Folder Title:	President's Council Records - Meeting records 02
Folder ID:	1784349
Series:	President's Council files
Dates:	06/01/1987 - 07/01/1987
Subfonds:	Records of President Barber B. Conable
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Barber B. Conable

President's Council files 02
June 1987

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June 29 MEETING

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 29, 1987

TO: Files

FROM: Marianne Haug

SUBJECT: Minutes of the Policy Committee Meeting of June 29, 1987

Mr. Conable asked for comments and suggestions for his upcoming meeting and luncheon with Mr. Camdessus, in addition to the June 10 meeting on Africa. Mr. Thahane responded and listed the following items:

(a) Compensation issues;

(b) Relocation of Joint Library;

(c) Agenda for the Development Committee.

Mr. Wapenhans brought up the issue that he might allow a number of agreed swaps, at the end of Round 1, between complexes. In addition he wished to report on the progress made on senior staff appointments. Mr. Conable noted that he wishes to be kept informed about the selection process followed for the Chief Economists and Directors.

Mr. Thahane reported on:

(a) The selection of the city for the 1991 Annual Meeting. Singapore and Bangkok were competing vigorously. The Secretary of the Fund and Mr. Burmester are visiting Thailand at present in order to finalize the official invitation within two weeks.

(b) The invitation to observers to the Annual Meeting has been frozen with Bahrain agreeing that only Switzerland should attend.

(c) A Committee to review Board procedures has been established. This Committee consists of Messrs. Xu, Suraisry, Benachenhou, Potter, Sherwin, and is Chaired by Mr. Lankester. It is supposed to prepare terms of reference to consider such issues as Board discipline, country discussions, policy papers, the role of the Bank, management succession. It was also requested that the President is to provide the Board with the formal summary of discussion.

June 26 MEETING

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

PC Mtg.
June 26.

DATE: July 16, 1987

TO: See Distribution List

FROM: Mr. W.A. Wapenhans, SVPAD

EXTENSION: 75656

SUBJECT: Grade 25 Positions

1. This memorandum sets out the decisions of the President, following the Policy Committee meeting of June 26, 1987, on the number of positions allocated to you at grade 25.

2. The ceiling for the number of grade 25s per complex is as follows: Operations, 228; PPR, 62; Finance 23; and Administration, 17.1/ These numbers of positions are to be within your budgeted regular HL position allocations. Please note also that salary budgets for the total number of staff hired would have to fit within the dollar budget guidelines to be communicated to the SVPUs/VPUs by PBD. You may deploy the 25s within your complex as you see fit (subject to proper grading) but you may not exceed the number allocated without the approval in advance of the Policy Committee. The Committee will not consider ad hoc individual cases. It may consider an increase in the total number in a complex depending on the justification presented.

3. The qualitative guidelines for filling grade 25 positions will be as follows:

- For staff selected into units during the reorganization, placements into grade 25 positions which may exist within the respective SVP ceiling for grade 25 positions may take place only if the staff member has been previously graded at or above this professional level (i.e., there will be no specialist promotions to grade 25 as part of the reorganization). Technical specialists previously at grade 25 or above would be one type of candidate who may be selected to such positions. Also, in cases where a staff member was graded at 25 or above in a managerial position prior to the reorganization, placement into a new grade 25 specialist position would depend, as an interim procedure only, and until establishment of a regular panel process for clearing candidates to specialist grade 25 positions, on confirmation by the respective VP, the senior professional of this type in the VPU concerned, and the respective Senior Personnel Officer that the candidate clearly meets the

1/ Other Vice-Presidencies could have up to the same number of grade 25 staff as they had before the reorganization.

existing professional criteria for selection at this level. If a position is substantively new with the reorganization, job grading confirmation and a decision by the appropriate grading committee would also be required.

- Promotion to grade 25 or above specialist positions in the future will be based on job criteria and appropriate review mechanisms to be established by the MRG. These systems should be in place by the autumn of 1987.

4. In summary:

- Grading of level 25 positions must be done in accordance with Staff Rule 5.09.
- At present only current 25s or above may be considered for level 25 positions;
- Promotion to 25 specialist can only take place after the MRG mechanisms are established.

Distribution: Messrs. David Hopper
Moeen A. Qureshi
Ernest Stern
Ibrahim Shihata
Timothy Thahane
Sir William Ryrie

cc: Mr. Barber B. Conable
cc and cleared with: Mr. Robert Picciotto

cc: Mr. W. Stanton
Ms. M. Haug
Ms. E. Meigher
Mr. K. Challa
Messrs. Senner, Collins, Donnolley/PPI, Hume, COM
Senior Personnel Officers

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 7, 1987

TO: Mr. Barber B. Conable

THROUGH: Mr. Willi A. Wapenhans, SVPAD

FROM: William J. Cosgrove, VPPER

EXT: 73962

SUBJECT: Approval of Grade 25 and Above Positions

1. Attached is a draft memorandum regarding the recent decisions of the Policy Committee on the ceiling on the number of 25's by Senior Vice-Presidency and on the number and kind of advisory positions at Grade 26 and above. The substance of the memorandum has been cleared in draft by Mr. Picciotto, PBD.

2. Also attached are two versions of the list of advisory positions. The proposed updated list is presented as Attachment I to the draft memorandum. The earlier list from my memorandum of June 23, 1987, is attached separately for cross-reference (it had been based on the consultations we had with the Senior Personnel Officers and their managers). The proposed revised version has been developed on the basis of discussions with Marianne Haug following the Policy Committee meeting of June 26, 1987. In preparing this revised version, therefore, we have followed the President's decisions that:

- There should ~~not be more~~ than one Lead Economist per Country Department. Division?

