).

Action by Multilaterals: Under this scenario, multilateral creditors would be required to reduce the NPV debt-exports ratio from 242 percent to the hypothetical target of 200 percent at end-June 1999--this would amount to about US\$278 million in 1999 NPV terms (Table I-3). The action required of multilaterals would be distributed among the multilateral institutions on the basis of their exposure to Uganda, in NPV terms, at the decision point. In practice this would be based on the most recent reconciled data available at the time of the IMF and Bank Board meetings in the spring of 1997 (i.e., data for end-June 1996). In this case study, data for end-December 1994 are used as more recent data, at the level of detail required, are not yet available.

Based on the IMF's share of the NPV of multilateral debt at end-December 1994 (about 27 percent), the IMF would be required to reduce the NPV of its claims on Uganda at end-June 1999 by US\$75 million (Table I-3). The World Bank's action would amount to US\$155 million, while the African Development Bank and Fund would be required to contribute US\$30 million. Other multilaterals (including the Arab Bank for Economic Development in Africa, the European Investment Bank, and the International Fund for Agricultural Development) would be required to reduce the NPV of their claims at the completion point by US\$18 million. Multilaterals with an exposure of less than US\$1 million to Uganda would be regarded as "de minimis" and would not be expected to make a commitment to reduce the NPV of their claims on Uganda, though they would be free to take action if they so chose.

The commitment from the IMF would be denominated in SDRs, while the commitment from the World Bank would be denominated in the mix of currencies that make up the Bank's claims on Uganda. The exchange rates prevailing at the decision point would be used to determine commitments made in currencies other than U.S. dollars.

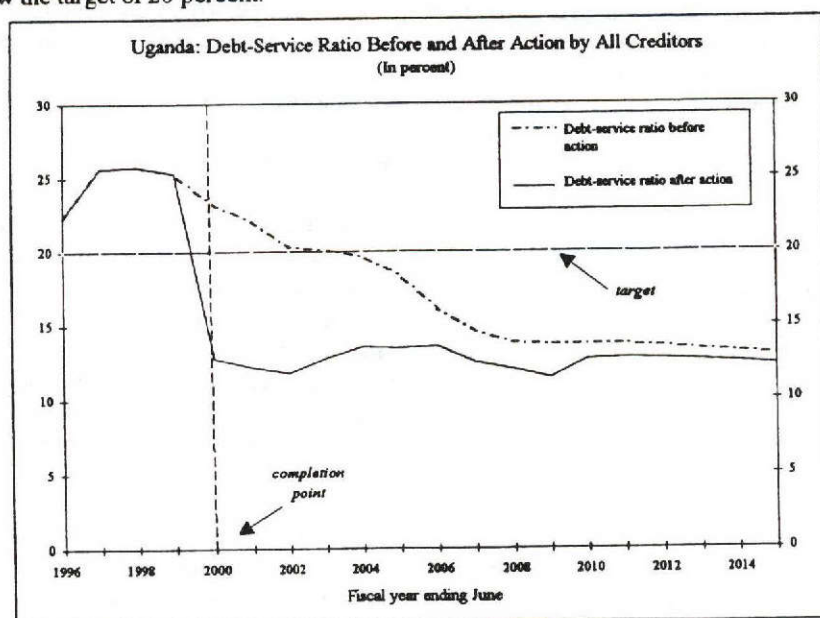
²⁰The existing ESAF arrangement is assumed to be canceled in favor of a new three-year ESAF arrangement at the decision point, given the requirement for a three-year track record in the second stage of the Initiative.

Box I-2. Uganda: Action by Creditors to Achieve the Debt-Service Ratio Target

The chart below illustrates the results of making various assumptions about the delivery of the assistance to Uganda that would be consistent with achieving the illustrative target for the **debt-service ratio**. The assumptions are as follows:

- (1) Paris Club creditors would apply graduated repayments terms over 23 years, with 6 years' grace, for eligible debt at the stock-of-debt operation with a 90 percent NPV reduction. Other bilateral and commercial creditors would apply comparable terms.
- (2) The IMF's contribution of US\$75 million, in end-June 1999 NPV terms, would be made through an ESAF grant provided to an escrow account. This assistance would be earmarked to cover part of Uganda's debt-service payments to the IMF over a five-year period on a graduated schedule.¹
- (3) The World Bank's contribution of US\$155 million, in end-June 1999 NPV terms, would be provided through the HIPC Trust Fund on a ten-year graduated schedule.²
- (4) The contribution of other multilaterals of US\$48 million would be provided in the same manner as for the World Bank.

As a result of these assumptions, the debt-service ratio would fall to below 14 percent from 1999/2000 onwards, well below the target of 20 percent.



¹ The schedule assumed would deliver 30 percent of the total commitment (equivalent to about 40 percent of the annual payment due to the IMF) in the first fiscal year (ending in June 2000), 25 percent in the second year, 20 percent in the third, 15 percent in the fourth, and 10 percent in the fifth year. This would be equivalent to a total of US\$88 million in current prices.

² The schedule assumed is graduated in a similar way to that for the debt service to the IMF but stretches the repayments over 10 years. While the Bank proposes to provide limited and targeted grant funding during the interim period, for simplicity, the example assumes no interim measures during the second stage to reduce the total NPV reduction required at the completion point.

Consultation with creditors and donors

Following the IMF and World Bank Board meetings in November 1996, the staffs of the IMF and World Bank would hold more formal, but nonetheless preliminary, consultations with the relevant creditors and donors. The preliminary DSA would be provided to creditors and donors, and the staff would communicate the preliminary assumptions and assessment endorsed by the Boards. In particular:

- **Paris Club creditors** would be consulted as to whether they would be willing to go beyond Naples terms, up to a 90 percent NPV reduction;
- **non-Paris Club bilateral creditors** would be consulted on the assumptions made regarding their actions;
- the management of **other multilateral creditors** would be consulted to ascertain whether they would be willing and able to take the action recommended by the IMF/Bank Boards;
- and relevant **donors** would be consulted to ascertain support for the Initiative.

In parallel to these consultations, the Trustee of the HIPC Trust Fund²¹ would review resource availability in light of the assistance to be provided, and where necessary, consult with donors on possible allocations of resources to Uganda.

IMF and World Bank joint mission to reach a formal agreement on the DSA

The extensive consultation process with relevant creditors and donors should ensure that the final DSA reflects the likely response of the international community to the country's debt situation. If the relevant creditors and donors broadly agree with the assumptions and recommendations of the IMF and World Bank Executive Boards, the staffs would proceed to reach a formal agreement with the authorities on the Policy Framework Paper and DSA. This mission would take place in early 1997, about three months prior to the decision point, in conjunction with an IMF mission for the negotiation of a new three-year ESAF arrangement. During this mission, the World Bank staff would agree with the authorities on structural and social performance criteria to be included in the Initiative and monitored by the Bank.

²¹The modalities of the HIPC Trust Fund are discussed in detail in the paper "World Bank Participation in the HIPC Debt Initiative" (SecM96-926 of 8/26/96).

IMF and World Bank Executive Board meetings at the decision point

Assuming Uganda was assessed to be eligible for support under the Initiative, the staffs would prepare the HIPC Initiative Board document (as described in the main text and summarized in Appendix I). The IMF Executive Board would consider the request for support under the Initiative together with a request for a new three-year ESAF arrangement, and at the same time, the World Bank would consider the request from the authorities. These meetings could take place in the spring of 1997 and would be the **decision point** under the Initiative.

If Uganda were judged eligible for support under the Initiative, both the IMF and World Bank Executive Boards would (i) approve Uganda's eligibility for support (in principle, subject to confirmation of action by the other relevant creditors and donors), (ii) set targets for the NPV debt-export and debt-service ratios and a target range for the NPV debt-export ratio, and (iii) propose action by the relevant multilateral creditors, based on assumptions of how bilateral creditors (particularly the Paris Club) would act. (Based on the current analysis, the targets and action are discussed in Boxes I-1 and I-2, and illustrated in Table I-3).

The IMF Executive Board would approve in principle a new three-year ESAF arrangement, subject to confirmation of action by the other relevant creditors and donors. The IMF Executive Board would also commit (in principle) to reduce the NPV of the IMF's claims on Uganda by US\$75 million through a special ESAF operation once Uganda reached the completion point (see EBS/96/133 of 8/23/96 for details of the special ESAF operation).²²

The World Bank Executive Board would commit action by the World Bank (in principle, subject to confirmation of action by other relevant creditors and donors) to reduce the NPV of the Bank's claims on Uganda by US\$155 million.²³ The action would be contingent on Uganda being in compliance with performance criteria regarding structural and social development policies, which would be laid out in the HIPC Initiative Board document (as discussed above). The Bank Board would also commit the use of IDA grants in the order of US\$180-200 million over the second stage. About 30 percent of this amount (about

²²The commitment would be denominated in SDRs, calculated as the SDR equivalent of the U.S. dollar amount required using the SDR/U.S. dollar prevailing at the decision point.

²³The commitment would be denominated in the mix of currencies which make up the Bank's claims on Uganda, using exchange rates prevailing at the decision point.

US\$54-60 million, before adjustment to 1999 NPV terms) could count towards the costs at the completion point of US\$155 million in 1999 NPV terms.²⁴

B. Procedures after the Decision Point²⁵

Following the IMF and World Bank Board meetings, the Managing Director of the IMF and the President of the World Bank would write a joint letter to Paris Club creditors and relevant non-Paris Club bilateral and multilateral creditors as well as potential bilateral donors, informing them of the Board decisions in principle and seeking action (from Paris Club and multilateral creditors) on their part within two months along the lines assumed by the Boards.

Paris Club meeting

Paris Club creditors agreed on a stock-of-debt operation for Uganda in February 1995 and are unlikely to follow this with a flow rescheduling, particularly as debt service falling due to Paris Club creditors on pre-cutoff date debt would average less than US\$8 million per annum (about 1 percent of exports per annum) over 1996/97-1998/99. Paris Club creditors might be requested to consider providing support through an additional stock-of-debt operation on enhanced terms, either at the decision or completion point.

In this case study, it is assumed that Paris Club creditors would meet in the spring of 1997, within one-two of months approval of Uganda's eligibility for support under the Initiative by the IMF and the World Bank Boards, and agree to consider a new stock-of-debt operation involving a 90 percent NPV reduction on eligible debt at the completion point.²⁶ The new stock-of-debt operation would be contingent on satisfactory implementation of the new three-year ESAF arrangement and maintenance of a good payments record to Paris Club creditors. Uganda would be expected to reach agreements with non-Paris Club bilateral and

²⁴This assumes that the IDA grants take the place of IDA loans included in the DSA projections. In this case, the greater concessionality of IDA grants would count as interim support towards the completion costs (see Box 2 in the main text). If IDA loans are assumed to have a grant element of 70 percent, the added concessionality of the IDA grants would be 30 percent of their face value.

²⁵These procedures are summarized in Appendix I-B.

²⁶The normal practices of the Paris Club under Naples terms are assumed to apply in this illustration--i.e., eligible debt includes pre-cutoff date debt only. Debt previously rescheduled on Naples terms (under the stock-of-debt operation) and on London terms is assumed to be topped up to achieve an NPV reduction of 90 percent. No reliable data are available on outstanding Official Development Assistance (ODA) debt for Uganda, which are assumed to be zero for the purposes of this case study.

commercial creditors on terms at least comparable with those agreed with Paris Club creditors.²⁷

Debt Workout meeting

Assuming Paris Club creditors would agree to consider a stock-of-debt operation with an NPV reduction of 90 percent on eligible debt at the completion point, a Debt Workout meeting would be held immediately thereafter in the spring of 1997. The primary aim of the meeting would be to confirm the commitment by the relevant "other" multilateral creditors to take the action recommended by the IMF and World Bank Boards to reduce the NPV of their claims on Uganda by US\$48 million (in 1999 NPV terms) at the completion point. The commitment by "other" multilateral creditors would be contingent on Uganda reaching the completion point.

The Trustee of the HIPC Trust Fund would indicate the amounts available to Uganda at the completion point. The Trustee would review periodically the adequacy of overall resources, and seek replenishments as necessary, including at the Debt Workout meeting.

The possible attendance of Paris Club creditors or their representatives at this meeting could provide them with the opportunity to present to other creditors the agreement reached with Uganda at the Paris Club meeting. Non-Paris Club bilateral creditors would be expected to provide debt relief on terms at least comparable with Paris Club terms (and thereby provide a NPV debt reduction of US\$70 million at the completion point).

There could also be a Consultative Group meeting of donors, in line with normal practices. Donors would be requested to make commitments for new financing for the authorities' three-year World Bank and IMF-supported programs, over and above any exceptional support pledged under the Initiative.²⁸ Given Uganda's need for new financing on appropriately concessional terms, donors would be requested to pledge new financing in the form of grants or highly concessional loans.

IMF and World Bank Executive Board review of outcome

The staffs of the IMF and the Bank would review the outcomes of the Paris Club and Debt Workout meetings and submit a joint paper to the IMF and World Bank Boards. If the outcomes were consistent with those assumed, the earlier commitments made in principle by the Boards would be confirmed. These decisions could be taken on a lapse-of-time or

²⁷The major non-Paris Club creditors to Uganda are China, India, Korea, and Libya.

²⁸Pledging of assistance for the three years of the second phase may not be possible for those donors that do not have budgetary authority to make such commitments.

no-objections basis in May/June 1997. If problems were encountered with the Paris Club or Debt Workout meetings, the IMF and Bank Boards would review the situation.

C. Procedures during the Second Stage²⁹

Implementation of the adjustment program

During the second stage (spring 1997-spring 2000), Uganda would be required to complete the new three-year ESAF arrangement and implement the undertakings in the World Bank-supported programs (including the performance criteria concerning structural and social development policies contained in the HIPC Initiative Board Document). Furthermore, Uganda would be required to respect strict limits on non-concessional borrowing to constrain the increase in the NPV of debt.

The Board of the IMF would monitor progress under the three-year ESAF arrangement on the occasions of the approval of the second- and third-year ESAF arrangements and the midterm reviews of all three annual arrangements and would scrutinize the PFPs annually. The World Bank would also review performance annually. Updated DSAs would be presented to the Boards of the IMF and World Bank for their review on an annual basis--for the IMF in conjunction with the approval of the second- and third-year ESAF arrangements--and the Boards would be able to assess whether the debt targets remained achievable based on the action committed by creditors at the decision point. If the analysis at this stage pointed to better or worse outcomes at the completion point than expected, no decisions would be required of the Executive Boards during the second stage but the analysis could point to the need for further action at the completion point (see discussion of better- and worse-than-expected outcomes below).

Procedures in the event of delays in program implementation are discussed in Box I-3.

