Folder Title:	President Wolfensohn - Briefing Book for President's Meetings and Events - Mr Takatoshi Kato - Vice Minister - International Affairs - Ministry of Finance - Japan - July 23, 1996
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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: MR. TAKATOSHI KATO, VICE MINISTER, INTERNATIONAL AFFAIRS, MINISTRY OF FINANCE, JAPAN
VENUE: E1227 (OFFICE)
CONTACT: MARY KEANE @ 80104
IN ATTENDANCE: JDW, KATO (ONE-ON-ONE)
EXC: ATSUKO // ALI (7/18/96 2:10p)

DATE: 07/23/96

C. VPU

Corporate
- [ ] CTR
- [ ] EXT
- [ ] LEG
- [ ] MPS
- [ ] OED
- [ ] SEC/Board
- [ ] TRE

Regional
- [ ] AFR
- [x] EAP
- [ ] ECA
- [ ] LAC
- [ ] MNA
- [ ] SAS

Central
- [ ] CFS
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- [ ] ESD
- [ ] FPD
- [ ] FPR
- [ ] HRO

Affiliates
- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector

- [x] Part I
- [ ] Part II
- [ ] Other

E. COMMENTS:

Mr. Wolfensohn:

Your Meeting with Vice Minister Kato
12:30-1 pm, Tuesday, July 23

I spoke with Mr. Nishihara about this meeting, which he says is "basically a courtesy call." He may have a better beat after seeing Mr. Kato on Sunday, July 21. Since I am going on leave as of this weekend, I wanted to pass on what I knew as of today (Friday, July 19). At this juncture, Mr. Nishihara did not know whether this meeting would be a tête-à-tête, or if he would accompany Mr. Kato (in which case may I suggest that Sven also attend the meeting). Issues that may arise are:

The meeting will be just Mr. Kato & ym

- **Japanese *Senior* Staff :** is apparently an issue very much on MOF's front burner.
- MOF is now active in providing CV's of non-MOF candidates for senior positions. Our personnel people in possession of them are trying to obtain more detailed information about them through Mr. Abe (as Japanese CV's tend to be quite skimpy).

- According to Mr. Abe (retired Bank Director, now Advisor based in Tokyo on recruiting issues), the real dent will be if we are able to appoint a MD-level Japanese that can be part of your "inner circle."

- (Although this is a point not to be raised with Mr. Kato, a headhunter team has been retained to identify senior Japanese candidates.)

- Issues about Mr. Iida and Ms. Ono may or may not arise.

- **HIPCs Initiative Post-Lyon:** Please see attached EM from Nawal.

- **Japan's ODA Budget:** Given deteriorating fiscal conditions in Japan and aid fatigue, MOF may contract the ODA budget -- which has been expanding 3.5-7 % for the last five years, and historically immune from budget cuts -- in the next fiscal year.
- Mr. Kato will not raise this issue, but you might wish to urge Japan's continued generosity: the shift in ODA policy may critically affect PHRD funds.

- You might reiterate the Bank's appreciation for Japan's liberal and critical support hitherto, and highlight your efforts to lift the quality of the Bank's work given Japan's increased focus on output orientation.

- Please see brief from Fukui san.

cc: Rachel, Sven, Josie

☺ Atsuko 7/19/96

HIPCs Post-Lyon

Note fm Kamel

HIPC Debt Initiative
Japanese perspective: An Update

Mr. Kato is "anxious about the $2 billion". Vice Minister Kato was reportedly personally upset about the mention of the $2 billion in the Lyon Summit communiqué. He was fully briefed by his staff that you had not made such a commitment, and that the $500 million was a "set aside", to be used only in the framework of broad and equitable participation by all creditors involved. He was also assured that no final commitment was made regarding future annual contributions, which would, in any case, be subject to Board approval. Mr. Kato might still seek reassurance from you in this regard.

Update on the Paris Club. The Paris Club met last week for the first time after the Lyon summit. The HIPC Debt Initiative was not on the agenda. However, the issue came up informally during the Heads of Delegation lunch. Japan, along with Germany, felt that the details of the multilateral contributions (and especially the ESAF) should be made clearer before the Paris Club could take up the issue. No special meeting of the Paris Club was therefore convened to discuss this issue ahead of the regular meeting in the week of September 23.

Japan and the Paris Club. Within the G7, Japan has opposed "deepening" the reduction of Naples terms to 90 percent -- although the idea of "broadening" could be more attractive to them. Japan prefers that much of the financing for the HIPC Initiative comes instead from the multilateral system. They want to delay any Paris Club decision and encourage other multilateral institutions (including the IMF) to follow the World Bank action on the "down-payment". They feel in particular, that IMF action can facilitate the Paris Club deliberations in this regard.

> *You may want to argue that the Bank is prepared to have an active dialogue with the Board on this issue, and in particular with Japanese officials, to get a clearer sense of the concerns raised in moving the Paris Club ahead, and to determine the best way to address them. It may be useful to stress three points in support of Paris Club action around 90 percent:*
>
> ***Necessity of Paris Club action.*** *The success of the Initiative in reaching its overall objective of debt sustainability calls for further debt reduction on a case by case basis, 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. For the most distressed HIPCs who would qualify for the Initiative, this calls for a cooperative approach -- one in which all creditors involved act together in a concerted way towards the same overall objective. The dynamics of the "wait and see" situation is contrary to this spirit, and may jeopardize the Initiative.*

Burden sharing with the Paris Club. *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. In the absence of decisive Paris Club action around 90 percent, 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. Indeed, under a hypothetical 80 percent scenario, multilaterals would be providing* ***two-thirds of the total costs****, in case of the weaker exports, 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.***

Tokyo may be in a listening mode. There has been some changes in the Japanese administration in Tokyo. Mr. Hamanaka has been promoted to the position of Senior Deputy Director General. Mr. Ikawa replaced him as Deputy Director General, and as such, is now in charge of relations with international development institutions, including IDA negotiations. However, in view of its very sensitive nature, the HIPC Debt Initiative has remained under the purview of Mr. Hamanaka. The new team is to formulate new policy and is currently "studying the situation". Although we should not expect major shifts in the Japanese position, this may provide a needed opportunity to further the discussion with Japanese officials in this regard.