- Vacant positions at 26 and above would be dropped unless strong obvious reasons dictated otherwise; and

- Titles should be consistent.

The difference between the two lists is a net reduction of 17 positions, a 12.1% decrease. However, this revised list has not yet been explicitly agreed by the respective SVP's (specific issues are outlined below) and we understand that the SVP's may be making some further comments on the June 23 listing. The summary of the differences is as follows:

SVP/VP Unit	June 23 List No. of Structured	June 23 List No. of Non-Structured	Revised List No. of Structured	Revised List No. of Non-Structured
PPR	10	18	9	16
Operations	68	27	62	19
Finance	3	4	3	4
ADM	1	3	1	3
Legal	6	0	6	0
Total	88	52	81	42
Difference			-7	-10

3. The decrease shown above is due to deletion of most vacancies and some shifts from structured to non-structured designation. The details of these changes are as follows:

- In Operations a decrease of 14 positions as follows:

  - Two vacancies in COD: Economic Adviser and Operations Adviser;

  - Seven positions in VPFIS: the number of structured Adviser positions goes from 4 to 1; and the unstructured Chief Officer positions are reclassified to grade 25;

  - Four vacancies in EMENA: an Economist position in the RVP's office and three Specialists in the Technical Department;

  - One vacancy in the Technical Department, and one Lead Economist position in LAC are eliminated.

  - The addition of one Senior Economist in LAC which resulted from reducing their Lead Economists to 4 by converting and shifting the fifth position to the non-structured column as a Senior Economist. It should be noted that LAC argues they need two Lead Economists because there are two Country Operations Divisions in one department.

- In PPR the decrease from 10 to 9 in the structured column reflects the shift of the post of the Managing Editor to non-structured (exception) column to be consistent with the other U (ungraded) posts; and the decrease in the non-structured from 18 to 16 is the result of deletion of 3 vacancies in the Agriculture and Rural Development Department and the shift of the Managing Editor post to this column.

4. An issue also remains in the classification of Advisers for the Finance complex, which has requested that its 4 Chief Officers be designated as structured positions. They are now shown as non-structured Specialist positions, which we understand to be consistent with the decisions taken by the Implementation Committee. ?

5. Various Vice Presidencies have already indicated that they will shortly be making recommendations on restoring positions dropped from the earlier list, or adding other positions to the revised list.

6. Changes in titles have also been incorporated in the revised version list to bring about more consistent application of the standardized titles which we recently introduced. These are shown in paragraph 5 of the draft memorandum. Among notable changes in titles are:

2 o Replacement of the title Special Adviser with Senior Adviser in Africa (Benor and Habte), LAC (Quijano), and PPR (Ingram); and

2 o Replacement of the Chief Economist title to Sr. Economic Adviser (Grilli) in the Economic Advisory Staff Directorate.

? 7. Please note that this list does not include a second Chief Officer in ITF's Information Planning group which was not included as a structured position in the original list, apparently through an oversight, but which Harinder Kohli has now offered to Nagy Hanna. May we add this to the list?

8. An issue has been raised by some of my colleagues on the President's Task Forces and within VPPER as to whether review and approval of structural changes by VPPER and PBD is in keeping with the new authority of line managers. I believe it is, since if we disagree, provision is made for review by the Policy Committee.

MJCollins/mtm

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 6, 1987 Draft 8533G

TO: See Distribution List

FROM: William J. Cosgrove, VPPER

THROUGH: Mr. Willi A. Wapenhans, SVPAD

EXT: 73962

SUBJECT: Policy Committee Decision on Grade 25 and Above Positions

1. This memorandum sets out the decisions of the President following the Policy Committee meeting of June 26, 1987, in the form of directives to IBRD managers on the number of positions allocated to you at grade 25 and the number and kind of advisory and specialist positions allocated to you at grades 26 and above. These numbers of positions are to be within your budgeted regular HL position allocations.

Budget.

Grade 25

and $ budget

2. The ceiling for the number of grade 25s per complex is as follows: Operations, 228; PPR, 62; Finance 23; and Administration, 17. You may deploy the 25s within your complex as you see fit (subject to proper grading) but you may not exceed the number allocated without the approval in advance of the Policy Committee. The Committee will not consider ad hoc individual cases. It may consider an increase in the total number in a complex depending on the justification presented. The qualitative guidelines for filling grade 25 positions remain as follows:

- o For staff selected into units during the reorganization, placements into grade 25 positions which may exist within the respective SVP ceiling for grade 25 positions may take place only if the staff member has been previously graded at or above this professional level (i.e., there will be no specialist promotions to grade 25 as part of the reorganization). Technical specialists previously at grade 25 or above would be one type of candidate who may be selected to such positions. Also, in cases where a staff member was graded at 25 or above in a managerial position prior to the reorganization, placement into a new grade 25 specialist position would depend, as an interim procedure only, and until establishment of a regular panel process for clearing candidates to specialist grade 25 positions, on confirmation by the respective VP, the senior professional of this type in the VPU concerned, and the respective Senior Personnel Officer that the candidate clearly meets the existing professional criteria for selection at this level. If a position is substantively new with the reorganization, Job Grading confirmation would also be required.

- o Promotion to grade 25 or above specialist positions in the future will be based on job criteria and appropriate review mechanisms to be established by the MRG. These systems should be in place by ~~the autumn~~ early Sept. of 1987.

Grades 26 and Above

3. The approved number and kind of grades 26 and above structured and non-structured advisory and specialist positions are set out in Attachment I1/. As you are aware, the non-structured positions at this level are of two kinds--specialist and exceptions. While the specialist positions are work-need driven, the exceptions are temporary, since they are granted either for the implementation of the reorganization or to accommodate certain individuals. After discussion with the Policy Committee, the President has decided that there will be one Lead Economist per Division ? Country Department in Operations. It is recognized that some problems may have been created considering the recent announcements. Nevertheless, the policy stands and you must plan to be within the authorization for the number of Lead Economists as soon as possible but no later than June 30, 1989.