D. Procedures at the Completion Point (Spring 2000)

The outcome at the completion point is as expected

Assuming Uganda successfully implements three annual ESAF arrangements and the Bank-supported programs on schedule, and maintains a good payments record with Paris Club creditors, it would reach the completion point in the spring of 2000. About three months ahead of this date, the staff of the IMF and World Bank would agree on an updated DSA with the authorities. This would include an estimate of the outcome for the NPV debt-export ratio

²⁹These procedures are summarized in Appendix I-C.

Box I-3. Procedures in the Event of Delays in Program Implementation

In the event of a major delay in the implementation of the IMF- and Bank-supported programs, the ESAF arrangement would expire and Uganda would be deemed to have returned to the end of the first stage and would have to restart the decision point process. It would need to agree on a new three-year ESAF arrangement and be deemed eligible for assistance under the Initiative before it could reenter the second stage.

If there were a delay in implementing the three annual ESAF arrangements (without a significant deviation from the original program targets), the completion point would need to be moved beyond the spring of 2000. For instance, if Uganda were to complete successfully two annual ESAF arrangements on schedule, but experienced a one-year delay in completing the midterm review of the third annual arrangement, the completion point would move to the spring of 2001, one year later than expected at the decision point. The presumption is that the target range set for the NPV debt-export ratio of 190-210 percent would remain unchanged under this scenario. However, it would apply to the debt outstanding at end-June 2000, the latest point for which data would be available at the completion point in the spring of 2001. Such a delay may lead to a better or worse outcome for the NPV debt-export and debt-service ratios depending on how the factors behind the delay impacted on the NPV of debt and export performance. But, provided the target range was reached, the nominal amount committed by multilateral creditors (US\$278 million) at the decision point would still be provided at the completion point.

It should be noted that given the flexibility of the ESAF, there is scope to accommodate reasonable delays in policy implementation. For instance, if a new three-year ESAF arrangement were approved by the IMF Executive Board in the spring of 1997, the third annual arrangement would need to be approved within three years (i.e., before expiry of the arrangement in the spring of 2000). This in itself would give some scope to accommodate delays of up to one year. Moreover, if justified, the three-year ESAF arrangement could be extended beyond the spring of 2000 to accommodate further delays at any stage of the three annual arrangements.

at end-June 1999,³⁰ after taking account of the action committed by creditors at the decision point and any interim support provided by creditors. The general procedures at the completion point are outlined in Appendix I-C.

If the outcome for the NPV debt-export ratio (after the committed action by creditors) at end-June 1999 was in the target range set at the decision point of 190-210 percent, Uganda would be judged to have achieved a sustainable debt situation. Hence, the relevant creditors would implement their commitments at the decision point, as follows:

1. The IMF and World Bank Executive Boards, in the spring of 2000, would be informed, and where necessary would confirm, that the performance criteria under the

³⁰Subsequent revisions to the estimated NPV debt-export for end-June 1999 would have no bearing on creditor actions.

Initiative had been met and that Uganda had reached the completion point. In addition, the IMF Board would confirm the release of the special ESAF resources (either a grant or a loan, or a combination of the two) to an escrow account sufficient to reduce the NPV of the IMF's claims on Uganda by US\$75 million. At the same time, the IMF Board would consider the authorities' request for a further three-year ESAF arrangement. Although Uganda would have achieved debt sustainability at this stage, it would remain reliant on official external financing flows. Hence, direct support from the IMF under a further ESAF arrangement and continued support from the Bank may be required to act as a catalyst for support from creditors and donors. In particular, the Paris Club may require a further IMF arrangement to be in place as the basis for the stock-of-debt operation at the completion point (in line with current practice).

2. **The World Bank** would implement its commitment to reduce the NPV of its claims on Uganda by US\$155 million in 1999 NPV terms (less the additional concessionality of about US\$54-60 million, before adjustment to 1999 NPV terms, of IDA grants that could count toward this reduction). This action would be financed from the HIPC Trust Fund.

3. **Other multilateral creditors** would implement their commitment to reduce the NPV of debt by US\$48 million in the spring of 2000 (less any action during the second stage that could count toward this reduction). This could be achieved either through the HIPC Trust Fund or through parallel action.

4. **Paris Club creditors** would be expected to meet soon after the IMF Executive Board approval of the three-year ESAF arrangement to consider Uganda's request for a stock-of-debt operation with an NPV reduction of 90 percent on eligible debt.

5. **Non-Paris Club official bilateral and commercial creditors** would be expected to take action on terms at least comparable with the Paris Club stock-of-debt operation, soon after an agreement between Uganda and the Paris Club agreement were reached.

As noted earlier, all creditors would need to ensure that action taken to reduce the NPV of their claims on Uganda was consistent with achieving the target for the debt-service ratios for 1999/2000 and beyond (i.e., below 20 percent). To verify whether action by creditors were sufficient to achieve the debt-service ratio target, the agreed DSA at the completion point would include updated projections of the debt-service ratio over a 20-year horizon. If the analysis suggested that further action to alleviate the debt-service burden was necessary, this would be considered by creditors. If necessary, bilateral creditors could reschedule any remaining non-concessional debt on non-concessional terms to achieve the desired result for the debt-service ratio, which would have no cost implications in NPV terms. If further action were required, this would have cost implications in NPV terms.

Better or worse than expected outcomes at the completion point

The IMF and World Bank Board meetings at the completion point would decide on actions to be taken if the outcome at the completion point was better or worse than expected, in line with the presumptions established at the decision point. While it would be up to the Boards to decide the appropriate actions, the presumption would be that the following actions would be taken (see also Table I-4):

(i) ***Worse-than-expected outcome***--If the NPV debt-export ratio at the completion date were higher than 210 percent (after taking account of the action committed by all creditors), multilaterals would increase their assistance (since Uganda is assumed to reach the completion point, a satisfactory track record of policies is assured). For example, if exports at the completion point were 10 percent lower than expected, but the NPV of debt was in line with expectations, the NPV debt-export ratio would be 222 percent after taking account of the action committed by all creditors. In this case, multilateral creditors would need to provide assistance of US\$351 million (US\$73 million higher than the initial commitment) to reduce the NPV debt-export ratio to 210 percent (the upper end of the original range).

(ii) ***Better-than-expected outcome, for endogenous reasons***--if the NPV debt-export ratio were lower than 190 percent (after taking account of the action committed by all creditors) the presumption would be that this resulted from strong policy efforts by the authorities. Therefore, multilateral creditors would implement their initial commitments. For example, if exports at the completion point were 10 percent higher than expected, and this was clearly not due to exogenous factors, multilateral creditors would implement their initial commitments of US\$278 million. In this example, Uganda would achieve a NPV debt-export ratio of 182 percent at the completion point.

(iii) ***Better-than-expected outcome, for exogenous reasons***--if the NPV debt-export ratio were lower than 190 percent (after taking account of action committed by all creditors) and this was clearly the result of exogenous factors, such as an increase in commodity prices, multilateral creditors would provide only the assistance necessary to reduce the NPV debt-export ratio to 190 percent (the lower end of the original range). For example, if exports at the completion point were 10 percent higher than expected, and this was clearly due to higher than expected coffee prices, multilateral creditors would provide US\$218 million (US\$60 million less than the initial commitment) to reduce the NPV debt-export ratio to 190 percent at the completion point.³¹

If the outcome was outside the NPV debt-export target range, and **exceptional unanticipated developments** during the second stage suggested new debt targets would be

³¹Where the exogenous factors were judged to be the result of temporary phenomena, the Boards could make a judgement on the appropriate extent of claw-back, if any.

appropriate, the Executive Boards of the IMF and the World Bank would review the DSA and recommend adjusted action by multilateral creditors.

II. Nicaragua

The case of Nicaragua differs from Uganda in two important respects--first, Nicaragua would be required to establish a track record of economic performance during the first stage, unlike Uganda, which has already established such a track record. Second, Nicaragua has not received a stock-of-debt operation from Paris Club creditors and would require a flow rescheduling during the second stage of the Initiative, as would generally be the case.

A. Establishing the Track Record during the First Stage

In June 1994, the IMF Executive Board approved a three-year ESAF arrangement for Nicaragua, the first such arrangement for Nicaragua. However, because of policy slippage and weak performance under the program, a review of the first annual arrangement could not be completed before expiring in mid-1995. In September 1995, the IMF staff agreed a set of policies with the authorities (to be monitored by the staff) that could help rebuild a satisfactory record of performance before resuming IMF support under the second annual ESAF arrangement. For the purposes of this case study, it is assumed that progress under the staff-monitored program is judged satisfactory and that the second annual ESAF arrangement for Nicaragua will be approved by the IMF Board in late 1996. This would imply that the decision point under the Initiative for Nicaragua could be reached by late 1998 at the earliest, following the completion of the second and third annual ESAF arrangements. On this basis, the completion point could be reached by late 2001 at the earliest, assuming timely implementation of a further three-year ESAF arrangement.

B. Steps Ahead of the Decision Point

The procedure ahead of the decision point would be in line with the general case (Appendix I) and similar to that for Uganda. However, unlike the case of Uganda, work on reconciling debt and verifying the export data could be launched at an earlier stage. Also, unlike Uganda, the joint IMF/World Bank mission to reach a preliminary agreement on the PFP and DSA could take place in conjunction with the IMF's midterm review mission of the third annual ESAF arrangement, assumed to be around the spring of 1998.

The IMF and World Bank Executive Boards would endorse the preliminary assessments regarding Nicaragua's eligibility and debt targets as a basis for consultations with creditors and donors in the spring of 1998 (see Box I-4). The IMF Board discussion would be in conjunction with the review of the third annual ESAF arrangement in mid-1998. Consultations with creditors and donors would follow and a joint IMF/World Bank mission would agree on a final DSA with the authorities.

Nicaragua's request for support under the Initiative would be considered by the Executive Boards of the IMF and World Bank in late 1998, which would be the decision point. The IMF Board would consider this request in conjunction with a request for a new three-year ESAF arrangement. If Nicaragua were judged eligible, the Executive Boards would approve support for Nicaragua in principle, subject to other creditors and donors taking action to achieve debt sustainability in line with the assumptions and recommendations of the Boards. The IMF Board would approve the three-year ESAF arrangement and a special ESAF operation, in principle, and the World Bank Executive Board would approve support on the same basis.

C. Paris Club Meeting to Agree on Flow Rescheduling

The Paris Club would meet within one-two months of the IMF and World Bank Boards' approval (in principle) of Nicaragua's eligibility for support under the Initiative. Paris Club creditors would agree on a flow rescheduling for Nicaragua on eligible debt-service obligations falling due during the second stage, with an NPV reduction of 90 percent. Paris Club creditors would also need to agree to undertake a stock-of-debt operation (with an NPV reduction of 90 percent on eligible debt) following the successful implementation of the three-year ESAF arrangement and maintenance of a good payments record to Paris Club creditors. Non-Paris Club official bilateral and commercial creditors would be required to provide debt relief on terms at least comparable with Paris Club creditors.

D. Remaining Steps at the Decision Point and Completion Point

The remaining steps for Nicaragua at the decision point, during the second stage, and at the completion point would be in line with the general procedures (as described in Appendix I) and similar to the Uganda case study. The only difference would be that Paris Club creditors would implement a flow rescheduling throughout the second stage, annual tranches of which would, under normal procedures, be tied to implementation of the second and third annual ESAF arrangements. The steps to be taken at the completion point by Paris Club and non-Paris Club bilateral creditors, and all other creditors, would nonetheless mirror those for Uganda.

Box I-4. Nicaragua: Debt Targets and Action Required by Creditors

Based on a preliminary DSA for Nicaragua, which has not yet been submitted to the Executive Boards of the IMF and World Bank, the NPV debt-export ratio would be about 270 percent at end-2000, the latest date for which data would be available at the completion point (Table I-5). This is after assuming a stock-of-debt operation on Naples terms from Paris Club creditors and at least comparable treatment from other bilateral and commercial creditors.¹ Therefore, based on the current analysis, Nicaragua would be eligible for assistance under the second stage of the Initiative, as debt relief to the full extent of current mechanisms from bilateral and commercial creditors would not be sufficient to reduce the NPV debt-export ratio to sustainable levels by end-2000.

The staffs of the IMF and World Bank would make a preliminary assessment of Nicaragua's eligibility for assistance under the Initiative and the appropriate debt targets and present them to their respective Boards--this would take place about six months ahead of the decision point in late 1998. The assessments concerning the appropriate targets would be based on the vulnerability analysis for Nicaragua, along the lines of that for Uganda (see Annex II and Tables I-1 and I-2). For illustrative purposes, this case study assumes that a target of about 200 percent for the NPV debt-export ratio at end-2000, and about 20 percent or lower for the debt-service ratio for 2000 and beyond would be consistent with achieving a sustainable debt situation given the heavy burden of debt on the fiscal accounts and the relatively low level of international reserves. While the target of 200 percent would be the basis for creditors to commit action, this action would not be altered unless the outcome fell outside the range of +/- 10 percentage points each side of the target (i.e., outside 190-210 percent at end-2000).

Assuming that Paris Club creditors provided an NPV reduction of 90 percent on eligible debt in a flow rescheduling for 1998-2000 and a stock-of-debt operation at end-2000, this would reduce the NPV of debt by US\$420 million (about 39 percent of projected exports for 2000). Comparable action by non-Paris Club bilateral and commercial creditors would reduce the NPV of debt by US\$237 million (about 22 percent of projected exports for 2000). Therefore, the total action by non-multilateral creditors would reduce the NPV debt-export ratio at end-2000 from 270 percent to 208 percent.

Under this scenario, action by multilateral creditors would be required to reduce the NPV debt-export ratio from 208 percent to the hypothetical target of 200 percent. This assistance would amount to US\$81 million (in 2000 NPV terms), and would be distributed among multilateral creditors based on their exposure at the decision point (i.e., at end-December 1997, as this would be the latest date for which data would be available at the decision point). The largest contributions would be required from the Inter-American Development Bank (US\$33 million in 2000 NPV terms) and the Central American Bank for Economic Integration and others (US\$27 million), with lesser contributions required of the World Bank (US\$12 million) and the IMF (US\$9 million).

¹ The current debt sustainability analysis assumes that the April 1996 preliminary agreement with the Russian Federation, which involves an NPV reduction of about 90 percent, is finalized. No further NPV reduction is assumed for "post-cutoff date" debt to Latin American bilateral creditors that received a 95 percent NPV reduction in 1990-93.

Table I-1. Uganda: Summary of Debt Sustainability Analysis 1/

Background and Macro Assumptions

- ESAF (2nd year) approved 11/29/95.
- Strong policy performance since 1987.