Washington, July 22, 1996
Kato

Japan's ODA Budget

Development News – Daily Summary

Friday, July 12, 1996

Today's Headlines:

- **JAPAN'S FINANCE MINISTRY SEEKING TO CURB ODA GROWTH.**
- **MANDELA DEPLORES AFRICA'S DEBT BURDEN.**
- **KEEP UP THE MOMENTUM OF REBUILDING IN BOSNIA.**
- **CHINA - A PROBLEM WITH THE WORLD BANK.**
- **THE IMF - YELTSIN'S FLEXIBLE FRIEND.**

B JDW Mtg w/Vice Minister Kato, 23 July

JAPAN'S FINANCE MINISTRY SEEKING TO CURB ODA GROWTH. Japan's finance ministry will urge ruling parties to freeze growth in the country's official aid to developing countries in the next fiscal year starting in April 1997, reports the Nihon Keizai Shimbun, says AFP. The ministry's decision reflects pressure to tighten next year's state budget due to worsening fiscal conditions in Japan, the paper said. Also behind the decision is so-called "aid fatigue" which has been experienced by other industrialized countries and already forced many donor nations to reduce foreign aid, the daily said.

A finance ministry spokesman declined to confirm the report. "We are currently negotiating with ruling parties over the budget, but the content of the negotiations is not available," he said. The foreign ministry, in charge of Japan's ODA, is expected to conflict with the finance ministry's stance to curb the aid money, the paper said. Japan's ODA budget has expanded by 3.5-7 percent annually in the past five years, making the country the world's biggest donor for five years in a row. In the meantime, the country's fiscal position has deteriorated due to a series of pump-priming measures amid an economic slump.

MANDELA DEPLORES AFRICA'S DEBT BURDEN. South African President Nelson Mandela yesterday called on the British people to help build a more humane world in Africa, the Suddeutsche Zeitung (p.8) reports. In a speech to the British parliament, Mandela said Africa has bled from many wounds during the last 200 years. "This old continent still bleeds under the burden of foreign debts, which it must serve but which it cannot pay pack," he said. In a related story, The Economist (7/13,p.35) says the Tories and Labor both say they intend to increase aid to Africa, which has dropped over the past few years from $647 million to $598 million. However, with a 5.4 percent cut in the British aid budget next year, it is hard to imagine that this will happen, it says.

Meanwhile, the Frankfurter Allgemeine Zeitung (p.14) reports Callisto Madavo (AFRVP) said at the OAU summit recently that the debt problem is going to get more serious for Africa. Madavo was in Yaounde to speak about a debt relief plan with the heads of state at the meeting.

Separately, the head of Honduras' central bank asked Wednesday for help to ease the country's "intolerable" external debt burden of almost $4.3 billion, Reuters reports. "Honduras needs the help of developed countries and international financial organizations to reach a resolution that would ease the weight of its external debt load," Hugo Pino said in Tegucigalpa. Central Bank Vice-President Daniel Figueroa said Honduras' external debt was "unpayable," considering that 80 percent of the population lives in poverty.

Horiguchi, Ms. Atsuko
EXC
E 1229

KEEP UP THE MOMENTUM OF REBUILDING IN BOSNIA. The reconstruction effort is now well under way in Bosnia, writes Tim Cullen (EXTVP) in an International Herald Tribune (p.8) op-ed. Commerce promises to be the mortar of a lasting peace, says Cullen, while loans are being administered through NGOs and local banks with funds provided by the World Bank and other donors. Another encouraging sign is the number of foreign businesspeople coming to look for reconstruction contracts and long-term investment opportunities.

One of the problems, though, is how to restart the big industries that employ a lot of people. The key is going to be to find foreign private investors who can make the commercial judgment on the feasibility of restarting particular companies, he writes. The World Bank plans to offer political risk guarantees for such investments so that investors will be protected in the event of hostilities restarting.

Summer has lifted people's spirits and provided an opportunity for reconstruction to get started, but life in Bosnia is still a long way from getting back to normal, Cullen says. The winter months will make much of the rebuilding work more difficult and will be a harsh reminder that power and gas are still in short supply. At the recent Lyon summit, G-7 leaders called on all donors to accelerate payment of the pledges they made earlier this year so that the momentum of reconstruction can be maintained. "People in Bosnia are beginning to see that the first year of peace is improving their lives. The international community should not let them down," he writes.

Meanwhile, Les Echos (p.5) reports that many Western business delegations, under the encouragement of the World Bank, are traveling to Bosnia, but the political, civil, and economic environment there still provokes skepticism. Christine Wallich (EC2DR) said a number of infrastructure projects are close to completion. But according to the Bank, the majority of public works underway are being done by Bosnian enterprises or firms from neighboring countries such as Turkey and Hungary. So far, $350 million of the $1.8 billion in aid promised last December has been disbursed. And the Bank fears now a new slowdown in aid flows as the September elections approach. "Certain countries are tending to slacken their efforts just at the moment when the first peace dividends can be collected," said Wallich.

Also, Handelsblatt (p.39) reports the World Bank recently set up a trust fund to help Bosnia pay back its share of the former Yugoslavia's debts to the institution. Also, many European countries have contributed credits to help Bosnia in its debt situation. The story says the Bosnia example shows that it isn't always bad luck to be in arrears to the IMF and World Bank. And the Journal of Commerce (p.5A) reports US Secretary of Commerce Mickey Kantor arrived in Croatia yesterday to launch an American trade and investment mission. The story says Kantor participated in a private memorial service for Ron Brown, Kantor's predecessor who was killed in a plane crash in Bosnia three months ago.

In a related story, the New York Times (p.A10) reports the UN war crimes tribunal issued international arrest warrants for the Bosnian Serbs' political leader, Radovan Karadzic, and their military chief, Ratko Mladic, who are both charged with genocide and other crimes in the four-year Bosnian war. All major US papers report.

CHINA - A PROBLEM WITH THE WORLD BANK. The World Bank's biggest customer will soon be China, reports The Economist (7/13,p.54). In fact, such is China's appetite for loans that it threatens, within the next two or three years, to bump against the restriction that the World Bank sets on its lending to any one country. Should that happen, China's development budget would then have to be cut back precipitously and the country's relations with the Bank would come under considerable strain, the story says.

No country may account, over a length of time, for more than a tenth of the Bank's total lending. The easiest way of all to help China would be to raise the Bank's ceiling for lending to a single country to, say, 15 percent of all lending, the story says. But the Bank's Board of Executive Directors would probably be split on the matter, so little do its members agree about China's future.