4. In addition:

- Requests for any new proposals for structured positions at grades 26 and above should be submitted to the Human Resources Audit Unit, VPPER for review of justification and to the appropriate grading committee for grading. They shall also be submitted to PBD for budget authorization. If the requests should be denied by either VPPER or PBDDR, the responsible SVP may submit a request for a review of the decision to the Policy Committee.

1/ Please note the change in the grading of Chief Officer positions in VPFIS. The grade 25s are to be within the SVPOP's ceiling for grade 25s.

- Any <u>other</u> new positions at grade 26 or above may not be filled until after the new Management Review Group (MRG) agrees to new procedures and criteria for creation of such positions and for the clearance of candidates for them. We will seek to provide the MRG with a proposal on this later in July so that the review process could be operated prior to the end-September deadline for staff to opt for the separation package, if they are not offered a position at their prior level.

5. The President had requested we introduce more consistency with regard to the titling of positions. The following instructions on titles must therefore be adhered to:

- <u>Principal</u> will <u>only</u> be used in PPR and may be used for both structured and non-structured positions 26 and above.

- <u>Senior Advisor</u> may be used for <u>any</u> advisory position at grades 27 and above.

- <u>Advisor</u> may be used for any grade 26 advisory position, but <u>not below</u> grade 26.

25 ?

- <u>Senior</u> may be used for any grade 26 unstructured position.

o <u>Lead</u> may be used to identify a grade 26 Economist in a Country Department <u>only</u>.

o <u>Chief Officer</u> may be used for grade 26 non-~~structured~~ managerial positions in Finance and Administration.

Monitoring between now and 12 months from now

<u>Arrangements for Continued Monitoring of Grading Matters and Position Structure</u>

6. The Human Resources Audit (HRA) Unit of the Policy, Planning and Information Division of VPPER will, among its various responsibilities: (i) review and approve all requests for changes to the organization structure, including increasing the number of structured positions (See para. 4); (ii) review and monitor changes to the organization and senior positions structure and alert the managers concerned when the guidelines in this paper are not adhered to and when Policy Committee or MRG action may be required; and (iii) provide advice and guidelines on the grading of positions Bankwide. The HRA, over the coming months, will provide the Senior Personnel Officers operating information and guidelines in both these areas.

7. The Planning and Budget Department in consultation with Personnel will set up a position monitoring mechanism to ensure the staff cost component of the administrative budget remain consistent with the dollar budget envelope of managing units. Requests for changes to the organiza-

tion structure which have budget implications also will be subject to PBDDR approval.

8. As noted earlier, should requests for structural changes be denied by either VPPER or PBDDR, they may be referred for a review of the decision to the Policy Committee.

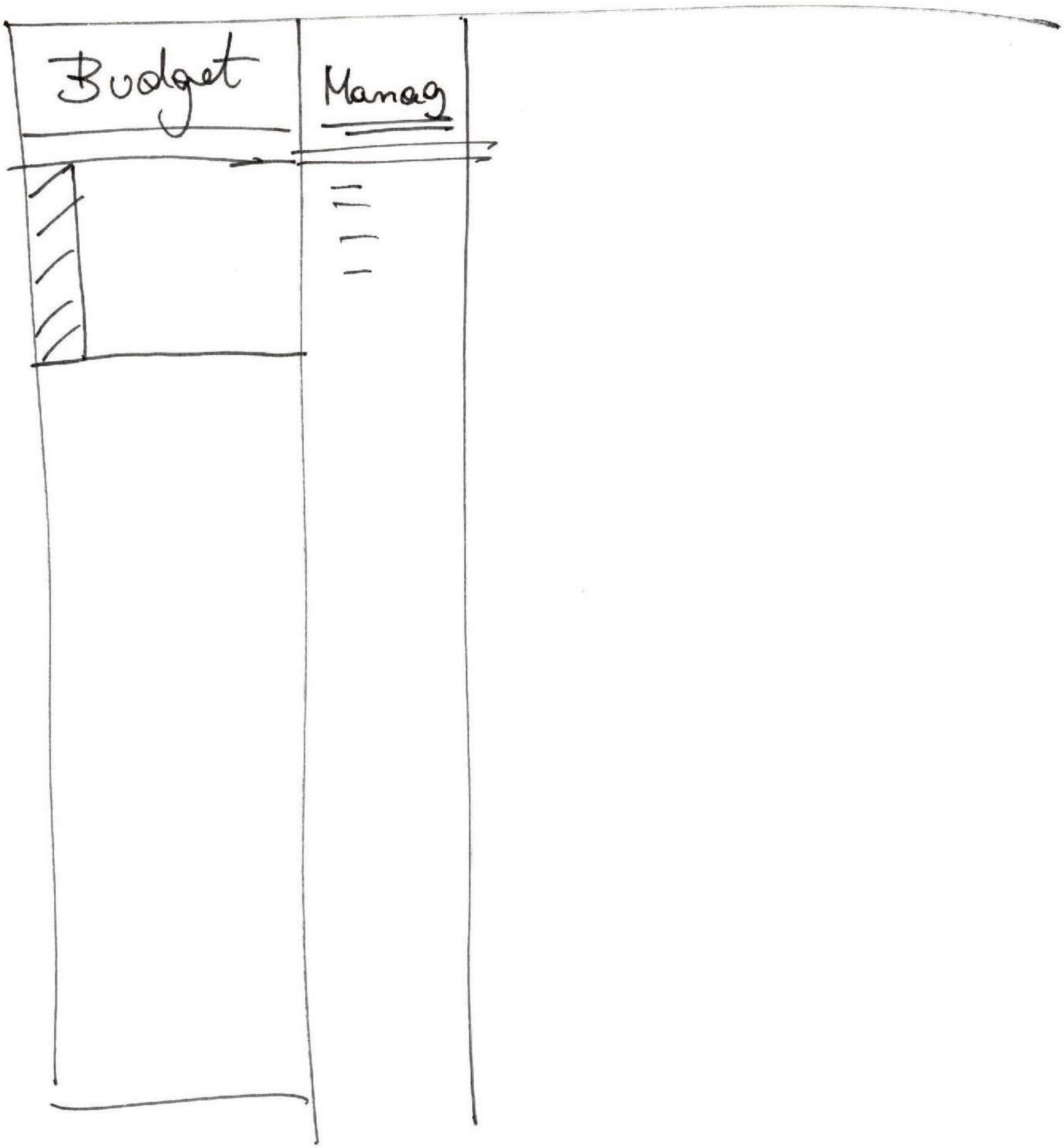
Distribution: Messrs. David Hopper
Moeen A. Qureshi
Ernest Stern
Ibrahim Shihata
Timothy Thahane
Sir William Ryrie