Volume Growth (Annual averages, in percent)

	90/91-94/95	95/96-04/05	05/06-14/15
Export	15.9	7.2	5.6
(non coffee)	23.1	10.0	8.0
Import	14.1	2.0	3.9
Real GDP	6.4	5.7	5.5

Structure of External Debt (percent shares, mid-1995)

IDA 50; IMF 2; other multilateral 11; Paris Club 11;
other bilateral 12; commercial 4.

Financing Assumptions

- Comparable treatment from other bilateral and commercial creditors to Paris Club stock-of-debt operation implemented in February 1995.
- New financing on highly concessional terms (80 percent on IDA terms, remainder slightly less favorable).
- Project-related donor inflows grow by 2 percent in real terms until 1997/98 and are constant thereafter.
- External arrears of US\$228 million eliminated in 1995/96.

External Financing (Annual averages, in US\$ million)

	90/91-94/95	95/96-04/05	05/06-14/15
Total financing need 2/	588.0	710.0	821.0
Gross multilateral disbursements	256.0	296.0	316.0
Net official transfers	258.0	291.0	319.0

Debt Burden Indicators (before action under the Initiative)

- Debt-service ratio:
23.2 percent in 1999/00
18.4 percent in 2004/05
- NPV debt-export ratio:
267 percent in 1998/99
206 percent in 2004/05
- Public external debt service-revenue ratio:
13 percent in 1999/00
- Public external debt service-expenditure ratio:
11 percent in 1999/00

Sensitivity Analysis 3/

Debt-Service Ratios (before action) (In percent of exports of GNFS)

	1996/97	2004/05	2014/15
Baseline	25.7	18.4	13.0
Lower export growth	25.7	19.1	15.8
Less favorable financing	25.7	22.3	18.0
Weaker terms of trade	27.3	20.6	15.3

Assessment and Risks

- Debt indicators remain high for the next 5-7 years, but improve steadily. Over the next 10 years, solid growth is consistent with reducing noninterest current account deficit (excluding official transfers) from 7 to 4 percent of GDP while holding official reserves at 4-5 months of imports.
- Sensitivity analysis: vulnerability is moderate to high with respect to trade shocks, high with respect to availability of financing on appropriately concessional terms.
- Bank staff are concerned that imports may grow faster than projected.

1/ Based on the analysis presented in "Debt Sustainability analysis for the Heavily Indebted Poor Countries" (SM/96/22; SecM9-94, January 31, 1996).

2/ Defined as current account deficit (excluding official transfers), amortization payments and buildup of international reserves, net of IMF drawings.

3/ See Table I-2 for detailed assumptions.

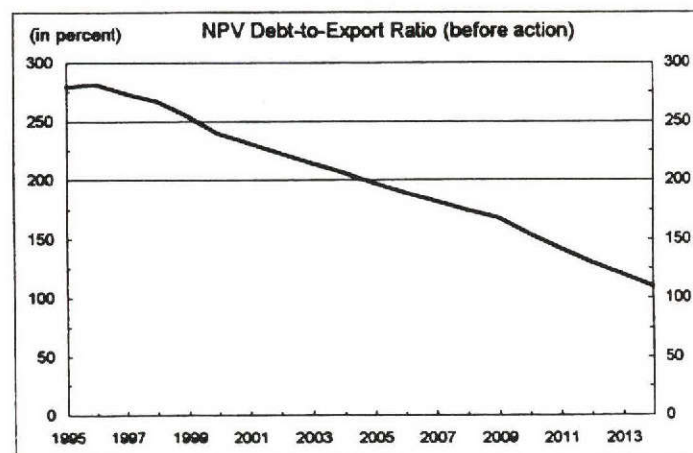
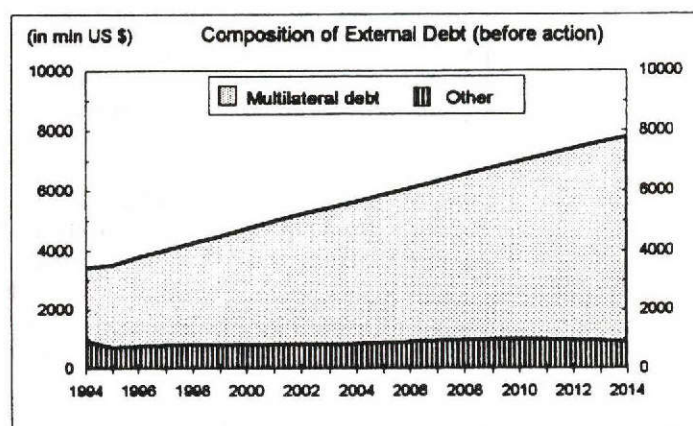
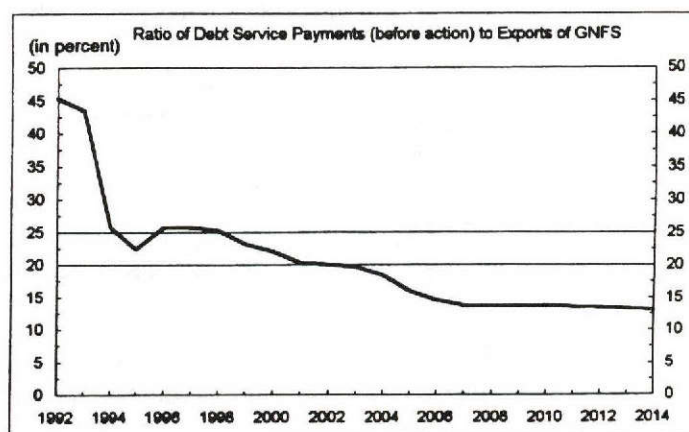


Table I-2. Uganda: Debt Indicators, 1995/96 - 2014/15 ^{1/}
(In percent unless otherwise indicated)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2014/15	Average	
												1995/96	2005/06
Debt and debt service indicators													
NPV debt-export ratio	279.2	281.5	273.0	266.6	253.8	239.2	231.3	222.8	214.4	206.4	110.1	246.8	156.8
Debt-service ratio ^{2/}	22.4	25.7	25.7	25.2	23.2	22.0	20.3	20.1	19.7	18.4	13.0	22.3	13.9
Multilateral debt-service ratio ^{2/}	15.6	19.4	19.9	19.4	17.2	16.5	15.3	14.8	14.2	13.3	9.1	16.6	9.4
Public sector debt-service (scheduled)													
as percent of revenues (excl.grants)	20.6	19.8	17.1	14.6	13.1	...	...	...	...	...	...	...	...
as percent of expenditures	13.6	13.8	12.9	12.2	10.9	...	...	...	...	...	...	...	...
Debt-GDP ratio	63.2	61.2	58.1	55.9	54.1	52.5	50.8	48.8	46.6	44.4	26.1	53.6	34.0
Multilateral debt-GDP ratio	53.5	51.7	49.0	47.8	46.7	45.5	44.3	42.8	40.9	39.1	23.7	46.1	30.1
Key Assumptions/Projections													
Real GDP growth	6.5	6.5	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.7	5.5
Export volume growth	8.2	7.7	10.8	7.3	7.2	6.3	6.3	6.2	6.3	6.3	5.5	7.2	5.6
Import volume growth	-4.6	0.3	0.6	1.5	3.1	3.9	3.9	3.9	4.0	4.0	3.7	2.0	3.9
Terms of trade (% change)	-15.4	-10.6	-10.0	-5.1	-2.1	-0.2	-0.4	0.3	0.2	0.1	1.2	-4.5	1.1
Non-interest current account (% of GDP)	-2.4	-2.8	-2.7	-2.7	-2.6	-2.6	-2.5	-2.6	-2.6	-2.5	-0.9	-2.6	-1.7
excluding official transfers	-7.3	-7.3	-6.9	-6.5	-6.2	-5.9	-5.7	-5.3	-5.0	-4.7	-2.1	-6.1	-3.3
Net official transfers (% change in dollar terms)	-10.0	0.9	3.6	2.4	2.4	2.4	2.4	-5.6	-5.8	2.9	3.2	-0.5	2.3
Gross official reserves (in months of imports) ^{3/}	4.3	5.1	5.2	5.3	5.3	5.3	5.4	5.1	4.5	3.9	1.6	4.9	2.1
Financing gap (% of GDP)	-	-	-	-	-	-	-	-	-	-	-	-	-
Sensitivity Analysis													
Debt-service ratio in the event of:													
Lower export growth ^{4/}	22.4	25.7	25.9	25.5	23.5	22.4	20.7	20.6	...	19.1	15.8	...	...
Less favorable financing ^{5/}	22.4	25.7	26.1	26.3	24.5	23.8	22.4	22.9	...	22.3	18.0	...	...
Weaker terms of trade ^{6/}	23.8	27.3	27.2	26.6	24.4	23.2	21.3	21.9	...	20.6	15.3	...	...

Source: IMF and World Bank staff estimates.

1/ Incorporates effects of February 1995 Paris Club stock-of-debt operation on Naples terms.

2/ Debt service paid (scheduled from 1996 onward) in percent of exports of goods.

3/ Imports of goods and services.

4/ Assumes 1 percentage point lower growth rate of noncoffee exports in real terms from 1996/97 onward.

5/ Assumes that only half instead of 80 percent of all new borrowing is on IDA terms, while the remainder is on terms consistent with a 50 percent grant element (calculated using a 10 percent discount rate).

6/ Assumes coffee prices are 10 percent lower from 1995/96 onward.

Table I-3. Uganda: NPV of Debt at the Completion Point Before and After Action under the Initiative 1/

(In millions of U.S. dollars, unless otherwise stated)

	NPV of debt at the decision point (end-June 1996)	NPV of debt at end-June 1999			
		before action 2/	after action 3/	NPV reduction	NPV reduction as percent of exports
Total External Debt	1,693	1,741	1,312	429	65.4
Paris Club	207	233	166	67	10.3
Post-cutoff date	109	142	142	--	--
Pre-cutoff date	98	91	24	67	10.3
Other bilateral	143	144	74	70	10.7
Commercial	26	18	5	13	2.0
Multilateral	1,317	1,346	1,068	278	42.4
IMF	354	323	248	75	11.4
IDA/IBRD	735	781	626	155	23.6
AfDB/AfDF	143	151	121	30	4.6
Other	85	91	73	18	2.7
Memorandum items:					
NPV debt-export ratio 4/	278.0	265.4	200.0	...	...
NPV debt-export ratio after action by non-multilateral creditors	...	...	242.4	...	...
Exports of goods and services (in millions of U.S. dollars)	609	656	656	...	...

Source: IMF and World Bank staff estimates.

1/ The completion point is assumed to be in the spring of 2000. Hence, the data presented in this table for the completion point are for the NPV of debt at end-June 1999 and exports for the fiscal year ending June 1999 as these would be the latest data available at the completion point.

2/ Includes effects of Paris Club stock-of-debt operation in February 1995.

3/ Assumes 90 percent NPV reduction from Paris Club creditors on pre-cutoff date debt and comparable terms from other bilateral and commercial creditors.

4/ Data consistent with the Technical Note on Preliminary Costing (SM/96/127 of 6/4/96) and updated from the data shown in Table I-2.

Table I-4. Uganda: Illustrative Scenarios--Adjustment for Better- or Worse-than-Expected Outcomes at the Completion Point ^{1/}

(In millions of U.S. dollars, unless otherwise indicated)

Projected Exports at Completion Point	Actual Exports at Completion Point	NPV of Debt at Completion Point 2/	Initial Commitment from Multilateral Creditors	NPV Debt-Export Ratio after Initial Commitment (in percent)	Adjustment in Action by Multilaterals	Final Action by Multilaterals	NPV of Debt after Action by all Creditors	NPV Debt-Exports Ratio after Action by all Creditors (in percent)
Worse than expected outcome (exports 10 percent lower)								
656	590	1,590	278	222	73	351	1,239	210
Outcome as expected								
656	625 - 691	1,590	278	190-210	--	278	1,312	190 - 210
Better than expected outcome for endogenous reasons (exports 10 percent higher)								
656	722	1,590	278	182	--	278	1,312	182
Better than expected outcome for obviously exogenous reasons (exports 10 percent higher)								
656	722	1,590	278	182	-60	218	1,372	190

Source: IMF and World Bank staff estimates.

^{1/} The completion point is assumed to be in the spring of 2000. Hence, the data presented in this table for the completion point are for the NPV of debt at end-June 1999 and exports for the fiscal year ending June 1999 as these would be the latest data available at the completion point.

^{2/} After action by non-multilateral creditors (as in Table 3) but before action by multilateral creditors. For simplicity, assumes that the NPV of debt is as projected, i.e., that higher or lower exports do not impact on the level of new financing and hence the NPV of debt.

Table I-5. Nicaragua: NPV of Debt at the Completion Point Before and After Action under the Initiative 1/

(In millions of U.S. dollars, unless otherwise stated)

	NPV of debt at decision point (end-December 1997)	NPV of debt at end-December 2000			
		before action 2/	after action 3/	NPV reduction	NPV reduction as percent of exports
Total External Debt	3,202	2,895	2,157	738	68.4
Paris Club	979	797	377	420	38.9
Post-cutoff cutoff	165	195	195	--	--
Pre-cutoff cutoff	814	602	182	420	38.9
Other bilateral	720	708	708	--	--
Russia 4/	298	318	318	--	--
Other	422	390	390	--	--
Post-cutoff 5/	202	186	186	--	--
Pre-cutoff	220	204	204	--	--
Commercial 6/	426	326	89	237	22.0
Multilateral	1,077	1,064	983	81	7.5
IMF	117	127	118	9	0.8
IBRD/IDA	165	217	205	12	1.2
IDB	435	511	478	33	3.0
CABEI and other 7/	360	209	182	27	2.5
Memorandum items:					--
NPV debt-export ratio	400.3	268.3	200.0	...	...
NPV debt-export ratio after action by non-multilateral creditors	...	...	207.5	...	...
Exports of goods and services (in millions of U.S. dollars)	800	1,079	1,079	...	...

Source: IMF and World Bank staff estimates.

1/ The completion point is assumed to be in late 2001. Hence, the data presented in this table for the completion point are for the NPV of debt at end-2000 and exports for the year ending December 2000 as these would be the latest data available at the completion point.

2/ After assumed stock-of-debt operation on Naples terms in 1998, with a 67 percent NPV reduction on eligible debt.

3/ Assuming a stock-of-debt operation with a 90 percent NPV reduction from Paris Club creditors on non-ODA pre-cutoff date debt and comparable terms from other bilateral and commercial creditors. Assumes pre-cutoff date ODA debt has an original grant element of 50 percent which is assumed to be increased to 90 percent. For simplicity, no flow rescheduling from Paris Club creditors is built into the calculations, even though Paris Club creditors are assumed to provide a flow rescheduling with a 90 percent NPV reduction during the second stage.