And then there is the question of the Bank's IDA, whose future is uncertain, thanks to the blocking actions of a hostile US Congress. It is particularly so for China, whose relations with America have recently been rocky. The Clinton Administration recently argued that China should no longer receive IDA money, claiming that the country is now not poor enough to qualify for it. The Bank's staff, and most other rich-country members, disagree. China's budget is so dire that it is unlikely to afford new anti-poverty programs from its own

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

OFFICE MEMORANDUM

DATE: July 18, 1996

TO: James D. Wolfensohn, President

FROM: Hiroo Fukui, Vice President, RMC

EXTENSION: 31188

SUBJECT: **Japan: Your Meeting with MOF Vice Minister Kato (ODA level in Japan's next Budget)**

1. In view of your upcoming meeting with Vice Minister Kato on July 23, I thought it might be helpful to provide you with my thoughts on the recent pronouncements in Tokyo regarding the level of official development assistance (ODA) in the government's next budget. Otherwise, I don't have any other major issues to report, concerning MOF, since your visit to Japan in May.

- This is the time of the year that the government firms up its basic framework for next year's budget. It is reported that the **Ministry of Finance (MOF) would like to constrain the ODA budget to no more than its current level**.

- As you may know, **the level of Japan's ODA has enjoyed special priority status in previous government budgets**. At this stage of the budget framework discussions in recent years, proposed increases in ODA were as high as 7% - 9% (although in the final government budgets, the actual increase in ODA was 3.5% to 7% for the last several years - it gradually went down to 3.5% last year.) These increases in ODA were higher than the overall increase in the government budget.

- MOF is now shifting its policy focus on ODA from **"quantity"** (Japan has led all countries in the amount of ODA disbursed annually since 1991) to the **"quality"** of assistance provided.

- **This shift of ODA policy may affect the PHRD allocation to the Bank next year.**

- Although budget preparation is at a very early stage in Japan, you may wish to refer to the above points and, in particular, emphasize to Mr. Kato that:

  ⇒ the Bank appreciates Japan's initiative in hosting and playing a significant role in the recent Tokyo IDA11 Meeting; and

⇒ the PHRD program is a valuable means for developing countries to improve the quality of development assistance provided by the Bank - and by Japan as a cofinancing partner. The Bank is ready to discuss ways to further improve the utilization / "quality" of Japanese grant money.

cc: Messrs./Mmes. R. Chopra (CAPDR); R. Arrivillaga (CAPOC);
P. Donovan (FRMDR); A. Horiguchi (EXC)

PH/

9700

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

JAMES D. WOLFENSOHN
President

May 29, 1996

Mr. Takatoshi Kato
Vice Minister of Finance
for International Affairs
Ministry of Finance
3-1-1, Kasumigaseki
Chiyoda-ku, Tokyo 100
JAPAN

Dear Mr. Kato:

It was a great pleasure to see you again in Tokyo on May 16, for our second official semi-annual consultations. I was grateful for the opportunity to monitor progress on issues of mutual concern. I thank you also for your graciously hosting a most delightful lunch.

As you know, strengthening the Bank's partnership with Japan has been one of my highest priorities since assuming the presidency a year ago. I am particularly delighted therefore that our dialogue has become progressively more candid and open over the months. My colleagues and I hope you found our recent Tokyo discussions to be as constructive as we did.

May I thank you once again for your efforts and support on IDA 11. I am presently doing everything in my power to press the US on both delivering its arrears and meeting its IDA 11 commitments. We would be most grateful for any continued support you may be able to provide, towards our efforts to preserve IDA.

In our ongoing joint Bank/IMF initiative on multilateral debt, we continue to be very mindful of Japan's concerns, namely, the avoidance of moral hazard, which points to the importance of the 3+3 time frame and of an eligibility test based on objective criteria. We share your concern that the Bank's preferred creditor status not be endangered. Your point about the need to think beyond this initiative was well taken, as was Mr. Hamanaka's on the time needed to build the necessary political will to support further concessionality. I do hope that we may move forward together in this important effort to assist highly indebted poor countries get back on a track of sustainable growth, through debt stock reduction and demonstrated commitment to appropriate macroeconomic policies.

On the Bank's policy in Asia, I welcome your suggestion for regular consultations on a country-by-country basis. The recent joint discussions in Tokyo, between staffs of the OECF, JEXIM and the Bank on India's CAS and lending program were reportedly successful, and I look forward to seeing many more such collaborative efforts. My colleagues and I are also eager to enhance our cooperation with the Asian Development Bank at all levels. As I noted, we stand ready to provide our full support towards ADB's plans to establish a research institute.

On non-lending services, I hope I was able to address your concerns. I am increasingly convinced that we need to support non-lending activities that would render our lending more effective and sustainable, not undermine it. Without education and capacity building alongside our financial resources, we cannot expect local ownership or sustainability of the development process.

Regarding the issue of personnel, we appreciate your endorsement of our recently completed Japanese Staffing Strategy. Our challenge now is its implementation. My human resources team, under the leadership of Sven Sandström and Dorothy Hamachi Berry, is working hard to identify qualified Japanese nationals -- an effort to which I am personally committed.

In closing, I wish to thank you and the Government of Japan for your continued, generous and invaluable support to the World Bank Group. I look forward to receiving you in Washington for our next semi-annual consultations. Meanwhile, please do not hesitate to call me at any time.

With warmest personal wishes.

Sincerely yours,

James D. Wolfensohn

S/ substitute this for the copy I gave you this morning.

EXC 2033

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

JAMES D. WOLFENSOHN
President

August 30, 1995

The Honorable Takatoshi Kato
Vice Minister for International Affairs
Ministry of Finance
Tokyo
Japan

My Dear Mr. Minister:

I am very concerned that I should have caused you and your colleagues distress over the decision to discontinue the Arun III project and my lack of adequate consultation before announcing that decision.

May I say, instantly, that had I been aware of the full extent of past involvement and of your support, I would have most assuredly mentioned the matter to you when we met and I would most assuredly have called you. The fact is that in the briefings which I received, we were focused totally on the project itself and only peripherally on the adjunct sources of financing. I had no idea of the very important role that your government had played in the exploration of this project and the offering of financial support and accordingly I simply ask you to accept my apologies and my assurance that this taking you for granted is not something that is in my character. As I get to know this job better, I will know more of the depth of relationships on particular projects and as a result of this incident I will be assuring myself that I have better briefings in future.

I hope that when I come to Japan, I will be able to satisfy you that this is the case and that we can build together a future which is along the lines that we discussed at our meeting.

With renewed apologies and good wishes and I am looking forward to seeing you soon.

Sincerely yours,

James D. Wolfensohn

FAXED 9/5/95

EXC877

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

JAMES D. WOLFENSOHN
President

July 7, 1995

Mr. Takatoshi Kato
Vice Minister for International Affairs
Ministry of Finance
Tokyo
Japan

Dear Mr. Kato:

Thank you for your letter, it was good to hear from you.