Attachments

cc and to be cleared with: Mr. Barber B. Conable
cc and cleared with: Mr. Robert Picciotto

cc: Mr. W. Stanton
Ms. M. Haug
Ms. E. Meigher
Mr. Challa/PBD
Messrs. Senner, Collins, Donnolley/PPI
Senior Personnel Officers

8533G/ky


Budget
Manag

ATTACHMENT I

ADVISORY POSITIONS: 26 AND ABOVE
S U M M A R Y

July 1, 1987

ORGANIZATIONAL UNIT	STRUCTURED POSITIONS	NON-STRUCTURED POSITIONS		TOTAL
		Specialist	Exception	
A. SVPPPR Total	9	13	3	25
of which:				
SVP	1		1	
VP-Dev. Econ.	2			
IED	2			
CED	1			
VP-Sector Policy	1			
Pop.& HR		3		
AGR		6		
Environment		1		
Infrastructure		3	1	
EDI	2		1	
B. SVPOP Total	62	12	7	81
of which:				
SVP	2			
EAS	5		1	
COD	4	1		
VP-FIS	1			
VP-COF		1		
RVP-Africa	15	3	5	
RVP-Asia	13			
RVP-EMENA	11	1		
RVP-LAC	11	6	1	
C. SVPFIN Total	3	4		7
of which:				
SVP	1			
VP-FPR		4		
VP-TRS	2			
D. SVPADM Total	1	1	2	4
of which:				
SVP	1			
EXT			2	
ITF		1		
E. OTHER Total	6			6
of which:				
VP-LEG	6			
GRAND TOTAL M+	82	30	11	123

8533G20/ky

Record Removal Notice

The World Bank Group Archives & Records Management

File Title President's Council Records - Meeting records 02	**Barcode No.** 1784349
Document Date July 1, 1987	**Document Type** Report
Correspondents / Participants	
Subject / Title Advisory Positions: 26 and above Summary	
Exception(s) Personal Information	
Additional Comments	The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	March 12, 2018

OLD VERSION

STRUCTURED ADVISORY POSITIONS
S U M M A R Y

22 June 19

ORGANIZATIONAL UNIT	STRUCTURED AT GRADES 26/27	OTHER SR. POSITIONS AT GRADES 26/27	Specialist Exception	TOTAL
A. SVPPPR Total of which:	10 ===	16 ====	2 ====	28 ====
SVP	2			
VP-Dev.Economics	2			
IED	2			
CED	1			
VP-Sector Policy	1			
Pop.&HR		3		
AGR		9		
ENV'T		1		
INFRST'RE		3	1	
EDI	2		1	
B.SVPOP Total of which:	68 ====	21 ====	7 ===	96 ====
SVPOP	2		1	
EAS	5			
COD	6	1		
VP-FIS	4	4		
VP-Cof		1		
RVP-Africa	15	4	5	
RVP-Asia	13	0	0	
RVP-EMENA	11	5	0	
RVP-LAC	12	6	1	

C. SVPFIN Total of which:	3	4	0	7
SVP	1	0	0	
VP-FPR	0	4	0	
VP-TRS	2	0	0	
D. SVPADM Total of which:	1	1	2	4
SVP	1	0	0	
EXT	0	0	2	
ITF		1		
E. Other Total of which:	6	0	0	6
VP-LEG	6	0	0	
GRAND TOTAL	88	42	11	141 *

*The grand total is actually 140; a typo assigned three non-structured specialist positions to Africa, Technical Department, instead of two.

Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title President's Council Records - Meeting records 02		**Barcode No.** 1784349
Document Date June 22, 1987	**Document Type** Report	
Correspondents / Participants		
Subject / Title Structured Advisory & Specialist Positions		
Exception(s) Personal Information		
Additional Comments		

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Ann May	March 12, 2018

Archives 01 (March 2017)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 16, 1987

TO : Members of the Policy Committee

THRU : J. William Stanton, Counsellor to the President JWS

FROM : Frank Vogl, IPADR FV

EXTENSION : 72468

SUBJECT : Communications Issues

The purpose of this brief note is to stimulate discussion that can lead to action on critical communications issues. This paper does not attempt to represent a comprehensive plan, but the views of Policy Committee members are sought on each of the points raised here so that a plan can be developed in the near future.