4/ After assumed implementation of the April 1996 preliminary agreement involving an NPV reduction of about 90 percent.

5/ Includes debt to Latin American countries that has been reduced by 95 percent in NPV terms in 1990-93.

6/ Includes pre-cutoff date debt after a buy-back operation involving a 92 percent discount.

7/ Central American Bank for Economic Integration.

Annex II: Assessment of the Appropriate Debt Sustainability Targets for Uganda

The appropriate target for the NPV debt-exports and debt-service ratios for Uganda would be determined on the basis of an assessment of the vulnerability factors, including the burden of external debt service on the government budget, the diversity of Uganda's exports base, its reserve coverage, its underlying resource balance, and any other relevant factors. This appendix assesses the relevant vulnerability factors. Data on the vulnerability indicators for Uganda and other HIPC's, where available, are presented in Tables II-1 and II-2.

The burden of external debt-service on the government budget in Uganda is not heavy in comparison with other countries. Public sector external debt service (after Naples terms debt relief but before debt relief on enhanced terms) as a percent of revenue (excluding grants) was about 21 percent in 1995/96 and is projected to fall to about 13 percent by 1999/2000 (Table I-2). Debt service (as defined above) as a percent of public expenditure was about 14 percent in 1995/96 and is projected to fall to about 11 percent in 1999/2000. These ratios are below the average for HIPC's for which DSAs are available (Table II-2).

Uganda's exports are highly concentrated on coffee, with about 68 percent of export receipts in 1994/95 derived from coffee. Uganda's concentration on one export commodity is well above the average for HIPC for which DSAs are available (Table II-1). The price of coffee has been volatile in recent years, varying from highs of about US\$2.60 per kilo in 1984-86 and 1993-94 to lows of about US\$0.80 per kilo in 1992-93 (Chart II-1).

Uganda's reserve coverage is projected to remain relatively high. Reserves at end-1995/96 stood at the equivalent of 4.3 months of imports, and are projected to increase to over five months of imports by 2000 (Table I-2), one of the highest levels of reserve coverage projected for the HIPC's included in Table II-1.

The non-interest current account deficit (excluding official transfers) for Uganda is projected to remain at about 7 percent of GDP over the period to 1999/2000. Balance of payments financing is expected to be mainly from official sources, with about 60 percent in the form of official transfers and 40 percent in loans. Given the heavy reliance on official sources of financing compared with other HIPC's, Uganda is vulnerable to changes in the terms of such financing.

Sensitivity analysis of the long-term balance of payments projections for Uganda (Table I-2) show that the debt-service ratio is sensitive to changes in the assumptions regarding export volume growth, the terms of trade, and the concessionality of new

financing.³² For instance, the debt-service ratio would be about 1.3 percentage points higher in 1999/2000 if coffee prices were 10 percent lower than in the baseline scenario. The debt-service ratio would also rise by about the same magnitude relative to the baseline scenario if new financing were on less concessional terms (i.e., if only half rather than 80 percent of all new borrowing was on IDA terms, while the remainder was on terms consistent with a grant element of 50 percent, calculated using a discount of 10 percent).³³

Uganda's particular vulnerability to fluctuations in coffee prices and its reliance on official financing suggest that the targets for the NPV debt-export and debt-service ratios should be at the lower end of the ranges of 200-250 percent and 20-25 percent, respectively, at the completion point. It should be emphasized that this assessment is based on the currently available analysis which would be comprehensively updated ahead of the IMF and World Bank Executive Board meetings to consider any request from Uganda for support under the Initiative.

³²An updated DSA for Uganda would include an analysis of the sensitivity of the projected NPV debt-export and debt-service ratios to alternative assumptions regarding the elasticity of demand for imports.

³³An updated DSA for Uganda would include the projected NPV-debt export ratio for each alternative scenario.

Table II-1 : HIPC Vulnerability Indicators

	Percent share in exports of : 1/		Average on- interest current account balance as percent of GDP 2/	Percent contribution to financing need 3/ 4/			Reserve coverage (months of imports)	
	Main product	Three main products		Net official financing	of which:		1995	2000 (proj.)
					transfers	loans		
Nicaragua 5/	25 (coffee)	50	-12	78	34	43	1	3
Uganda	68 (coffee)	73	-7	99	58	41	4	5
Average of HIPC's below	44 ...	69	-7	60	38	21	3	4
Av. of poss. stressed & unsustainable	41 ...	63	-11	32	28	4	3	3
Sustainable 6/								
Benin	84 (cotton)	94	-4	178	92	86	CFA Zone	
Burkina Faso	24 (cotton)	43	-9	86	57	28	CFA Zone	
Chad		...	-13	82	51	31	5	5
Equatorial Guinea	45 (petroleum)	87	17	CA surplus			CFA Zone	
Ghana	27 (cocoa)	86	1	92	24	68	5	5
Guinea	56 (bauxite)	83	-5	97	52	45	3	4
Honduras	28 (bananas)	55	-2	90	43	47	2	3
Kenya	20 (tea)	42	1	87	20	67	2	4
Lao PDR	35 (timber)	62	-10	80	61	19	2	3
Mali	48 (cotton)	93	-10	82	43	39	8	8
Mauritania	55 (fish)	99	-1	277	170	107	2	5
Senegal	27 (fish)	51	-4	92	56	35	CFA Zone	
Vietnam	24 (petroleum)	50	-7	22	1	21	3	3
Yemen	89 (petroleum)	93	-2	-45	16	-61	3	3
Possibly Stressed 6/								
Bolivia	16 (zinc)	37	-8	38	19	19	6	6
Cameroon	29 (petroleum)	52	2.5	-95	8	-103	CFA Zone	
Congo	85 (crude oil)	95	-3	8	1	7	1	3
Cote d'Ivoire	27 (cocoa)	48	3.0	42	21	21	CFA Zone	
Ethiopia	64 (coffee)	80	...	...	...	...	...	...
Guyana	22 (bauxite)	68	0	80	12	68	8	7
Madagascar	18 (coffee)	48	-5	60	31	29	1	3
Niger	58 (uranium)	83	-9	69	44	25	8	...
Tanzania	26 (coffee)	54	-12	79	59	20	2	3
Unsustainable 6/								
Guinea-Bissau		...	-16	59	44	14	3	4
Mozambique	41 (prawns)	58	-17	71	25	39	3	4
Sao Tome and Principe	78 (cocoa)	79	-67	80	56	25	1	2
Sudan	19 (cotton)	50	-6	-4	4	-8	1	1
Zaire	27 (diamonds)	48	0.6	-83	18	-101	1	2
Zambia	70 (copper)	85	-11	48	47	1	3	4
Not Yet Determined 6/								
Nigeria	98 (petroleum)	99	4.7	CA in balance			1	3

Source: Data obtained from country authorities, and staff estimates.

1/ Most recent available data from REDs and Statistical Appendices.

2/ Current account balance excludes interest and net official transfers. Average is for 1996-2000 (1995/96-1999/00).

3/ Financing need is defined as current account deficit (excluding official transfers), amortization payments, and buildup of international reserves, in absolute terms.

4/ Average for 1996-2000 (1995/96-1999/00), or furthest available year, based on staff projections.

5/ After assumed continuous flow reschedulings of eligible debt on Naples terms.

6/ Classification based on analysis presented in (SM/96/161; SecM96-572) and (SM96/22; SecM96-94).

Table II-2: HIPC Vulnerability Indicators

	Public sector external debt service payable in 1998 as percent of: 1/			Fiscal indicators as a percent of GDP 2/		NPV of debt as percent of GDP 1/3/	Projected financing gaps 1/3/	
	Domestic revenue	Public spending	GDP	Tax revenue	Grants		Average as percent of GDP	Eliminated in year
Nicaragua 4/	68	57	22	21.7	8.0	187.0	25.0	2013
Uganda	17	13	2	11.5	3.8	23.4	None	
Average of HIPCs below Av. of poss. stressed & unsustainable	40	32	8	15.0	5.5	94.0	5.6	...
	56	44	11	14.6	10.2	153.1	9.8	...
Sustainable 5/								
Benin	20	14	3	11.5	3.0	—	0.2	
Burkina Faso	13	9	2	11.3	5.8	24.5	0.9	1999
Chad	27	14	3	9.0	8.8	38.9	1.8	...
Equatorial Guinea	54	43	...	14.5	4.1	—	2.7	2002
Ghana	29	29	7	16.9	1.2	47.2	None	
Guinea	19	14	2	12.5	3.7	—	None	
Honduras	51	45	9	16.6	0.4	—	None	
Kenya	21	21	7	27.7	1.7	45.3	0.5	1999
Lao PDR	2	1	< 1	11.1	5.8	—	None	
Mali	24	20	3	11.6	4.8	35.6	1.0	...
Mauritania	12	14	...	17.1	2.5	—	None	
Senegal	35	35	5	14.3	1.2	36.3	0.5	1998
Vietnam	8	7	2	19.8	0.6	—	None	
Yemen	7	7	2	8.0	1.0	75.2	2.7	2001
Possibly Stressed 5/								
Bolivia	22	...	...	...	...	—	None	
Cameroon	41	...	...	13.1	...	—	None	
Congo	48	58	27	...	...	141.5	33.5	...
Cote d'Ivoire	21	19	5	18.4	0.7	—	None	
Ethiopia	...	...	...	...	...	...	...	...
Guyana	39	31	...	28.1	...	...	None	
Madagascar	44	23	4	9.0	4.4	69.6	2.1	...
Niger	24	24	3	...	...	40.1	3.0	...
Tanzania	31	28	...	16.7	2.9	—	None	
Unsustainable 5/								
Guinea-Bissau	107	142	10	7.6	15.4	191.3	6.5	...
Mozambique	52	33	23	18.2	11.2	144.2	None	
Sao Tome and Principe	128	29	21	11.3	42.7	332.0	11.5	...
Sudan	134	61	...	...	...	—	14.6	>2014
Zaire	68	53	6	5.8	0.9	—	2.8	>2014
Zambia	24	25	4	17.5	3.8	—	4.0	>2010
Not Yet Determined 5/								
Nigeria	59	71	16	26.4	0.0	—	7.1	>2005

Source: Data obtained from country authorities, and staff estimates.

1/ After assumed debt rescheduling/relief, including Paris Club stock-of-debt operation, where applicable.

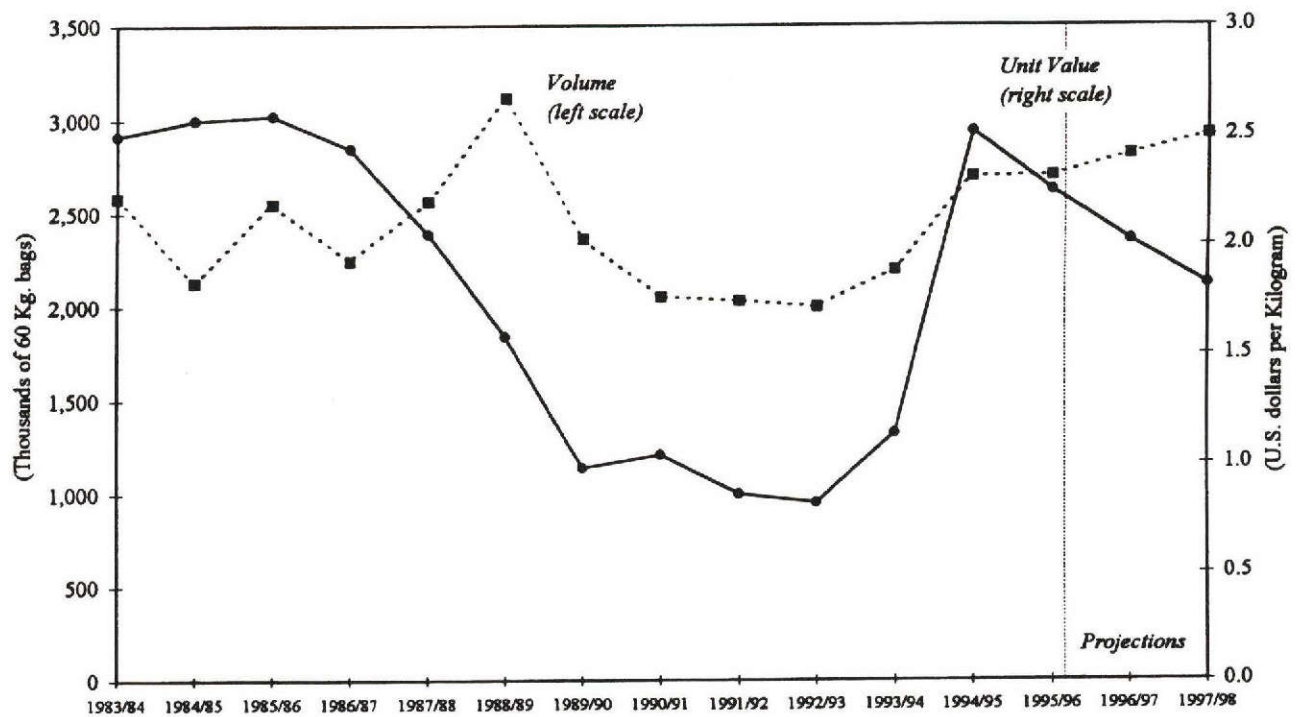
2/ Average for 1996-97 (1995/96-1996/97) if available, based on staff projections.

3/ Average for 1996-2000 (1995/96-1999/00)

4/ After assumed continuous flow reschedulings of eligible debt on Naples terms.

5/ Classification based on analysis presented in (SM/96/161; SecM96-572) and (SM/96/22; SecM96-94).

Chart II-1. Uganda: Coffee Export Volume and Unit Values, 1983/84-1997/98.



Source: Ugandan authorities and IMF staff estimates.

DECLASSIFIED

FEB 19 2025

WBG ARCHIVES

EBS/96/133

CONFIDENTIAL

August 23, 1996

To: Members of the Executive Board

From: The Secretary

Subject: **Financing a Continuation of the ESAF and the
Fund's Participation in the HIPC Initiative**

Attached for consideration by the Executive Directors is a paper on financing a continuation of the ESAF and the Fund's participation in the initiative to resolve the debt problems of the highly indebted countries (HIPC), which is tentatively scheduled for discussion on Wednesday, September 11, 1996.