Please accept my very sincere good wishes on your new appointment as Vice Minister of Finance for International Affairs. Be assured that you will always have my support as you face your new challenges.

Sincerely yours,

James D. Wolfensohn

I look forward to seeing you soon —

Exc 877

MINISTRY OF FINANCE
TOKYO JAPAN

Vice Minister
for International Affairs

June 26, 1995

Mr. James D. Wolfensohn
President
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.

Dear Mr. President:

I wish to inform you that, as of June 21, I was appointed Vice Minister of Finance for International Affairs to succeed Mr. Nakahira.

On behalf of my predecessor, I would like to express my sincere appreciation to you for the friendship and cooperation you extended to him during his tenure. As I take up my new duties, I would like to ask for your continuing assistance and support as I strive to meet the challenges of my new assignment.

I look forward to having an occasion to meet with you in the near future.

With my best regards,

I will try to visit Washington at the earliest opportunity.

Sincerely yours,

Takatoshi Kato

Takatoshi Kato

RECEIVED
JUN 29 1995
By LFG

[redacted]

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

JAMES D. WOLFENSOHN
President

EXC 55
60/c

June 1, 1995

Mr. Takatoshi Kato
Director-General
International Finance Bureau
Ministry of Finance
Tokyo, Japan

Dear Mr. Kato:

Thank you for your kind letter regarding my appointment as President of the World Bank. I very much appreciate your expression of support.

I consider my appointment a great honor and a unique opportunity to enhance the quality of life for people throughout the world. I look forward to working with you and your colleagues in this endeavor.

I much enjoyed our meeting in Tokyo - I hope it is the first of many such encounters -

Sincer~~ely~~ yours,
Best wishes,

Jim

James D. Wolfensohn

EXC 55

Director-General
International Finance Bureau
Ministry of Finance
Tokyo Japan

June 1, 1995

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

Dear President Wolfensohn,

This is simply to convey my best regards for official commencement of your wearing new hat.

In Japan, many of your friends told me that the greater the challenges, the more your like the job. I share that view.

Looking forward to the earliest opportunity of seeing you again.

Sincerely,

Takatoshi Kato

Takatoshi Kato

EXC 55

MINISTRY OF FINANCE
THE JAPANESE GOVERNMENT
TOKYO JAPAN

FACSIMILE TRANSMISSION

DATE: May 31, 1995

TO: Mr. James D. Wolfensohn
President
World Bank

FAX: 202-522-3433

FROM: Takatoshi Kato
Director-General
International Finance Bureau
Ministry of Finance
Tokyo, Japan

Remarks:

See attached letter.

Number of pages (including this page); 2 pages

If you experience any problem with this transmission, Please contact us through; (03)3581-2832 (telephone) or (03)5251-2140 (fax).

<u>JDW Meeting Aide Memoire</u>

When: Thursday, 16 May 1996, 12:30 -1:45 pm (lunch)/ 2:30-4:30 pm

Where: Daigo Restaurant / MOF Conference Room, Tokyo, Japan

With: **<u>Mr. Takatoshi Kato, Vice Minister of Finance for International Affairs</u>**

Mr. Hideichiro Hamanaka, Deputy Director-General, International Finance Bureau
Mr. Tadashi Iwashita, Deputy Vice Minister of Finance for International Affairs (lunch only)
Ms. Naoko Ishii, Director, International Finance Bureau

Bank staff: A. Nishihara (EDSO2); M. Malloch Brown (EXTVP); S. Miyamura. M. Iritani (lunch only) (TOK); A. Horiguchi (EXC)

Purpose of meeting: Second semi-annual consultation between JDW and MOF Vice Minister (follow-up to first meeting in Washington on December 7, 1995, per promise in Tokyo of September 13, 1995).

Main topics raised:

1	JDW's Meeting with JEXIM
2	Bank's Training Program
3	Africa
4	G7 Lyon Summit
5	Multilateral Debt
6	MDB Task Force Report
7	Bank Policy in East Asia
8	Non-lending Services
9	IDA
10	CG Meetings in Tokyo
11	MIGA Capital Increase
12	Japanese Staff

<u>JDW's Meeting with JEXIM</u>
JDW

- We discussed the issue of multilateral debt with JEXIM this morning. In an otherwise "great relationship," JEXIM's only concern is rescheduling. We have seen progress on collaboration on country-specific work, training and understanding on preferred creditor status. The change in atmosphere (between

JDW and Mr. Yasuda) was obvious. I invited JEXIM to send trainee to the Bank's training program (below).

Mr. Miyamura

- Mr. Yasuda fully understands the Bank's legal position on untied loans, through the exchange of letters with JDW.

Bank's Training Program

JDW

- I want to change the Bank's culture from one focused on process to results. There will be a new training program organized within the Bank, a twice yearly session beginning in October and in March, a ten-week course including six weeks of business school classes and four weeks of on-the-job training. We will have the best professors from HBS and INSEAD, who will teach finance and project appraisal. We will train staff on how to measure project effectiveness financially, socially, etc.

- The aim is to build a new ethos of excellence, listening, flexibility and client orientation. By training at an annual rate of 240 Bank staff and 60 Bank external participants, "huge changes" will occur within 12-15 months. Points will be given to staff who participate in the training program as well as to managers who send their staff to training.

- We would like Japanese representation at these courses; they will not only enrich the courses but will comprise an integral part of lasting networks. I have also invited other MDBs to send representatives. Mr. Boutros-Ghali has offered the UN's teaching facility in Tokyo, which is apparently little used. The Bank could join forces with the to-be-built ADB's research/training institute. Education is "my biggest tool" to change the institution.

- The program will improve over time. The professors' role will not be to lecture, but to stimulate discussion. This project will not be a mistake; the only question will be *how good* it will be. This training program, combined with the planned expansion of EDI, will lead to better servicing of clients, reduction of project implementation time, i.e. greater effectiveness -- precisely what the MDB Task Force Report called for.

Mr. Kato

- I fully support the concept of a life-time training program that would make Bank management and staff more attuned to developing country needs. In the past, especially in Japan, there was criticism that the Bank was geared to its own inner process. My only concern is that outside professors would be good for finance but not necessarily for project evaluation.

Africa

Mr. Hamanaka

- I just returned from an African seminar in Paris, where I spoke about the MDB Task Force. They (African participants?) were happy about the diversity of input that went into the Report. At the end of the day, there is no singular solution.