Attachment

FV:rgw

cc: Ms Haug

1. Issue:

The Bank's management has recently had a bad press and staff morale is low. The continuation of such trends will impede the Bank's progress in its critical missions. The response must involve decisions on matters of substance, but there is also a need for an effective and well coordinated communications strategy involving all of the Policy Committee members.

2. Objective:

The basic aim of such a communication strategy needs to be, in effect, to strengthen confidence in management by the staff, the shareholders and the public and to strengthen perceptions among these audiences of the Bank's sense of purpose and its focus on the critical development challenges that now exist.

3. Recommendations in Summary:

(a) That recommendations be made to the President by the Policy Committee on the key themes, policy decisions and, possibly, major new initiatives, that should be announced by him at the Annual Meeting. And that a work plan and timetable for developing the speech be swiftly agreed upon.

(b) That there be discussion on the key messages on critical issues - from IDA and African debt, to GCI and the Baker Plan - to determine whether in the period leading to the Annual Meeting the Bank should go beyond the statements made in the President's Hudson Institute speech in responding to external audiences when they seek answers to questions on these issues in their efforts to determine the Bank's leadership roles and skills.

(c) That a timetable be developed for particular actions by Policy Committee members - from press interviews and conferences to meetings with key officials in capitals and the Board - to demonstrate the benefits of the reorganization, turn around the negativism on this subject and underline that the Bank is moving forward on the issues.

(d) That senior managers develop a set of messages and an action plan for dealing directly with the issue of low staff morale to restore, as fast as possible, a sense of enthusiasm on the part of staff for the institution, its management and its goals, leading to action on FY'88 work plans.

4. The Annual Meeting:

Turning around some of the negative perceptions will take time and it will be difficult. It will best be achieved with substantive arguments on the critical issues that confront the Bank. It will take time to shape and finalize these, but expectations will be high from the staff, the shareholders and the media, that the President will use the Annual Meeting as an opportunity to outline his agenda for action and demonstrate how more resources for the new institution, the Bank's new organization and its strong management team, can combine to still more effectively and creatively attack the major development problems. Expectations will be very high for such an address. In addition to developing the key arguments the Policy Committee may also want to discuss whether there is an opportunity or a need to announce some sort of special initiative at that time.

5. Publicity on Issues:

The President and the Bank's top managers have not been highly visible on the issues in public in recent times. The President has not, for example, made a major speech before a key audience on the debt issue - an issue that remains the most dominant subject of external enquiries to the Bank from the media, politicians, academics and bankers. Other senior managers have also played low key roles in this area. Before changing this course, however, the Policy Committee should provide direction on the key messages that the institution ought to publicly deliver at this time on this issue. The latest set of statements on issues concerned with debt and the Bank were contained in Mr. Conable's Hudson Institute speech. Should the Bank be more precise and outspoken on African debt, on the need for a GCI, on the impact of new actions on Third World debt by commercial banks, on the Baker Plan, in the next couple of months? The advantages of going further on these issues are considerable in terms of demonstrating concern on the key issues and leadership and so reversing some of the current negative comment. On the other hand there is a danger of going too far without more substantive analysis of the issues and, in so doing, upstage to a degree the Annual Meeting address.

6. President's Visibility:

There is a need for senior management to become more visible publicly in discussing key Bank issues. The President should not be over-exposed, although he should give more one-on-one mdeia interviews with key reporters and move ahead with his present schedule of speeches - notably his UNCTAD speech and possibly other appearances in the next couple of months.

7. Opportunities for Senior Managers:

Meanwhile, the end of the fiscal year provides opportunities for senior managers to go public in discussing the achievements of the Bank in terms of operations and finance in FY'87 through a series of interviews and press conferences in July, should this be seen as desirable. And to follow this up with briefings in September on the Annual Report and on what is in prospect for the Development Committee and Annual Meeting.

8. Reorganization Benefits:

It would be useful to seek to take advantage of all media and public speaking opportunities to underline the longer-term benefits of the reorganization and it might be useful if on this subject, as on some of the substantive issues noted above, some guidance was given to the Bank's managers on the key messages that we want to see widespread.

9. Timetable:

It would be useful if the Policy Committee members could determine a timetable for their individual public statements and appearances for the next couple of months that could be well coordinated and which could be supported to secure maximum visibility by External Affairs.

10. Internal Communications:

External perceptions are influenced by internal staff views, just as the opposite is the case. The Policy Committee members should consider actions that they could take jointly and that they could inspire their senior subordinates to take to deal with the serious problem of low staff morale. Again, a coordinated timetable of actions would be helpful here and External Affairs could provide some support. In this regard one factor of importance is conveying to staff a sense of strong cohesion among the top management in support of the reorganization.

The President has directly addressed all of the Bank's new managers and while there are some other actions that he might take vis-a-vis the staff at large, it might well be appropriate now for other senior managers to move out on his initiatives to consolidate commitment to the reorganization.

11.Vice Presidents Roles:

Here the Policy Committee may wish to differentiate between staff groups. Vice Presidents assuredly want to be part of this process and can be helpful, not just now, but in the future in securing cohesion across the Bank and strong support. Communications between the President and the Vice Presidents - through a President's Council, or a Senior Management Council, or, simply, through the Senior Vice Presidents - is a matter worth deliberating in this context. So too, is the matter of how Policy Committee decisions are communicated and the degree to which senior staff have the means to have an input into the policy formulation process now that such committees as the Operations Policy Committee or the Personnel and Adminstsration Committee have been disbanded.

12.Focus on Work Ahead:

Perhaps the single most effective means of reviving staff morale over time is going to be a sense of a return to normalcy - a focus again on immediate tasks ahead, on missions, on fashioning and implementing work programs, on discussion about country needs and sectoral priorities. The speed with which this effective atmosphere is restored can depend to a degree on the signals provided by top managers to staff.