Ms. Christensen (ext. 38397), Mr. Dhruba Gupta (ext. 38321), or Mr. Morais (ext. 37788) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

I. INTRODUCTION

At its April 1996 meeting, the Interim Committee reiterated its support for continuation of the Enhanced Structural Adjustment Facility (ESAF), including the establishment of a self-sustained ESAF, as the centerpiece of the Fund's strategy to help the low-income countries, including in the context of the Initiative to assist the heavily indebted poor countries (HIPC). It requested the Executive Board to conclude its discussions as soon as possible with the aim of devising acceptable financing proposals by the time of the next Annual Meetings.¹

During subsequent discussions in June 1996, Executive Directors restated their universal support for the ESAF.² They agreed that the Fund's participation in the HIPC Initiative should take place through special ESAF operations financed from the resources of the Special Disbursement Account (SDA). Many Directors reiterated that the Fund's participation should have, at most, only a relatively modest impact on the level of regular ESAF operations. Regarding the joint Bank-Fund analysis of the costs of the HIPC Initiative,³ Directors broadly accepted the factors affecting the costing and—while noting the many uncertainties—found the preliminary estimates of the total costs of the Initiative a good basis for further analysis. They generally found the range of estimates of the possible costs to the Fund under different scenarios broadly realistic and noted the sensitivity of the calculations to a number of factors, including the assumption of the net present value (NPV) debt reduction by official bilateral and commercial creditors. They saw merit in both the escrowed loan with extended maturities

¹*Communiqué of the Interim Committee of the Board of Governors of the IMF*, April 22, 1996, Press Release No. 96/20.

²*ESAF Financing Modalities - Further Considerations*, EBS/96/76 (5/15/96); and *Concluding Remarks by the Chairman*, BUFF/96/75 (6/18/96); *Statement by the Managing Director on a Framework for ESAF and Fund Participation in the HIPC Initiative*, BUFF/96/74 (6/18/96) and *Concluding Remarks by the Chairman*, BUFF/96/78 (6/20/96).

³*Technical Note on Preliminary Costing of the Proposed Framework for Resolving the Debt Problems of the Heavily Indebted Poor Countries*, prepared jointly by the staffs of the Fund and the Bank, SM/96/127 (6/4/96).

and the escrowed grant as modalities for effecting reductions in the NPV of debt to the Fund through special ESAF operations.⁴

Based on the initial discussion, on June 18 the Managing Director put forward a framework for funding ESAF operations, including the Fund's participation in the HIPC Initiative. Most Directors agreed with the main principles in this framework and acknowledged that they provided a basis for moving forward to a decision on the continuation of the ESAF.⁵

With a view to forming a basis for developing firm financing proposals by the time of the upcoming Annual Meetings, this paper attempts to present concisely the various elements of this framework incorporating the staff's best estimate for financing future ESAF operations, including the cost to the Fund of the HIPC Initiative. The paper:

- is based on the main principles put forward in the Managing Director's proposed framework of June 18, including the possibility of some shortening of the interim ESAF to between four and five years and a level of self-sustained ESAF operations of SDR 0.8 billion from 2005 (Section II);
- discusses briefly the costs of the interim ESAF and the HIPC Initiative which are essentially as presented in earlier papers, and adds a sensitivity analysis to the different assumptions concerning the cost of the HIPC Initiative (Section III);
- discusses the total financing needs for ESAF, including the cost of the HIPC Initiative, and ways in which they could be met from bilateral contributions (including through refunds from the Second Special Contingent Account (SCA-2)) and—in case of a residual need—from the investment income on profits on a limited amount of gold sales (Section IV).

⁴In the Lyon Summit Economic Communiqué of June 28, 1996, the Heads of State and Government of seven major industrialized democracies and the President of the European Commission stated their commitment to a continuing ESAF as the centerpiece of the IMF support for the poorest countries and welcomed the Managing Director's proposals for greater concessionality in ESAF lending for a limited number of poor and heavily indebted countries. They noted that they would examine constructively and positively the options for financing the needed subsidies, using primarily resources held by the Fund, without excluding bilateral contributions.

⁵*Statement by the Managing Director on a Framework for ESAF and Fund Participation in the HIPC Initiative*, BUFF/96/74 (6/18/96).

In sum, the costs to the Fund of financing the subsidy requirement of the (somewhat shortened) interim ESAF and its participation in the HIPC Initiative are estimated on the usual "as needed" basis as a minimum of SDR 1.7 billion for the subsidy requirement for the interim ESAF and—as an initial estimate but with a large variance—SDR 0.8 billion for the replenishment of the SDA associated with the HIPC Initiative, or a total financing requirement of SDR 2.5 billion.

II. FRAMEWORK FOR FINANCING CONTINUED ESAF OPERATIONS

In this paper, it is assumed that the framework for funding continued ESAF operations will be as proposed by the Managing Director in his statement to the Board on June 18, 1996 and reflected in his concluding remarks.⁶ That framework seeks to balance the large uncertainties related to the demand for ESAF resources, the potential costs of the HIPC Initiative, and the availability of bilateral subsidy contributions. The Fund's participation in the HIPC Initiative would be through special, more concessional, ESAF operations financed from SDA resources.⁷ The basic elements of the framework are as follows:

- use of current ESAF resources at least until end-1999, but perhaps somewhat longer; an interim period of ESAF operations of about four years within the five-year period 2000-04 at a commitment level of SDR 1 billion a year; a self-sustained ESAF at SDR 0.8 billion per year to begin in 2005 or possibly somewhat earlier;
- interest subsidy requirements for the interim ESAF, and the replenishment of the SDA in light of the costs of the HIPC Initiative, to be financed from bilateral subsidy contributions to the extent possible; the residual of total needs to be financed with the income derived from the investment of profits from gold sales (with the corpus of profits maintained in the Fund), subject to a maximum sale of 5 million ounces; and
- the principal of interim ESAF commitments to be financed from either the General Resources Account (GRA) resources or a new round of lending to the ESAF Trust.

⁶BUFF/96/78 (6/20/96).

⁷The elements of the HIPC Initiative are described in the forthcoming joint Bank-Fund paper *The HIPC Debt Initiative - Elaboration of Key Features and Possible Procedural Steps*.

III. ESTIMATED COSTS TO THE FUND OF THE ESAF AND THE HIPC INITIATIVE

A. Interim ESAF

The projections of the financing requirement for ESAF operations for the interim period 2000-04 remain essentially as presented in the most recent Board paper,⁸ except with the possibility of some shortening of the interim period as noted in the Managing Director's subsequent proposal. There are considerable uncertainties as to the pace of use of current ESAF resources, which has been difficult to predict since the inception of the facility. During 1995-96, commitments have so far been running at an annual rate of SDR 1.1-1.2 billion, and the number of ESAF arrangements in place has increased over time. Nevertheless, it is possible that current resources would not be fully committed until some time during 2000 assuming unchanged access policy, eligibility and ESAF conditionality.⁹ Alternatively, if current resources were fully committed earlier, it could be assumed that self-sustained ESAF operations would start earlier than 2005. In either case, this would imply a shortening of the interim period from five to perhaps as little as four years. This would reduce the subsidy requirement for ESAF commitments during this period from the earlier estimate of SDR 2.1 billion to SDR 1.7 billion on an "as needed" basis.¹⁰ The latter figure, considered the very minimum required, is used in the discussion that follows.

If the principal of interim ESAF operations were to be financed through use of GRA resources, the balances in the Reserve Account would fully cover outstanding ESAF Trust obligations from end-2004 and there would be no need for a gold pledge. In contrast, a new round of borrowing by the Fund to finance the principal of ESAF operations over four years would imply that outstanding ESAF obligations would still exceed the Reserve Account balance at end-2004, raising a question about the need for a gold pledge. Depending on the

⁸EBS/96/76 (5/15/96).

⁹If existing ESAF resources were fully committed by end-1999 or end-2000, this would imply average annual ESAF commitments of SDR 1.2 billion during 1996-99 or SDR 0.9 billion during 1996-2000, respectively. Annual commitments of only SDR 0.9 billion would imply a decline in real terms of more than 20 percent compared with average annual commitments during 1991-95.

¹⁰This concept is explained in Box 1, page 13.

level of protection required by lenders,¹¹ a pledge of up to 11.1 million ounces could be required.

Financing Requirement for an Interim ESAF of Four Years (without HIPC Initiative)			
Subsidy requirement "as needed basis" (In billions of SDRs)	Principal (Source of financing)	Reserve Coverage (2004) (in percent) 1/	Gold Pledge (In millions of ounces)
1.7	GRA	100	--
1.7	New bilateral loans	65	up to 11.1 2/

1/ The Reserve Account balance in percent of outstanding ESAF Trust obligations.

2/ Assuming that the Reserve Account balance and the gold pledge would provide 100 percent protection to lenders to the ESAF Trust when self-sustained ESAF operations begin, say, from the beginning of 2005.

B. HIPC Initiative

This section elaborates on the cost estimates set out in the May ESAF paper and June Technical Note.¹² As noted in both papers, any estimate of the possible costs of the HIPC Initiative to the Fund, World Bank, and other creditors is subject to a wide margin of error,

¹¹I.e., the total protection provided to the creditors by the Reserve Account balance and a gold pledge expressed in percent of outstanding ESAF Trust obligations. The maximum gold pledge requirement has been reduced from up to 15.3 million ounces reported in EBS/96/76 (5/15/96), page 3, mainly because of the assumed shortening in the interim period from five to four years, and the associated decrease in new borrowing from ESAF Trust creditors from SDR 5 billion to SDR 4 billion.

¹²EBS/96/76 (5/15/96), page 17 and SM/96/127 (6/4/96), page 15, respectively.

and actual costs will depend on the country-by-country application of the general framework and mechanisms that are being developed by the international community.¹³

Under the "Framework for Action to Resolve the Debt Problem of the Heavily Indebted Poor Countries" proposed by the Managing Director of the IMF and the President of the World Bank,¹⁴ the Fund would undertake to act with respect to its claims on eligible HIPC countries along with other multilateral creditors, provided this was necessary to achieve debt sustainability. Among the 20 HIPC countries classified as "possibly stressed" or "unsustainable,"¹⁵ the staff had indicated in the framework of the earlier costing exercise that, on the basis of preliminary assessments, 13 countries could require additional assistance from creditors, provided they had established the necessary track record.¹⁶ On this basis, the cost for the Fund under the Initiative (assuming illustratively that the Fund's contribution to the HIPC Initiative would take place through special ESAF operations at end-2000) was estimated at around US\$0.52 billion in end-1996 NPV terms in the June Technical Note on Preliminary Costing, or SDR 0.45 billion in end-2000 NPV terms in the May ESAF paper.¹⁷

This estimate assumed stock-of-debt operations from Paris Club creditors involving a 90 percent NPV reduction of eligible debt along with at least comparable action by other non-multilateral creditors and a targeted NPV debt-exports ratio at the completion point of

¹³Factors that will affect the costs of the HIPC Initiative include the number of countries that adopt and persevere with adjustment policies consistent with the requirements of the Initiative; the number of countries that would qualify for, and elect to proceed to, the second stage of the Initiative; the timetable on which these countries might reach their respective decision and completion points; the development of the balance of payments of the potentially eligible countries over the relevant period (particularly export growth); the projected debt situation at the completion point of the countries entering the second stage, including the projected distribution of the debt among principal groups of creditors; and the precise judgement in each case regarding the levels of debt that would be considered sustainable. In addition, the cost to multilateral creditors would depend on the extent of additional debt relief (terms and coverage) to be provided by bilateral and commercial creditors.

¹⁴ICMS/DOC/46/96/3.

¹⁵ See *Technical Note on Preliminary Costing of the Proposed Framework Resolving the Debt Problems of the Heavily Indebted Poor Countries*, SM/96/22 (1/31/96), Table 1.

¹⁶See SM/96/127 (6/4/96), Table 3.

¹⁷EBS/96/76 (5/15/96). The reconciliation of the figures in the various presentations is presented in Annex I.

200 percent for countries assessed to require special assistance from the Fund. This estimate is the basis for the discussion of the financing needs in this paper.

Earlier papers have used different value dates and denominations in presenting the estimated cost of the HIPC Initiative to the Fund in NPV terms. For simplification, in the remainder of this paper the estimated cost is expressed in end-1996 NPV terms in SDRs. The various figures in the table below are equivalent to each other.

NPV Terms of Cost of HIPC Initiative to the Fund		
<u>This Paper</u> End-1996 (In billions of SDRs)	<u>May ESAF Paper</u> End-2000 (in billions of SDRs)	<u>Technical Note</u> End-1996 (In billions of US\$)
0.35	0.45	0.52

Sensitivity analysis

Some of the factors that could affect this cost estimate are illustrated in Table 1 below under the following sensitivity analysis: (i) an NPV debt-exports ratio target higher than 200 percent; and (ii) export growth rates higher or lower than projected in the baseline scenario.

- The first scenario illustrates the case of a target NPV debt-exports ratio of 225 percent for all 13 countries (instead of 200 percent) and shows that the cost to the Fund would fall to around SDR 0.12 billion in end-1996 NPV terms, assuming stock-of-debt operations involving 90 percent NPV reductions from the Paris Club and at least comparable action by other non-multilateral creditors.
- The second scenario involves the case of export growth rates that are one percentage point lower or higher than assumed in the baseline scenario and shows that the cost to the Fund would rise to SDR 0.47 billion (end-1996 NPV terms) in the former case and fall to SDR 0.23 billion (end-1996 NPV terms) in the latter case, assuming stock-of-debt operations involving 90 percent NPV

Table 1. Estimated Costs of the HIPC Debt Initiative Beyond Current Mechanisms

Assuming 90 percent NPV debt reduction by nonmultilateral creditors (IMF Managing Director/WB President's Proposal)	
(In billions of U.S. dollars, at end-1996) 1/	
Total Cost	5.6
Cost to multilaterals	2.0
Cost to the Fund 2/	0.5
Cost to the Fund (in billions of SDRs, at end-1996) 2/ 3/	
Baseline scenario	0.35
Higher debt sustainability target 4/	<u>Scenario I</u> 0.12
Lower export growth 5/	<u>Scenario II</u> 0.47
Higher export growth 6/	0.23

1/ These estimates are identical to those presented in SM/96/127 (6/4/96). They assume a targeted NPV debt-exports ratio of 200 percent for all potentially eligible countries.

2/ Based on the Fund's share in these countries' multilateral debt at the decision point.

3/ The conversion is based on a U.S. dollar/SDR exchange rate of 1.5.

4/ Assumes that the targeted NPV debt-exports ratio is 225 percent, as compared to 200 percent in the baseline.

5/ Assumes that the annual average growth rate for exports of goods and services is one percentage point lower than in the baseline.