JDW

- Growth rates are improving in Africa, and there is new leadership in many of the countries. I have launched a capacity building initiative in Africa. Huge amounts of money spent on training had been wasted, so we gathered African leaders to organize themselves. Though I was at the first meeting in Washington, they have subsequently met on their own six times in Africa, and are working hard to meet a June deadline to come up with a self-designed program to strengthen capacity.

G7 Lyon Summit

JDW

- I just received Mr. Chirac's official invitation to attend this year's summit.

Mr. Kato

- Russia will be represented as well, so it will be G7 plus 1.

Mr. Hamanaka

- I am going from one sherpa meeting to another in preparation for the summit.

Other Topics at Lunch

- Viet Nam's economic growth potential;
- travel security and Gulfstream arrangement;
- upcoming elections in Israel and Russia.

* * * * *end of lunch discussions * * ** *

Multilateral Debt

JDW

- A joint Bank-Fund mission will be traveling to Tokyo before the end of this month (May). Meanwhile, I would like to give you a status report. The proposal outlined at the Spring meetings is still the one we are experimenting with.

- **Paris Club:** Protecting preferred creditor status of the IFIs and preventing moral hazard are issues which still need work. The Bank/IMF position is that if we are to make a contribution, so should the Paris Club. My private sector experience with debt restructuring taught me the need to gather all the players at the table at the same time, otherwise, we will never get them -- Mr. Camdessus shares this view. The proposed 90% concessionality created strong reservation among some countries, but that is the *ceiling*. The UK and France have said that they will go along with 80%, though Japan has said that it will not. Others are willing to go up to 90%, which is the level needed to realize an *effective* 67% debt reduction (because of exclusions under the Naples Terms). We urge you to consider contributing in our efforts to help countries get back on some sort of growth track. It is ultimately your choice to proceed or not; it has now become a political decision.

- **Eligible countries:** The 3+3 time frame is reasonable; this is not a quick fix. Countries will get themselves under their own supervision and control for three years; this will prevent moral hazard.

- **Resources of IFIS:** How will IMF contribute to help reduce the stock of debt, via ESAF or another means? The role of RDBs, particularly of the AfDB, is unresolved: can AfDB build sufficient reserves in time to contribute to the initiative? We don't yet know how to deal with this; AfDB is clearly the most vulnerable to meeting its obligations. We might be able to get contributions e.g. from Scandinavians, Dutch, Swiss, to the trust fund -- they might be ready to give additional moneys that could contribute the portion that AfDB could not. There is great pressure, especially from the EBRD, to protect preferred creditor status.

- **Cost:** In the next ten days, we will have a precise dollar estimate of the costs to each participant. HIPCs needs are estimated at $8-10 billion in present value terms.

- **Cost to the Bank:** The Bank is expected to put up around $1 billion. If we look at our balance sheet, we would be writing off $1 billion without actually losing cash: on the asset side, we now have loans to HIPCs which will never get paid back. By putting $1 billion from our liability side into a trust fund (to help HIPCs get on a track of sustainable growth through debt stock reduction and appropriate macro policies), we are merely recognizing bad debt, not losing cash -- that $1 billion will allow HIPCs to pay us back the debt that would otherwise not be repaid. We happen to have reserves that never get used. If we were a commercial bank, we would be providing for bad debts and writing them off. Deutschebank and Citibank don't lose their triple-A ratings because they have provisions for bad debt. We will demonstrate that our proposal will not jeopardize our preferred creditor status, nor violate our Articles of Agreement.

- (Regarding Mr. Hamanaka's public entity concern -- see below) It is a *governmental* matter to have a sound public entity that is not lying to itself. We now have on our balance sheet loans that will never get paid back.

- **Change:** We are trying to reform the Bank so we don't *make* bad loans. Thirty to forty percent of Bank loans don't meet development objectives. This is not always the Bank (staff)'s fault. The Board approves every single project, including to Bosnia and Chad, which would never be commercially viable. The record is uneven across regions, with IDA as the highest risk. Meanwhile, our reserves has grown, but they are never used.

- **Next steps:** During the first week of June, there will be a Board seminar on the costing and design of the HIPCs initiative. On the costing, you will get a joint Bank/Fund paper: on the design, you will get separate papers from us.

- **Trust fund:** We should start with a general trust fund, then go to country-specific trust funds. Denmark, for example, has 15 designated countries to which it can contribute; it could not contribute to a general trust fund.

Mr. Kato

- **G7 position:** Common objectives include:
    - avoidance of moral hazard, which point to the importance of the 3+3 time frame;
    - eligibility test based on objective criteria;
    - (there is strong convergence on the fact that) Paris Club has gone "way ahead" on stock reduction, from 33% to 50% to 67%; we will need to see what kind of sequential procedure will be established. What is viable, deeper stock reduction or widening the universe of eligible countries?

- **G7 and trust fund:** My hunch is that no G7 country is willing to contribute to the trust fund, but it would be wise not to mention this lest others withdraw. If there is extra money that would cover for the AfDB, we might want to take a promise from the AfDB for future (contribution?). The trust fund must be a *general* trust fund. It is best if we remain silent and say that it is a general trust fund to which all creditors will contribute. The G7 concern, however, is that if it is a general fund, it will not be rigorous enough, and that country-specific funds are needed. The G7 is divided between the former Allies (four) vs. the former Axis powers (three).

- Would like to see contribution to the extent that preferred creditor status is not endangered. The developing countries took the proposal presented at the Development Committee as a "gift from heaven," but it is a *cost.* We must prevent moral hazard so that that cost is not wasted.

- **Beyond HIPCs exercise:** Some countries may not "make it." We need to differentiate those and think beyond this initiative -- of policies that will sustain sufficiency of grant money to sustain the initiative.

Mr. Hamanaka

- **Public entity concept:** In many of the MDB Task Force discussions, there emerged -- in particular among the Danes and other Europeans -- the concept that the World Bank is a *public entity.* I myself expect it to be a fine public entity to the extent that we bring tax money into the World Bank. While appreciating JDW's private sector experience, we cannot present our argument to our parliamentarians in a commercial way. We persuaded them to agree to a debt stock reduction from 33% to 50% to 67%, however, governments need *time to* persuade parliamentarians. I appreciate JDW's reform efforts and willingness to face the truth that the Bank has made bad loans, which will not get paid. But before we tell the Diet that the Bank has made bad loans, we need time -- people are infuriated with the *jusen* (specialized financial institutions for housing loans) crisis. On using the Bank's reserves, bear in mind that while it is very easy to lose money via reserves, it is very difficult to build up reserves.

<u>**MDB Task Force Report**</u>

JDW

- (To Mr. Hamanaka) Congratulations on a good job.