13.Conclusion:

1) Senior Staffmeeting

2)

This paper has sought to initiate discussion that can lead to an action plan on a communication strategy. Effective communciations must be concentrated around substantive decisions and actions by the Bank's top management. While the President must play a leadership, visible, role in internal and external communications, the burden of communications must be widely shared among senior managers. The determination of actions is urgent given the low state of staff morale and the negative perceptions that abound in some quarters. Work over the next couple of weeks on each of the four areas noted in paragraph 4 of this paper can lead to the development and implementation of an effective communications strategy.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 15, 1987

TO Members of the Policy Committee

FROM M. Haug, Secretary to the Policy Committee

EXTENSION 73585

SUBJECT Proposed Policy Committee Agenda

1. Please find attached:

- a detailed draft agenda for June/July 1987 (Attachment 1) including scheduled Board papers, major lending operations, CPP speeches and major topics; additional papers will be added as soon as PPR has completed the review of ongoing research and policy work.

- an agenda outline for the remaining months (Attachment 2). The committee might wish to discuss whether the preparation of "Country Creditworthiness" by FIN/OPS for August is a realistic schedule.

The Secretariat of the Policy Committee will update the agenda regularly, add ad hoc items as needed and distribute documents to all members. It is not planned to circulate detailed minutes of Policy Committee meetings. The President will, however, inform Members of understandings reached in the Policy Committee and his subsequent decisions.

2. Adjustment Operations and Country Strategy Papers are reviewed by the Policy Committee (after reviewed by the Operations Committee) and as proposed by the SVPOP on request by other Policy Committee members. It is proposed that Adjustment Operations are discussed by the Policy Committee at the Initiating Memorandum Stage. An indicative list of scheduled Adjustment Operations and Strategy Papers in the First Quarter of FY88 is attached (Attachment 3).

MHaug:im

ATTACHMENT 1

PROPOSED POLICY COMMITTEE AGENDA

June - July 1987

PC Review Date	Topic	Area of Responsibility	Board Date
June 24	(1) NIGERIA - CPP	OPS	-
	(2) UNCTAD Speech	PPR	-
	(3) Reorganization - Progress Report to the Board on Manager Selection	ADM	
July 1	(1) Allocation of Met Income	FIN	July 28
July 6	(1) Chile - SAL III	OPS	
July 8	(1) Debt Management in middle income countries - Options and new Initiatives	PPR	-
	(2) Outline - Annual Meeting Speech	PPR	-
July 15	(1) Use of allocated, unsubscribed shares	FIN	August
July 22			
July 29	(1) President's Report to Development Committee		
	(2) Debt Management (Follow-up paper)	PPR	
August 5	(1) Draft - Annual Meeting Speech	PPR	-
	(2) Lending and Catalytic Role of the Bank and Associated Capital Requirements	FIN	September

LONG-TERM POLICY COMMITTEE AGENDA
(Major Papers)

Topic	Responsible	PC Review	Board Review
o Country creditworthiness assessment	FIN/OPS	August	
o Retrospective assessment of budget outcome	PPR	August	
o Reorganization - Report to the Board	ADM	September	October
o Annual overview of strategic plans and agenda for Bank	PPR	October	
o Annual review of human resources strategy	ADM	October	-
o Annual review of management succession plans	ADM	October	-
o Review of Liquidity Policy	FIN	October	November
o Annual paper on allocation of IBRD/IDA resources (for countries, sectors and products)	PPR	November	-
o Review of Currency Management	FIN	November	January
o Budget Framework Papers	PPR	December	January
o Annual assessment of research priorities and results	PPR	December	January
o Annual general salary adjustment	ADM	February	March
o Annual overview paper on development effectiveness of Bank's operations and proposed agenda for new ex post studies	PPR	February	March
o Mid-year budget review	PPR	February	March
o Status Report on Retrofitting (Buildings)	ADM		February
o Overview paper on intellectual leadership (including public affairs strategy)	PPR	March	-

Topic	Responsible	PC Review	Board Review
o WDR	PPR	March	April
o Annual budget	PPR	April	June
o Overview paper on financial plans	FIN	May	Optional

ATTACHMENT 3

Adjustment Operations and Strategy Papers Scheduled For Operations Committee Meeting During June to September 1987

I. Adjustment Operations

Country	Name	Stage	Date
Argentina	Banking Sector Reform	Initiating Memo.	June 18
Bangladesh	Energy Sector	Green Cover	June ?
Chile	Structural Adjustment Loan III	Initiating Memo.	July ?
Cote d'Ivoire	Agricultural Sector Loan	Initiating Memo.	July ?
Ecuador	Export Development Loan	Initiating Memo.	July ?
Mexico	Industrial Restruct. Loan	Initiating Memo.	July ?
Nigeria	Trade & Investment Policy	Initiating Memo.	July ?
Pakistan	Energy Sector Loan	Initiating Memo.	July ?
Togo	Structural Adjustment Loan III	Initiating Memo.	July ?
Uganda	Economic Recovery	Green Cover	July ?
Bolivia	Financial Sector	Green Cover	Aug. ?
Chad	Structural Adjustment	Initiating Memo.	Aug. ?
Dominican Rep.	Sugar Sub-sector Adjustment	Initiating Memo.	Aug. ?
Guatemala	Export Development Project	Green Cover	Aug. ?
Mexico	Agricultural Sector	Green Cover	Aug. ?
Nigeria	PE Restructuring	Initiating Memo.	Aug. ?
Philippines	Sugar Rehab. & Diversification	Initiating Memo.	Aug. ?
Senegal	Industrial Sector	Green Cover	Aug. ?
Sierra Leone	Structural Adjustment Loan	Green Cover	Aug. ?
Tanzania	Indust. & Trade Adjustment	Initiating Memo.	Aug. ?
Argentina	Banking Sector Reform	Green Cover	Sept. ?
Bangladesh	Financial Sector	Initiating Memo.	Sept. ?
CAR	Structural Adjustment Loan II	Initiating Memo.	Sept. ?
Chile	Structural Adjusment Loan III	Green Cover	Sept. ?
Colombia	Education Sector	Initiating Memo.	Sept. ?
Colombia	Energy Sector	Initiating Memo.	Sept. ?
Cote d'Ivoire	Water Supply Sector Adjustment	Initiating Memo.	Sept. ?
Egypt	Energy Sector Loan	Initiating Memo.	Sept. ?
Egypt	Industrial Sector Loan	Initiating Memo.	Sept. ?
Hungary	Industrial Restruct. Loan III	Initiating Memo.	Sept. ?
Jamaica	Agricultural Sector Loan	Initiating Memo.	Sept. ?
Morocco	Structural Adjustment Loan I	Initiating Memo.	Sept. ?
Nigeria	Trade & Investment Policy	Green Cover	Sept. ?
Pakistan	Industrial Sector Loan	Initiating Memo.	Sept. ?
Togo	Structural Adjustment Loan III	Green Cover	Sept. ?
Turkey	Agricultural Sector Adjustment	Initiating Memo.	Sept. ?