6/ Assumes that the annual growth rate for exports of goods and services is one percentage point higher than in the baseline.

reductions from the Paris Club and at least comparable action by other non-multilateral creditors.¹⁸

Some Executive Directors had requested that the staff examine the effects of assigning probabilities to possible qualification of individual countries for assistance under the HIPC Initiative. It is very difficult to assign meaningful probabilities, and the overall results would be highly sensitive to the probabilities assigned to a few countries that account for a large share of the total cost.¹⁹ Because of the arbitrary nature of assigning such probabilities, use of probabilities as the basis for funding the Fund's participation in the HIPC Initiative is not proposed, as it would run the risk of underfunding it by design.²⁰

* * *

In the rest of the paper, the working assumption is made that the cost to the Fund of participation in the HIPC Initiative is the base-line figure of SDR 0.35 billion in end-1996 values. As noted above, it should be emphasized that the actual cost to the Fund, assuming the Initiative were agreed, would be subject to a wide range of uncertainties, including as regards actions by other creditors.

C. Special ESAF Operations

As outlined in EBS/96/76 and the Managing Director's proposed framework, the Fund's possible contribution to the HIPC Initiative would be through special ESAF operations—financed by SDA resources—to achieve a targeted reduction in the NPV of debt to the Fund of countries benefitting under the Initiative. The two primary modalities to effect such a reduction are **escrowed grants** and **escrowed loans on extended maturities**. Directors saw merit in both modalities and noted that the choice—including possibly blending

¹⁸Under the proposal (see forthcoming joint Bank-Fund paper *The HIPC Debt Initiative—Elaboration of Key Features and Possible Procedural Steps*), part of the effects of lower or higher export growth at the completion point than projected at the decision point would be absorbed by the country itself as the NPV target would be defined as a range. These costings make no allowance for this factor and hence the variation in response to alternative assumptions on export growth is overstated.

¹⁹It has been assessed that three countries might account for as much as 80 percent of the cost to the Fund.

²⁰It is also to be recalled that in the costing estimate, no allowance has been made for the possible participation of Sudan in the Initiative.

of the two modalities in individual cases—could be kept open for each eligible country depending on its debt service profile and thus the need for cash flow assistance.²¹

An escrowed grant or an escrowed loan (or possibly a combination thereof) would be made at the completion point and the proceeds would be held in an administered account until, and exclusively for, debt service falling due to the Fund. The pace and pattern of use of escrowed resources could be determined and agreed with the subject country in advance, based on the profile of its total scheduled debt service and debt service to the Fund.

There are several key differences between an escrowed loan and an escrowed grant, which have implications for the country benefitting from the Initiative and for the need for replenishment of SDA resources, which are discussed in greater detail in Annex II. For example, an escrowed loan would provide greater cash assistance than an escrowed grant (equivalent to the difference between the face value of the escrowed loan and its implicit grant) but at the expense of an increase in the face value of debt to the Fund and a larger need for replenishment of SDA resources.

It would be expected that an escrowed grant would be used in most cases, since it involves a smaller need for replenishment of SDA resources than an escrowed loan for a given reduction in the NPV of debt to the Fund and does not involve any increase in the country's debt; it also has obvious presentational value and simplicity. But there may be a few cases where an escrowed grant would be insufficient to achieve the targeted reduction in debt service ratios and an escrowed loan would need to be considered.

D. The Implications of the Fund's Participation in the HIPC Initiative

In terms of end-1996 values, the replenishment of the SDA needed to offset the baseline estimated cost of the HIPC Initiative (SDR 0.35 billion) would be SDR 0.35 billion for the escrowed grant modality and SDR 0.5 billion for the escrowed loan modality with a mid-point estimate of about SDR 0.4 billion (see table in Annex II, page 20). Converting these end-1996 figures into a stream of payments over a period of years—conceptually similar to the “as needed” value of ESAF subsidy contributions—yields estimated “as needed” SDA replenishment requirements of SDR 0.7 billion to SDR 0.9 billion over the period 2001 to 2018, or a mid-point estimate of SDR 0.8 billion. The “as needed” concept as applied to the HIPC Initiative is explained further in Box 1. As noted above, this estimate is subject to considerable uncertainty.

²¹Buff/96/75 (6/18/96).

Box 1. Presentation on an "As needed" Basis

ESAF subsidy requirement

The subsidy requirement can be presented either in net present value terms discounted to a certain date or on an "as needed" basis. In previous ESAF papers, it has generally been presented on an "as needed" basis, which indicates the sum of the undiscounted subsidy requirements associated with annual commitments of SDR 1 billion during the interim ESAF. Since the last disbursement on loans committed in 2004 would take place in 2008 (assuming that three-year ESAF commitments are disbursed over four years), the final repayment would be due in 2018. As a rule of thumb, SDR 1 billion in disbursements requires "as needed" subsidies of about SDR 0.4 billion. At an annual commitment level of SDR 1 billion a year during 2001-04, the total "as needed" subsidy requirement is SDR 1.7 billion during 2001-2018, which, in turn, is equivalent to SDR 0.9 billion discounted to end-1996 (conversion ratio of 1.93).

HIPC Initiative—replenishment of SDA resources

The "as needed" SDA replenishment related to the HIPC Initiative is not directly comparable with the "as needed" concept for interim ESAF operations, since the time profiles for needed resources are different. The "as needed" basis for the interim ESAF subsidies is directly linked to the profile of ESAF disbursements and maturities; in contrast, the replenishment of SDA resources for the withdrawal for the special ESAF operation (compatible with self-sustained ESAF operations of SDR 0.8 billion per annum from 2005) could take place at different points in time (see Annex II, Chart I). In all cases, the NPV of these replenishments remains the same. For the purpose of this paper, and to establish a pattern for the stream of payments similar to that for the subsidy requirement under regular ESAF operations, the net present value of the replenishment requirement has been multiplied by the same conversion ratio as mentioned above to generate one (among many possible) payment patterns on an "as needed" basis.

Resources would be transferred from the Reserve Account to the SDA, from which the HIPC Initiative would be financed, and the resulting Reserve Account coverage of outstanding ESAF obligations in 2004 would be 84 percent and 74 percent for the escrowed grant and loan, respectively (assuming no new bilateral lending to the ESAF Trust), and the required gold pledges, if ESAF Trust creditors were to require full substitution for reduced protection, would be up to 2.6 and 4.9 million ounces, respectively (Annex III, Chart 1).²²

**IV. FINANCING ESAF, INCLUDING THE FUND'S PARTICIPATION
IN THE HIPC INITIATIVE**

Based on the updated analysis for financing the interim ESAF and the possible cost of the HIPC Initiative presented above, the minimum subsidy requirement for the interim ESAF for four years is SDR 1.7 billion and the mid-point estimate for the cost to the Fund of the HIPC

²² A larger gold pledge could be required if the principal of interim ESAF operations were financed by a new round of bilateral borrowing by the Fund (Annex III, Chart 2); the total gold pledge would be up to 13.8 and 16.0 million ounces, respectively.

Initiative is SDR 0.8 billion (both expressed on an "as needed" basis, as explained above) for a total of SDR 2.5 billion. Translated into end-1996 NPV terms, this corresponds to SDR 1.3 billion.

Total Financing Requirement of Interim ESAF and the HIPC Initiative

(In billions of SDRs)

	"As needed" basis (2001-18)	End-1996 NPV terms
Subsidy requirement for interim ESAF	1.7	0.9
SDA replenishment	<u>0.8</u>	<u>0.4</u>
Total financing requirement	2.5	1.3
Memorandum item:		
Proceeds of investment income on profits from gold sales of 5 million starting in 1997	1.3	0.7

In the framework proposed by the Managing Director, this financing need could be met by a combination of bilateral contributions, and—as a residual source of financing after all efforts have been made to secure maximum bilateral contributions—use of the investment income on the profits from gold sales of up to 5 million ounces. The investment income from such sales could generate amounts on an "as needed" basis of up to SDR 1.3 billion if they took place over a period starting in 1997 and the profits were invested until 2018.²³ For every year the sale is delayed, the "as needed" amount would be reduced by about 10 percent. The higher the amount of bilateral contributions, the lower would be the residual amount of gold sales required. The trade-off is shown in Chart 1. For example, if bilateral contributions amount to

²³The investment income from gold sales has been calculated based on the following assumptions: a gold price of US\$385 per ounce; an exchange rate of SDR 1 = US\$1.55—both unchanged from earlier Board papers (EBS/95/132, (8/8/95), p.4); and starting gold sales at a rate of 0.5 million ounces per month from 1997 (the previous assumption was 1996). While the current gold price is close to US\$385, the current US\$/SDR rate is close to 1.45 and allows a safety margin of some 6 percent. Broadly speaking, gold sales of 0.4 million ounces are equivalent to SDR 0.1 billion of investment income on an "as needed" basis.

SDR 1.7 billion on an "as needed" basis (X-axis in Chart 1, top panel) the residual "as needed" financing requirements is SDR 0.8 billion. This residual financing need could be met from the income derived from investment of profits on gold sales of about 3 million ounces (Y-axis in Chart 1, top panel). Under the proposed limit for gold sales, the bilateral subsidy contribution could not be reduced much below SDR 1.3 billion on an "as needed" basis without having a negative impact on the level of self-sustained ESAF operations (Chart 1, lower panel).

As discussed in earlier Board papers,²⁴ bilateral contributions could, in part, take the form of grants or low-interest loans to the ESAF Subsidy Account from refunds of members' contributions to the SCA-2.²⁵ If the refunds of all (SDR 1 billion) SCA-2 resources were to be transferred, with the consent of each member, to an administered account with the ESAF Trust, they would generate "as needed" subsidies of a maximum of SDR 1.5 billion if made available as grants and a maximum of SDR 0.8 billion if made available as interest-free deposits over the period to 2018. These represent maximum possible bilateral contributions from this source, and the extent to which SCA-2 resources may become available remains to be determined.

* * *

This paper has set out the key parameters and estimates for financing an interim ESAF of four years, including the costs to the Fund of participating in the HIPC Initiative financed from SDA resources, under the assumption that self-sustained ESAF operations are to be initiated at an annual commitment level of SDR 0.8 billion from 2005. It has also discussed the main sources for financing—bilateral contributions (including use of refunds of SCA-2 resources) and the income from investment of the profits from gold sales of up to 5 million ounces.

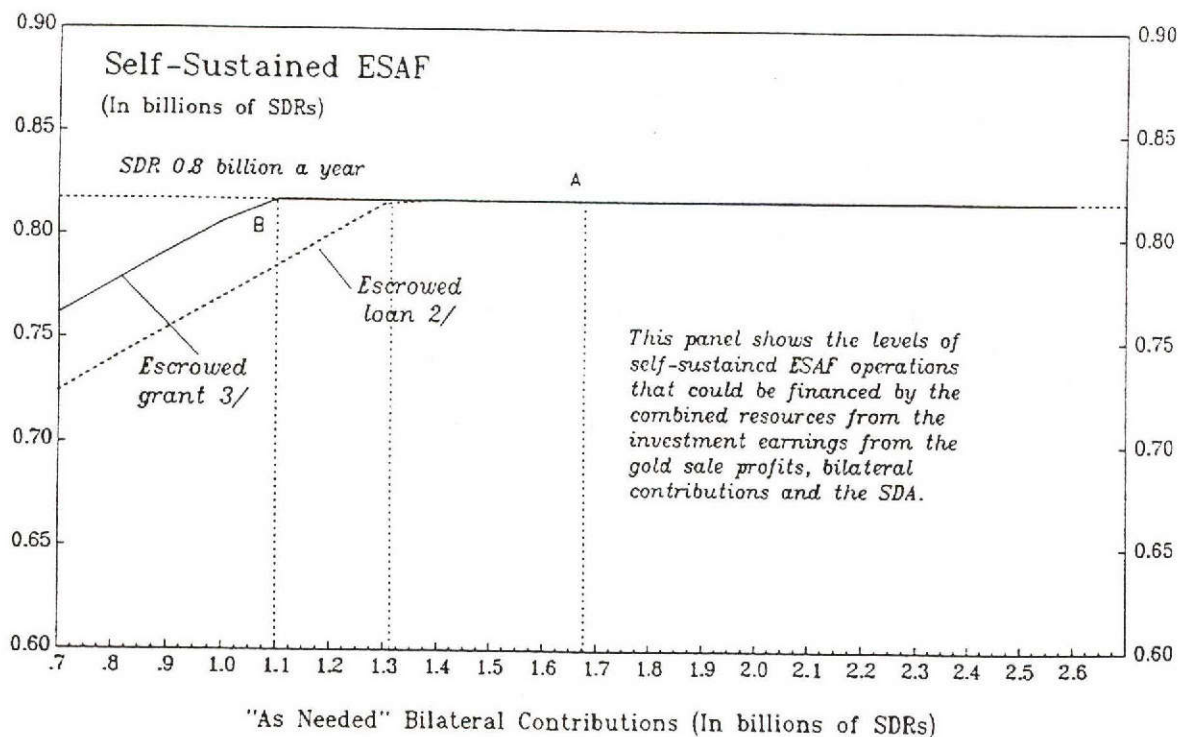
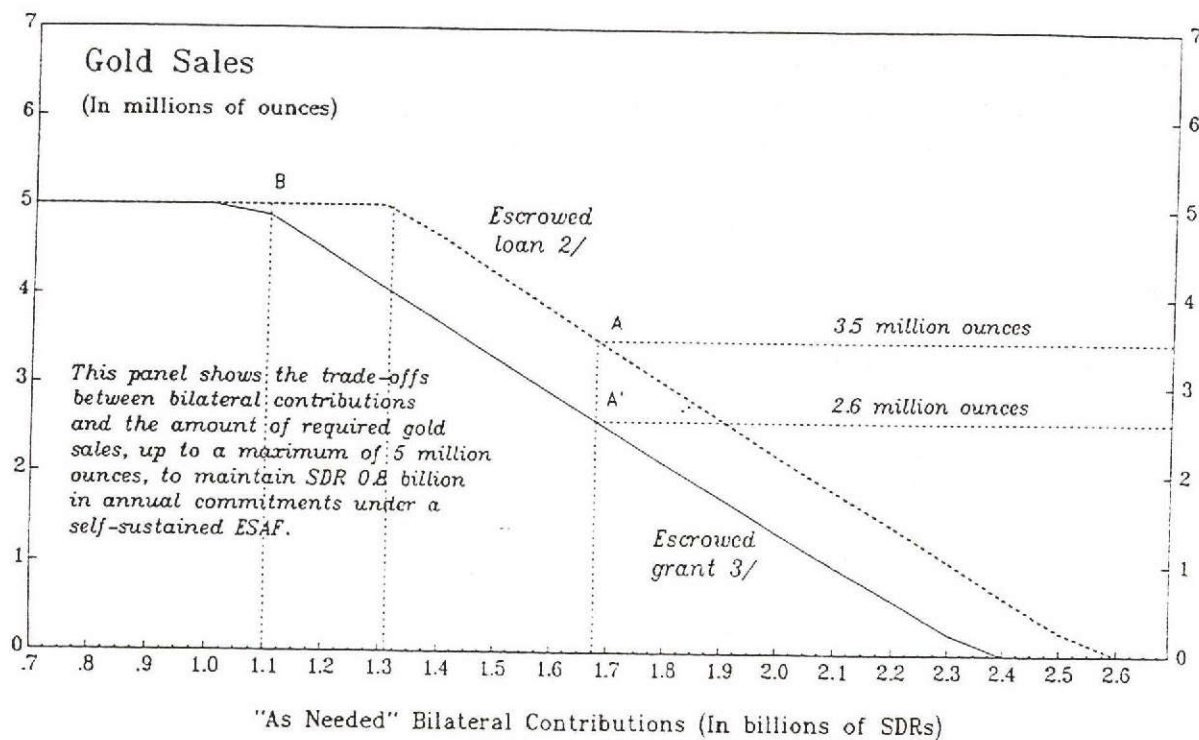
Since the Interim Committee meeting in the spring, management has actively been seeking bilateral contributions. It is hoped that members will have provided indications of their possible contributions by early September and that it will be possible for the staff to report on this to the Executive Board by the time of the discussion of this paper, as an important step in development of concrete proposals for the Interim Committee.