Mr. Hamanaka

- As Jeff Schafer said, the old textbook used to be about North vs. South; now we have a textbook on North-South cooperation.

<u>**Bank Policy in East Asia**</u>

Mr. Kato

- **Regular consultations:** Given that OECF and JEXIM are considerable sources of resources in Asia, we would like to have regular consultations on certain countries, namely, Indonesia, Philippines and Viet Nam. For example, Bank staff on their way for appraisal missions to these countries could stop by in Tokyo first to consult with JEXIM and OECF. *Ad hoc* consultations already take place, however, we would like to make it a more conscious effort. For the moment, I am most concerned about macroeconomic management in Indonesia.

- **APEC and infrastructure development:** In light of the mandate given to APEC finance minister on infrastructure development, we are "disturbed" that Indonesia and the Bank are organizing a summit on infrastructure development in September 1996. Given the tension between trade and finance ministries on this issue, we would ask that you manage this seminar *wisely,* and would welcome informal consultations in future.

- **Cooperation with ADB:** Mr. Sato would be happy to see staff exchanges between the ADB and the World Bank (see JDW's proposal below).

- **EDI research translation:** EDI output should be translated into various (Asian) languages.

JDW

- **Consultations with OECF/JEXIM:** I have no "inhibitions" (about supporting the proposed consultations). There is already increasing levels of collaboration, e.g. on India, Bank staff are having joint CAS discussions with JEXIM and OECF later this month. After the Indian experiment, could take it to other countries. My biggest worry in Indonesia is the very high social stress and repression.

- **APEC and infrastructure development:** We don't want to get "caught in the middle of ministerial fights." We were asked by ASEAN countries to take a look at the question of infrastructure development, which we understand is a hot political debate at APEC. But if we are lending $2.5 billion a year (for infrastructure development in Asia?), we cannot do it without a *regional view.* We understand the sensitivities and I will get a straight answer who asked us (finance or trade ministerial committees), but you need to work it amongst yourselves.

- **Cooperation with ADB:** I told Mr. Sato at the MDB Presidents' meeting that it didn't matter who took the lead, etc., but he suggested a "constructive competition." I don't know what happened in the past, but would like to work with a "strong ADB," with whom we have a mutual trust. We are not trying to put ADB out of business; on the contrary, we are prepared to give ADB any support it needs, e.g. staff exchanges and training.

- **EDI research translation:** I am looking into the matter, but the question is the budget.

<u>**Non-lending Services**</u>

JDW

- **Non-lending services to increase effectiveness in lending:** I would like to clarify any misunderstanding that might exist within MOF about my intentions. The Bank is still a bank to the extent that we provide financial resources. But I am increasingly convinced that giving resources to people without education, capacity or systems is a waste of money. We need to provide training of administrators, parliamentarians, press, entrepreneurs, village women. Without education alongside resources, we cannot have sustainability.

- Fifty-three percent of Bank projects are deemed unsustainable. We need services to make our lending more effective, e.g. EDI needs to work alongside us, relating to our line services. EDI could do more in its depth and follow-up.

- If 40% of our projects are in doubt in terms of development effectiveness, that is $6 billion a year out of a $15 billion program. If we could bring the figure down even to 30%, we could make $1.5 billion a year more effective. It is "inarguable" that non-lending services need support. If MOF is establishing an EDI-like institute (the proposed ADB Institute), let's cooperate so that neither of us are reinventing; we are prepared to give all the knowledge we can.

- (In response to Mr. Kato's question about the source of financing) Non-lending services will be part of the Bank's budget. Grant funds would be welcome. When our Board looks at the costs, it should also look at the *benefits*, some of which are non-financial. Judging effectiveness is a problem, not only for us, but for JEXIM, OECF, RDBs and foundations. Budget discussions are too often centered around costs only.

<u>IDA</u>(/non-lending services/China)

Mr. Hamanaka

- The Bank/IDA are not delivering on net as much as in the past. If the focus shifts to delivery of non-financial services, people in Asia -- who are "hungry for infrastructure" -- might misinterpret. There is "resentment from Beijing" about IDA's three-year reduction plan.

JDW

- The Chinese authorities support the three-year IDA reduction plan. The decision was made by the Board as a compromise. If it was not acceptable, it should have been negotiated amongst the Governors.

- (To Mr. Hamanaka) We are grateful for your efforts on IDA11. Right now, we are working hard on $934 million (US arrears); Secretary Rubin is "doing a great job." We are working through Senator Callahan, his bishop, state supporters and President Clinton.

Mr. Kato

- **IDA/China:** My conversations with Chinese counterparts suggest that they are not happy with the three-year reduction plan, but that it is better than *no* IDA resources.

CG Meetings in Tokyo

Mr. Kato

- I hope that the Bank's Tokyo office will get a conference coordinator to support CG meetings in Tokyo.

JDW

- We are looking into the matter.

MIGA Capital Increase

Mr. Kato

- Although views were reportedly divided at the recent informal Board discussions on MIGA's capital increase. Japan will support its financial requirement.

JDW

- I fully support the capital increase for MIGA. but the required 100% of the financial resources should come from shareholder contributions. not out of IBRD net income (which the UK and US propose).

Japanese Staff

Mr. Kato

- The recently completed Japanese Staff Strategy is good. We are contacting "semi-public" institutions to see what pool of resources are available. Mr. Nishihara will get in touch with Sven Sandström about this.

Atsuko Horiguchi
May 29. 1996
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JDW Meeting Aide Memoire

When: 6:00-9:00 pm, Thursday, 7 December 1995

Where: JDW Residence, Kalorama

With: **Mr. Takatoshi Kato, Vice Minister for International Affairs; Mr. Hideichiro Hamanaka, Deputy Director General for Aid; Ms. Naoko Ishii, Deputy Director, Development Institutions; Mr. Toru Mimura, Chief, Office of the Vice Minister**

Bank staff: G. Kaji, S. Sandström, R. Lomax, A. Horiguchi (EXC).

Main points raised (in order of issues raised):

PERSONNEL

Vice Minister Kato

- o Would like to see an appointment of Japanese executive at the Bank soon.
- o Mr. Hashimoto (President and CEO, Fuji Bank), who this fiscal year is the Chairman of the Bankers' Association, is thinking of sending somebody from Fuji Bank to the Bank.
- o Messrs. Iida and Fukui are career managers at the Bank Group and evidence that Japan can produce committed executives.

Mr. Hamanaka

- o Given that the regular practice of Japanese companies for external secondments is three years, JDW's five-year criteria (see below) might lose some people.