II. Strategy Papers.

Country	Type	Date
Algeria	Country Program Paper	July ?
Jamaica	Country Strategy Paper	July ?

June 15, 1987

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

BARBER B. CONABLE
President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: The Debt Problem in Low Income Africa

Attached is a memorandum which summarizes the results of staff analysis of the economic situation and prospects of certain severely indebted low income sub-Saharan countries. This analysis was done in connection with discussions on debt relief within the framework of the Paris Club.

In informal discussions with Paris Club members and with other interested parties, staff have indicated the Bank's willingness to explore ways of alleviating the extremely severe and escalating burden of debt of these low income sub-Saharan African countries. The purpose of these informal discussions however was to review alternative possibilities of alleviating the indebtedness problem and promoting sustainable growth in these countries rather than to make any specific proposals on behalf of the Bank.

THE DEBT PROBLEM IN LOW-INCOME AFRICA

1. In preparation for the Development Committee meeting of April 1986, the World Bank prepared a report entitled "Financing Adjustment with Growth in Sub-Saharan Africa". The report included most of the data and projections necessary to analyze the debt problem of low-income Sub-Saharan Africa. It singled out a number of countries which, given their current debt situation and export prospects, are unlikely to grow out of this problem within the next ten years, and which might thus be fairly described as "debt-distressed". The World Bank is currently updating the information and analysis provided in its 1986 report. Bank staff have also undertaken a series of informal consultations with officials of a number of donor/creditor governments in the context of Paris Club debt discussions and in other fora to review the alarming and escalating debt situation in low-income Sub-Saharan Africa, and to explore alternative solutions for helping mitigate its impact.

2. During these informal consultations, the World Bank emphasized the following points:

a) A growing number of African governments are implementing major programs of structural and sectoral adjustment to help set the stage for sustainable growth. These programs involve critical policy decisions which are extremely difficult to take in any economy and particularly so in economies which are already desperately poor and vulnerable. In some countries, the political will to persist with far reaching reform programs already shows signs of weakening, and continued progress will be possible only if governments can demonstrate evidence of improved growth and consumption prospects. The problem is that, based on all known sources of additional aid flows and basic commodity trade prospects, the prospects of many low-income Sub-Saharan countries are for minimal growth and a decline in per capita consumption. Clearly, it will be impossible to sustain the adjustment process unless there is a real hope for significant improvement in these growth prospects.

b) Of the many low-income Sub-Saharan African countries undertaking adjustment programs, 12-15 are identified as having major debt problems. In this group, total outstanding debt as a percentage of exports averages an extraordinarily high 430%; and the ratio of scheduled debt service to exports (before reschedulings) ranges from 30% to 130%, with a rough average of 52%.

c) Actual debt service payments of this group of countries are considerably lower, as a result of comprehensive rescheduling agreements with the Paris and London Clubs. The Paris Club, in particular, has demonstrated considerable flexibility, within its agreed practices, rescheduling up to 100% of principal and 95-100% of interest for demonstrated hardship cases. However, the seriousness of the debt problem has been exacerbated by the capitalization of interest payments with interest rates far in excess of the export growth capacity of these resource-poor countries. For example, 20% of Zaire's debt at the end of 1986 stems from this capitalization process. Longer grace and amortization periods for the re-scheduled debt would be necessary to relieve the severity and respond to the long-term nature of the debt problem in many of these countries.

d) It is increasingly urgent that creditors and donors explore a variety of alternative financing and debt-relief schemes to support those countries which have demonstrated their commitment to adjustment programs. The particular solutions applied by each donor/creditor to each debtor country will depend on the case, and need not be uniform. They might be developed to consider the particular legislative, budgetary and political constraints of each donor country and they must be adjusted to the relative situation, export prospects, debt profile and debt-servicing capacity of individual recipient countries. They must, however, have as their objectives: to fully support the adjustment process, to restore growth of per capita incomes and consumption in low-income Sub-Saharan Africa; and to increase the concessionality of the overall package of assistance and debt relief.