²⁴See EBS/96/40 (3/8/96), p. 11 and *Statement by Staff Representatives on Options for the Use of SCA-2 Resources in the Context of a Continuation of ESAF Operations*, BUFF/96/35 (3/27/96).

²⁵SCA-2 resources, projected to reach SDR 1 billion as of early 1997, are to be refunded to contributor members when all purchases for the encashment of rights have been repurchased and no further rights purchases financed by GRA resources can be made. Given the scheduled repurchases by Peru and assuming there are no further encashments of rights in the GRA, the SCA-2 would become available for refund to members between 1999 and 2003. The SCA-2 resources could be refunded earlier by a Board decision taken with a 70 percent majority of total votes.

CHART 1

Trade-offs Between Bilateral Contributions, Gold Sales, and Self-Sustained ESAF 1/



Source: Staff calculations.

1/ Assumes that potential ESAF Trust resources of SDR 10.1 billion will be fully committed by late-2000 and annual commitments of SDR 1.0 billion during 2001-04.

2/ Assumes that an escrowed loan of SDR 0.83 billion, with a grace period of 10 1/2 years and a maturity of 20 years, is extended at end-2000.

3/ Assumes that an escrowed grant of SDR 0.45 billion is extended at end-2000.

Estimated Costs to the Fund of the HIPC Initiative

1. **Baseline HIPC cost.** The costs to the Fund of the HIPC initiative were estimated at US\$0.52 billion in end-1996 values in the June costings paper SM/96/127 (6/4/96) assuming stock-of-debt operations from Paris Club creditors involving a 90 percent NPV reduction of eligible debt along with at least comparable action by other non-multilateral creditors and a common target for the NPV debt-exports ratio of 200 percent.
2. **HIPC cost used in previous ESAF paper.** Because of the uncertainties concerning the cost estimates which were still under preparation when the last ESAF paper was issued (EBS/96/76, (5/15/96), page 15) and a presumption that, if anything, these cost estimates were likely to increase rather than decrease, a margin of about 20 percent was added to the projected costs to the Fund. At the same time, it was assumed that countries benefitting from the Fund's contribution to the proposed HIPC initiative would not borrow from the ESAF in the period immediately following the special ESAF operation at the same level that they would have borrowed absent the HIPC initiative (i.e., in the likely presence of higher balance of payments need). Consequently, the saving in terms of the related interest subsidies on loans that would otherwise have been extended was netted out from the calculations assessing the financing needs of the ESAF.
3. **HIPC cost used in the current paper.** The underlying cost estimates remain unchanged from June. But estimates in this paper include no margin. The sensitivities to some of the underlying assumptions are analyzed separately. In addition, the netting out is no longer taken into account, as it is expected that countries that might benefit from the Fund's participation in the HIPC initiative would still have a balance of payments need—albeit reduced compared to a situation when they did not benefit from the initiative—which would require continued Fund assistance under follow-up ESAF arrangements. The combined effect of dropping both the margin and “netting out” implies only a small increase in the cost of the Fund's participation in the HIPC initiative (see below).

	Proposal of Managing Director/ World Bank President
Baseline HIPC cost in Technical Note (In billions of US\$, end-1996)	0.52
(In billions of SDRs, end-2000)	0.45
	(In billions of SDRs at end-2000)
HIPC costs in May ESAF paper	
Baseline	0.45
20-percent margin	<u>0.10</u>
Gross cost to SDA	0.55
“Netting out”	<u>-0.16</u>
Net costs to the SDA	0.39
HIPC costs in current paper	
Baseline and net cost to the SDA 1/	
In billions of SDRs, end-2000	0.45
In billions of SDRs, end-1996	0.35

1/ No margin or “netting out” has been assumed.

Modalities of the Special ESAF Operations

Two main modalities are being considered for effecting the Fund's contribution to the HIPC Initiative through special ESAF operations: an escrowed grant and an escrowed loan. An escrowed loan would achieve the targeted reduction in the NPV of the country's net indebtedness to the Fund through its implicit grant component.²⁶ In both cases, the special ESAF operation would be designed to achieve the same reduction in the NPV of debt to the Fund, as they would provide the same relief in grant-equivalent terms. These operations would be financed from resources in the SDA. While equivalent in grant terms, the two modalities have different implications for members' cash debt service, the face value of outstanding debt, and need for replenishment of SDA resources.

1. Debt service

For a given targeted reduction in the NPV of debt, an escrowed loan provides larger cash assistance to a country than an escrowed grant. Using the cost estimate mentioned above of a NPV reduction of SDR 0.35 billion (end-1996 values), and assuming the special ESAF operation takes place at end-2000, this can be illustrated as follows:

- An escrowed grant of SDR 0.45 billion at end-2000 would provide a NPV of debt reduction of SDR 0.35 billion in end-1996 values and would provide cash assistance equal to the value of the grant without any new debt service in later years.
- An escrowed loan of SDR 0.83 billion at end-2000 would provide the same reduction in the NPV of debt as an escrowed grant (SDR 0.35 billion, end-1996 values). Because a larger amount is disbursed, it would provide cash assistance of almost double the amount of the escrowed grant, but with new debt service in later years.

2. The face value of outstanding debt

An escrowed grant would leave the face value of total obligations to the Fund unchanged just after the special operation has taken place. In contrast, in the case of an escrowed loan, the face value increases by the amount of the loan (for the same initial reduction of the NPV of debt). For this reason, the escrowed grant modality might be considered preferable to the escrowed loan modality.

²⁶For illustration, it is assumed that an escrowed loan has 10½-year grace period and 20-year final maturity, and an interest rate of 0.5 percent; the grant element would be 54 percent of the loan value (based on a discount rate of 6 percent).

3. SDA resources

It is envisaged that both escrowed loans and escrowed grants would be funded from SDA resources. To avoid a reduction in the targeted level of self-sustained ESAF operations, i.e., SDR 0.8 billion per year, as a result of the use of SDA resources for the HIPC Initiative, the SDA would need to be replenished (see Chart 1, lower panel).²⁷ The amount of cash replenishment of the SDA needed to fully offset the effects of an escrowed grant is the value of the escrowed grant (e.g., to offset the effects of a grant of SDR 0.45 billion, disbursed at end-2000 (SDR 0.35 billion in end-1996 NPV values) a cash replenishment of the same amount would be needed if the replenishment took place at end-2000). In the case of an escrowed loan, the initial withdrawal of resources from the SDA is larger; moreover, since the escrowed loan would be repaid only between years 10½ and 20, some of the repayments would come too late to maintain self-sustained ESAF operations at SDR 0.8 billion a year. As a result, for a given NPV debt reduction, a larger and earlier replenishment of SDA resources is required for the escrowed loan than for the escrowed grant.

This is illustrated in Chart 1 (bottom panel). It shows that withdrawal of SDA resources for financing the escrowed grant and the escrowed loan creates a need for replenishment of resources (the shaded area in the lower panel in the case of the escrowed loan). Although the initial withdrawal of resources is assumed to take place by end-2000 in this illustration, the replenishment could occur later or earlier. However, the replenishment needs to take place before 2013 in the case of the escrowed grant (point A) and slightly earlier for the escrowed loan (point B), before SDA resources have been fully exhausted. Because the initial withdrawal of SDA resources is larger under the escrowed loan modality and full repayment is assumed to occur after the point when replenishment is needed, the replenishment need is larger under the escrowed loan than under the escrowed grant modality, as shown in the following table:

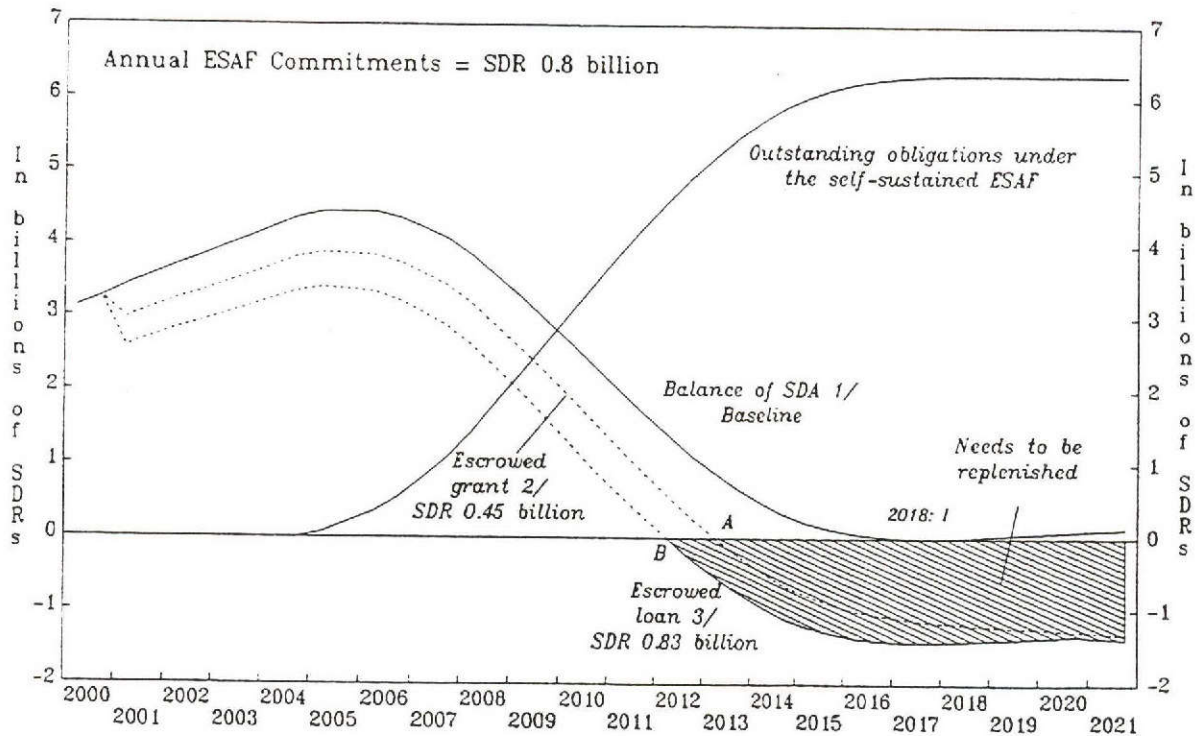
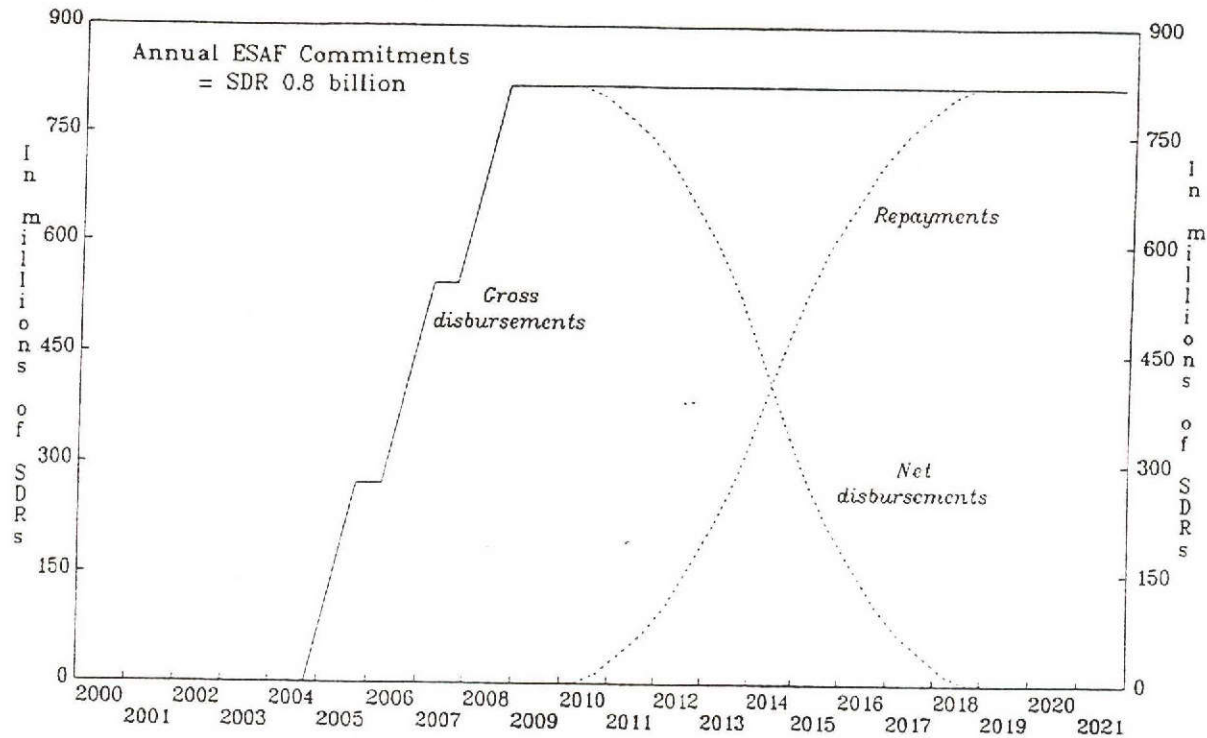
²⁷For simplification, all transfers of resources from the SDA into escrowed accounts are assumed to take place at end-2000.