JDW

- o Announced senior management changes yesterday (copies of Staff Announcement distributed to MOF delegation) in an excellent meeting. There is a strong desire in the institution to have a fair and equitable personnel system at the Bank, where success is measured by effectiveness. Currently looking for new VP for Personnel under S. Sandström's leadership. Key to the future of the Bank is personnel.
- o Most anxious to increase Japanese staff and to bring high-ranking Japanese to the Bank. Would like to discuss strategy to increase Japanese presence at the Bank. Presently,
  - Ms. Kawabata is working exclusively on Japanese personnel;
  - (JDW himself) initiated a program of bilateral secondments with Keidanren;
  - Would like to *grow* Japanese executives at the Bank via management training;.

about IDA. The problem is Congress. Thinking of a new campaign to get wider constituency. The task is to build a stronger, more personal constituency in Congress. Mr. Rubin, who just returned from seeing slums in Brazil, publicly said that JDW should bring members of Congress to visit. The IDA Deputies, along with recipient countries, all need to be tough on Congress; cannot be complacent with the USD 700 million figure.

- o Recently spoke at the Bundestag's Budget Committee -- unprecedented -- and will continue to do everything in JDW's power to save IDA, which, if lost, would be a tragedy for the world. Three billion people need help, and IDA is the best instrument. Bilateral assistance is not as effective. Please ask the Japanese Prime Minister to write Mr. Clinton. Have asked Messrs Chirac and Kohl, who have agreed. Will ask Mr. Major tomorrow -- need to *get a reaction.*

- o Understand Japan's political position and the need for pro rata option in IDA 11.

S. Sandström

- o We are looking at ways to maximize pressure on the US: procurement, decision-making, pro rata. The ultimate instrument would be for other donors to pull back in the second and third years.

COFINANCING

Vice Minister Kato

- o Glad to see that OECF's lending level in Asia is similar to the Bank's; the two institutions are complementing each other. Through OECF cofinancing, implementing a technical assistance program in Vietnam to strengthen the legal framework. But cofinancing volume with the Bank is declining.

- o Japan is proud of the PHRD Fund: untied, umbrella/comprehensive agreement with the Bank -- a model that could be pursued with other bilateral donors. Currently, PHRD is being utilized for project preparation, but other potential uses are: acceleration of project implementation, and training of recipient countries.

Mr. Hamanaka

- o Deficit of the Japanese government: IMF told Japan for the first time that it needs budget restoration. Severe pressure from the Budget Bureau; PHRD provision may be reduced.

JDW

- o Have plans to meet Mr. Nishigaki (President, OECF) in January 1996, to review the program for next six months. Understand that the decline in cofinancing is due to the decline in the Bank's adjustment lending. Have high hopes for the meeting with Mr. Nishigaki.

Atsuko Horiguchi
December 29, 1995

- o PHRD is the single most helpful fund the Bank receives. The untied nature allows for creativity, flexibility.

RESEARCH COLLABORATION

Vice Minister Kato

- o Would like to see more active interchange between the MOF's Monetary and Fiscal Research Center and EDI.

Mr. Hamanaka

- o Just as the *East Asian Miracle Study* was translated into many languages, would like to see EDI abstracts translated into Japanese.

JDW

- o A large number of Bank staff are about to head to the Bank-Japan Research Fair in Tokyo this week. The head of the delegation assured JDW that a substantive link between the Bank and Japan would be for forged. **The Bank would like to receive a Visiting Fellow from Japan for 6-12 months, perhaps from MOF's Research Center**.

- o The EDI is a hidden resource. **The idea of translating EDI abstracts into Japanese sounds good**.

OTHER

JDW

- o Hope MOF acknowledges the progress made by the Bank in holding CG meetings in Tokyo. From practically nil since the last meeting (with MOF in Tokyo, September 1995), to a rooster of seven CG and donors meetings planned for between now and Spring of 1996.

- o Want to build a sense of *intimacy and common purpose* with MOF. Would like meetings to be interactive and mutually comfortable. Don't know if it would be advisable for JDW to meet with the Diet's Budgetary Committee, as JDW did in Australia and Germany. Seems to make sense to meet them eventually. The political will/public awareness are not sufficient; need to get the story out about the needs and achievements of the Bank.

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Atsuko Horiguchi
December 29, 1995

JDW Meeting Aide Memoire

When: 11:00-12:00, Wednesday, 13 September 1995

Where: Vice Minister's Office, Ministry of Finance, Tokyo

With: **Mr. Takatoshi Kato, Vice Minister of Finance for International Affairs**
Mr. Hideichiro Hamanaka, Deputy Director-General, International Finance Bureau

Bank staff: A. Nishihara (EDS02), S. Miyamura (TOK), M. Iritani (TOK-IFC), M. Malloch-Brown (EXT), A. Horiguchi (EXC)

Main points raised:

Vice Minister Kato

- o Apologies for Minister Takemura's absence at the Canberra meeting; currently preoccupied with the package of measures to be announced around September 20. The dollar has strengthened and stands today at Y101.18/$.

- o The Bank's decision-making process -- as illustrated in the "unfortunate case of Arun" -- appears to have taken place independent of what Japan had been doing. MOF would like to establish and maintain communications with the Bank so that "Japanese way of thinking/doing business" is incorporated in the Bank's operations.

- o Single greatest concern right now is IDA 11. Appreciate JDW's efforts in working with the Clinton Administration and work to persuade US Congressmen and Senators. Japan will need to act on principle of fair burden sharing.

- o Lending Priorities:
  - . MOF attaches great priority to infrastructure lending.
  - . Social sector focus should not be across the board e.g. (In contrast to Asia, where educational levels are high and health conditions are generally "not so bad,") In Africa, education and health care projects could procure high rates of return, but need to discuss on a country-by-country basis.
  - . The Bank should be putting forth seed money to generate funds throughout the economy.

- o Because Japan is the largest bilateral donor, increasing the number of Consultative Group (CG) meetings in Tokyo makes sense.
  - . The Indian Development Forum will be held in Tokyo next year; opportunity to invite Japanese businesses to increase FDI in the country.

- On multilateral debt, GOJ maintains its position -- which it has not hitherto ever changed -- that debt reduction is not the right approach. Japan's particular concern about debt forgiveness is due to the fact the ODA funds are raised through private money. Rescheduling could be considered on a case-by-case basis. New loans should be made towards productive physical infrastructure. (In response to the leak -- see "JDW" below) Leakage itself can be harmful. If asked by journalists, GOJ would have to harden its stance. Market sentiment towards IBRD bonds may be affected.

  Technical assistance resources on an untied basis from Japan has been a good contribution to the Bank for project preparation. GOJ would like to continue, but would like the Bank's feedback. Since it involves the Japanese taxpayers' money, need to maximize benefits.

- "Generally accept" JDW's proposal for semi-annual meetings with the Bank, but leave the matter with Mr. Nishihara. In the past, MOF/GOJ did not receive sufficient attention of the Bank President; JDW's initiative is a welcome one.

- On the Japan Research Fair: a number of academics are interested in participating. Mr. Miyamura's office can be used as catalyst for public relations in Japan. Would like to follow JDW's suggestion about continuing education (see "JDW" below) with keen interest.

- Japanese personnel: Mr. Husain's pending departure is unfortunate. Mr. Miyamura is a great asset -- he is flexible and knowledgeable about the Bank. What is the status of the short list given to Mr. Husain? Having top-level Japanese at the Bank would help MOF's "presentation" to the Diet in budget discussions.

Mr. Hamanaka

- Urge JDW to tell US parliamentarians the Japanese example during Prime Minister Nakasone's tenure, when the budget situation was severe; PM committed to cutting spending with one condition -- not to touch international aid.

- Expect an increase in number of CG meetings held in Tokyo. GOJ has experience in hosting CG's on its own; now planning CG's for India and the Philippines.

- Met two days ago in Washington with: R. Frank, S. Sandström, J. Burki, R. Cheetham, H. Fukui, K. Jaycox.

- Finance Minister Takemura is keen to see more high-ranking Japanese officials at the Bank.

JDW

- In the last three very busy months of traveling to 20 countries (where 80 percent of the time was spent in the field), have acquired an awareness of the difficulty of the development process and a need for organizational change at the Bank in order to increase its effectiveness.

- One priority is to develop better relationships with shareholders and other partners on a systematic basis; will reorganize the Bank in such a way as to manage these relationships better.
- Another priority is a clarification of what is expected from staff, and an attendant accountability.
- Finally, would like a management group that reflects the Bank's shareholders; need to work out a process to attract the brightest.

-> These are general comments but they apply to Japan.

o With regards to the various issues between the Bank and Japan, they have been recurring for several years. There is immense goodwill and talent in the Bank to move the issues forward. Want a regular mechanism -- a systematic process -- with targets toward resolution of issues. Suggest twice yearly review, where strategic issues can surface and progress can be reviewed in orderly manner. Issues such as CG and staff can be put on the agenda. Such a review process would give Japan more ownership, JDW greater understanding.

o In the Arun decision, at no stage was JDW alerted to the importance of the GOJ; this is probably symptomatic in other Bank project with other countries. Within the Bank, need management of relationship with shareholders, where views are communicated even if the Bank may take an independent one from shareholders. If Japan is the largest donor, need to establish a basis/mechanism "so we can be best friends;" want MOF/GOJ to feel more participatory.

o IDA is on the top of JDW's agenda: without IDA, there would be no Bank.

- JDW spending half a day per week "giving information" -- since lobbying is not allowed -- on the Hill. Believe JDW is doing more than any previous Bank President.
- The best to be hoped for now is USD 800 million; there is a 50-50 chance that Senator Helms will agree on that amount, which will be a 1/3 reduction -- "a disaster but not death."
- The problem is the irrationality of decision making, where the voters -- young Congressmen and Senators -- have no philosophical views on development economics, just budgetary concerns. President Clinton is absolutely committed to increase it to USD 1.25 billion. Senior members of Congress -- Jay Hatfield, Nancy Kassenbaum -- are "not a problem;" they all want the USD 1 billion.
- President Clinton is committed to IDA, as are Mrs. Clinton (her commitment reinforced by her trip to South Asia) and Secretary Rubin. President Clinton invites young Congressmen for briefing on aid issues, and they don't show up.
- The situation will become clear in the next two weeks. Through the reconciliation process, what the Senate puts forth will likely prevail under current conditions. Many options, e.g. Special Fund, are being debated.

o The Bank does take a country-specific approach through the CAS exercise. The Bank should be placed to pool together expertise/knowledge, which it can then transfer to countries. The development solution -- education, capital projects, infrastructure -- needs to be *systemic* in order to be sustainable.

- Regarding CG meetings, the question is not GOJ's ability to host them. This issue needs to be taken up as part of strategic discussions with Japan, which the Bank will do via Mr. Nishihara.

- The multilateral debt issue cannot be ignored: the Bank must decide whether it is going to do something, nothing, or something in-between. GOJ's opposition to debt reduction is no secret. Stan Fischer of the IMF agrees with GOJ where debt reduction is concerned. JDW has asked staff to present a proposal.
  - The document -- JDW learned while in Australia -- has been leaked. It seems that Oxfam, *The Financial Times*, and *The Economist* all have copies. The Bank will put out a statement about the leakage, but have no idea what the journalists will do. GOJ is the first to know about the leakage, which transpired in the last 24 hours.
  - Management is "far away" from taking any moves that would affect the Bank's credit standing.

- Japan is the "single most important partner" in terms of trust funds and untied assistance to the Bank. They are funds well spent, extraordinarily helpful, for which the Bank is very appreciative.

- Education at the Bank: want to improve and internationalize continuous education.
  - In discussions with Messrs. Boutros-Ghali and Camdessus about creating an educational system for the Bank, UN and the Fund, to build an international culture, where e.g. Japanese, Ugandan and German faculty would be invited. Results would not be visible for 5-10 years. Personally committed and involved with systemic review of education.
  - At the Bank itself, plan to appoint a "chairman" in charge of the Bank Group personnel and training, at the highest level, to be charge in continuous education.

- Japanese staff at the Bank: A Japanese management "chair" is not possible; the Bank needs to have good management, regardless of nationality. Eager to appoint qualified Japanese, but they must speak English, be willing to stay and able to contribute. Personally committed to following up, but would need help from Japanese side; it would help GOJ and help the Bank to have top-level Japanese.

What was agreed:

Kato & JDW

- Move forward the idea of twice annual high-level review meetings between GOJ and the Bank to make progress on various issues including CG, Japanese staff at the Bank.

Postscript:

o At the dinner hosted by MOF later the same day, Mr. Sakakibara turned to JDW and said, "We may only agree with 70 percent of what you say, but will support you 100 percent." This assurance of support was a breakthrough moment for JDW's relations with MOF.

o Since returning to Washington, Japanese ED's office, EXC and EXT have tentatively agreed that the first semi-annual meeting would take place in Washington during the first half of December.

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Correspondence/Minutes