	NPV terms	
	End-1996	End-2000
(In billions of SDRs)		
Reduction in NPV of debt to the Fund	0.35	0.45
To be effected through:		
Escrowed grant	0.35	0.45
Escrowed loan	0.63	0.83
Replenishment need		
Escrowed grant	0.35	0.45
Escrowed loan	0.47 1/	0.59 1/

1/ The replenishment needs (e.g., SDR 0.59 billion at end-2000) to offset the effects of an escrowed loan are less than the face value of the loan (SDR 0.83 billion) because partial reflows resulting from repayments of the escrowed loans would reduce the amount of resources required to overcome the liquidity constraint on the SDA when it becomes binding (point B in Chart I).

CHART 1

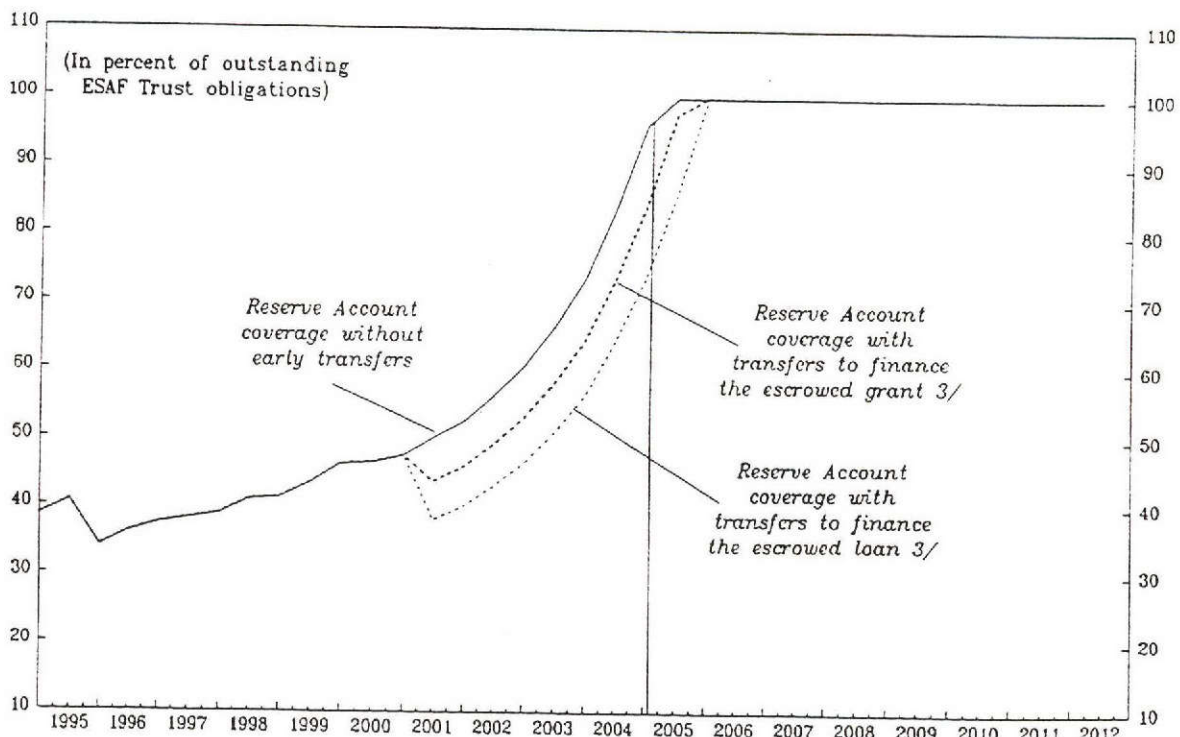
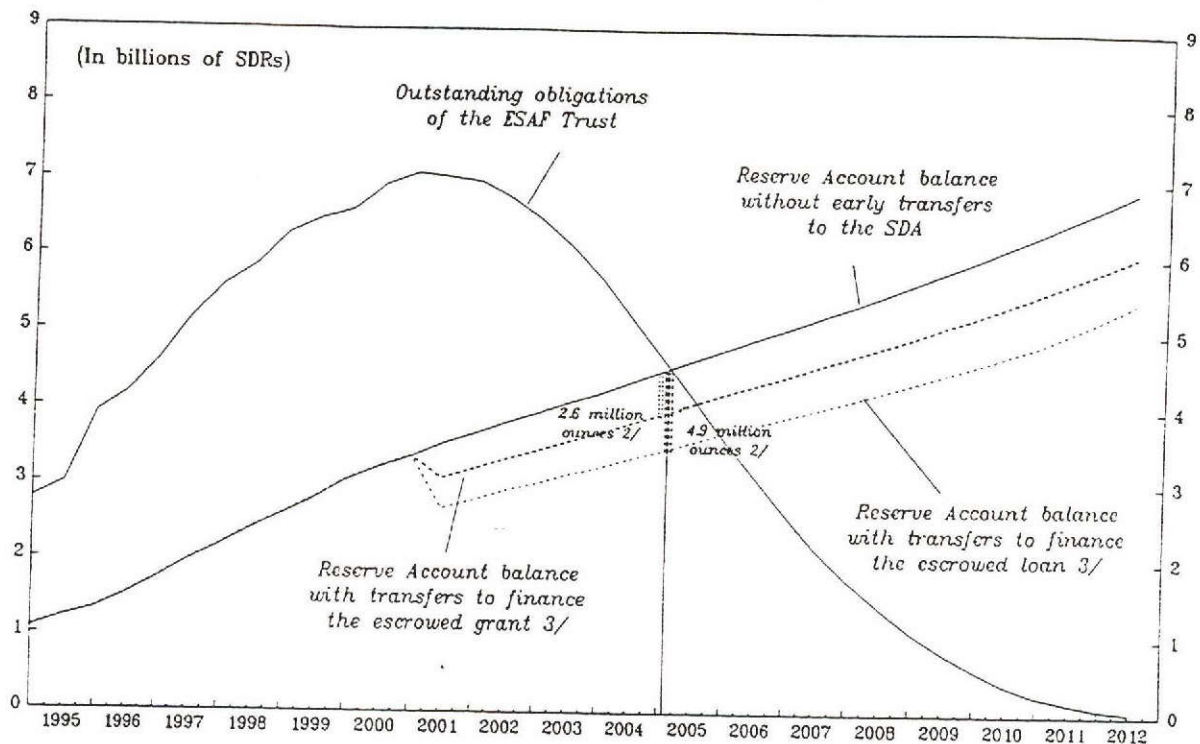
Self-Sustained ESAF at SDR 0.8 billion a Year and
HIPC Initiative with Escrowed Grant and Escrowed Loan



Source: Staff estimates.

- 1/ Represents the combined balance of the Reserve Account and the SDA.
- 2/ A reduction in the NPV of debt to the Fund of SDR 0.35 billion at end-1996 effected through an escrowed grant of SDR 0.45 billion at end-2000.
- 3/ A reduction in the NPV of debt to the Fund of SDR 0.35 billion at end-1996 effected through an escrowed loan of SDR 0.83 billion with 10 1/2-year grace period and 20-year maturity disbursed at end-2000.

CHART 1
ESAF Trust and Reserve Account With Early Transfers
for the HIPC Initiative 1/



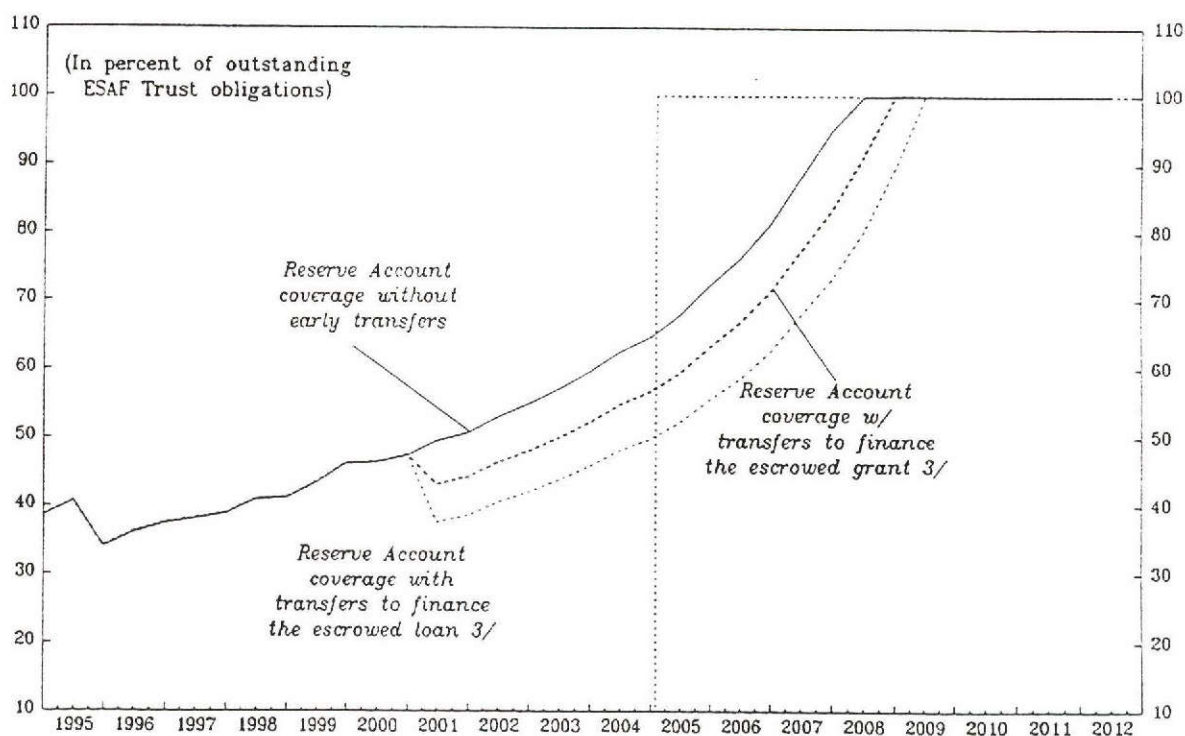
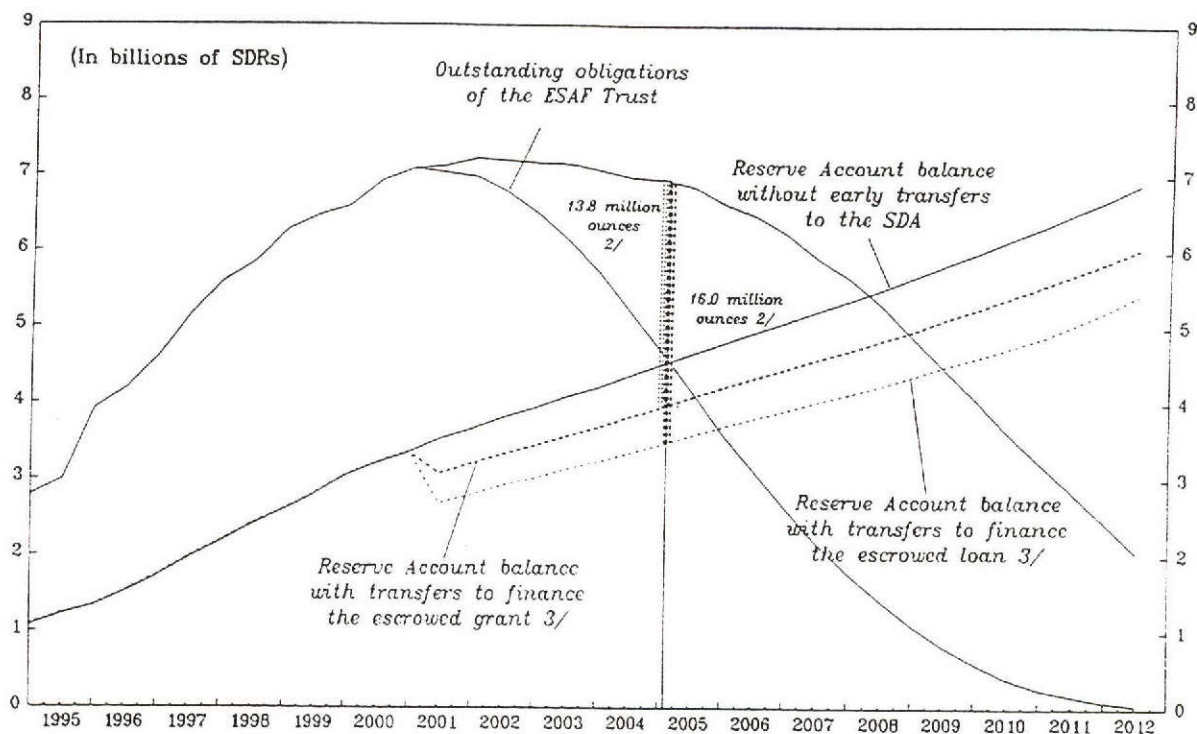
Source: Staff estimates.

1/ Assumes potential ESAF Trust resources of SDR 10.1 billion will be fully committed by late-2000; excludes the effects of a self-sustained ESAF.

2/ Consistent with full substitution by a gold pledge for the early withdrawal of resources from the Reserve Account to finance the HIPC Initiative.

3/ Includes a reduction in the NPV of debt to the Fund of SDR 0.35 billion (end-1996 NPV terms) effected through an escrowed grant or an escrowed loan (SDR 0.83 billion) on extended maturities disbursed at end-2000.

CHART 2
ESAF Trust and Reserve Account With Early Transfers
for the HIPC Initiative with a New Round of Bilateral Lending 1/



Source: Staff estimates.

1/ Assumes potential ESAF Trust resources of SDR 10.1 billion will be fully committed by late-2000; excludes the effects of a self-sustained ESAF; and a new round of bilateral lending of SDR 1 billion a year during the interim period of 2001-04.

2/ Consistent with full substitution by a gold pledge for the early withdrawal of resources from the Reserve Account to finance the HIPC Initiative.

3/ Includes a reduction in the NPV of debt to the Fund of SDR 0.35 billion (end-1996 NPV terms) effected through an escrowed grant or an escrowed loan (SDR 0.83 billion) on extended maturities disbursed at end-2000.

① welcome proposals

② encourage bilateral collaboration

③ if need arise can use GDA -

- but aim to conclusion on Paris Clubs

German are at 80% - keep pressure on for 90%.

Paris clubs cannot give a consensus view

{ will assume strategy
- in conformity with byon
- con by con

→ Open the doors - con by con
maybe in interim Clee
Development Clee

~~We should work together~~

(a) Not such a clearcut language

Create momentum, are we behind, are we
trust to do what is needed "con by con"

N60 - financial adjustment - next time

Argentina
Pakistan
Haiti

Russia → host greater demand to food
more or less strictly calendar

- arrangements are good
- working remain to be done

Mexico - Need to pin to give substance to

structural change -

common currency + + obliging others

to act.

Argentina - Rocco Fernandez

→ Team arrived - (last) Band

✓ Haiti - lack of coordination -
no arrangements of the external community

Amberg®

ESSELTE

57705

MADE IN U.S.A.



0 78787 57705 3