3. Over the last few months, the media reported discussions among the Paris Club members, and statements made by individual governments on possible adjustments to traditional rescheduling terms for the benefit of a group of low-income debt-distressed countries, particularly in Sub-Saharan Africa. Most of these statements referred to the extension of grace periods (from 5 to 10 years) and maturities (from 15-20 years). A few governments also mentioned the possibility of interest rate concessions and/or special refinancing mechanisms. In this context, the World Bank has prepared a series of projections and simulations aimed at determining the possible impact of alternative debt rescheduling terms on the debt service position of a number of heavily indebted Sub-Saharan countries. This analysis took into account the following considerations:

a) on the basis of recent experience, it would appear that, on average, a debt service ratio of about 25% is the most that these countries can be expected to carry. Some countries have managed to pay somewhat more, and tolerate higher ratios, either by severely curtailing the level of imports normally considered essential for sustainable growth, or when extraordinary levels of additional aid have been provided. However, others have been unable even to pay 25% of export earnings in debt service. Overall, it is clear that the low income of these highly-indebted countries, and their great dependence on primary commodity exports, means that a 25% debt service ratio is about the maximum limit which can be sustained, while also allowing implementation of growth-oriented adjustment strategies;

b) calculations have been made of the terms of rescheduled official bilateral non-concessional credits necessary to reach the 25% debt service ratio, assuming that (i) the London Club continues to reschedule commercial bank debt, on comparable terms to the recent past, (ii) servicing of the debt due to the multilateral lending institutions and to the IMF is continued, and (iii) the Paris Club continues to reschedule at least through 1993. It is also assumed that all new financing required by these debt-distressed countries is provided on highly concessional terms.

4. Based on these considerations, it appears that formal extension of Paris Club rescheduling terms to 15-20 years, with 10 years grace, is an important and helpful initiative. Even so, the impact of this extension would not be felt until after 1992, and, in the short term, many countries will continue to require additional external funds. The primary effect of the measure would be to smooth out repayment schedules after 1992, thus offering some countries more of a chance to grow out of this overwhelming debt problem.

5. The results of the World Bank analysis also point up the diversity of the situations and prospects of the low-income debt-distressed countries. While a few, which are only "moderately" affected, could achieve and sustain a 25% debt service ratio with the proposed Paris Club measures alone, some others would require measures beyond this to reach the 25% debt service ratio.

6. In summary, the debt problem in low-income Africa is a critical problem which needs to be addressed as a matter of high priority by African countries and donor/creditor governments. African governments should continue the ongoing effort to adjust exchange rates and producer incentives, reduce central government fiscal deficits, improve the structure of public expenditures and strengthen the performance of the parapublic sector. Donor governments should support the adjustment efforts of African countries with a variety of interventions including additional concessional assistance; increased share of adjustment related quick disbursing financing in their aid programs and special debt relief measures. Debt relief measures could include retroactive terms adjustment for official development assistance, extended grace and amortization periods within the frameworks of debt rescheduling agreements and additional measures to be considered by individual donors and creditors to help debt-distressed countries achieve a sustainable debt service level and restore growth. These measures need not be uniform; provided they result in a broadly comparable impact on the debtor. The World Bank is continuing its analytical work on the debt problem of Sub-Saharan Africa and, as requested in the Communique of the April 1987 Development Committee Meeting, will make proposals of action at the next Development Committee Meeting to address the problem of low income countries facing exceptional difficulties, with special emphasis on highly indebted African countries.

<u>ELEMENTS OF A SPECIAL ACTION PROGRAM FOR LOW-INCOME DEBT-DISTRESSED AFRICAN COUNTRIES</u>

<u>SUMMARY</u>

1. <u>Description of the program</u>. The objective of the proposed Bank initiative would be to build on the conclusions of the recent Summit Conference in Venice to develop a coherent three-year program (1988-1990) of debt relief and growth-oriented import financing for low-income debt-distressed African countries implementing comprehensive and vigorous policy reforms. The three-year program would have the following important features:

- It would <u>reduce debt service payments</u> by low-income debt-distressed African countries to a more manageable and sustainable level, both during the program and into the next decade. This would be accomplished by converting existing ODA loans into grants and by extending grace and maturity periods and reducing interest rates on rescheduled official bilateral nonconcessional debt.
- It would involve a modest reallocation of IDA8 resources to low-income debt-distressed African countries, partly financed by expected IDA reflows, and, more importantly, it would provide for a <u>major increase in IDA disbursements</u> by raising the share of adjustment related quick-disbursing assistance to about 70 percent of total IDA lending to these countries.
- It would provide for a <u>parallel increase in the share of quick-disbursing assistance</u> in the aid programs <u>of other multilateral agencies and bilateral donors</u>, with a Bank-led adjustment co-financing program as the main instrument of the proposed reorientation of other donor programs.

o It would also <u>support the initiative taken by the IMF Managing Director</u> in recommending the tripling of resources available to the Structural Adjustment Facility.

2. The implementation of the program outlined above would significantly augment the countries' import capacity to support growth-oriented adjustment programs. It would also minimize the need for additional budgetary appropriations from donor governments beyond those required to finance the increased SAF and the replenishment of IDA.

3. <u>External financing requirements</u>. There are about 19 low-income debt-distressed countries, including 15 with adjustment programs.[1] The additional external financing requirements of this group of countries have been estimated for the period 1988-90 based on their current export prospects, their projected debt service obligations after rescheduling, and ODA commitments in sight. These additional requirements are expected to average about $1.5 billion annually during 1988-90. Of this amount, about $800 million would be required to reduce debt service payments to the target of 25 percent of projected export earnings, and $700 million would provide additional finance to enable countries to resume import growth and achieve modest per capita GDP growth.

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1. Three of the fifteen debt-distressed countries with adjustment programs (Equatorial Guinea, Guinea-Bissau and Sao Tome) have not been included in our analysis for lack of adequate data. These three countries are very small and, despite their critical debt service positions, are unlikely to influence the totals in a noticeable way. Therefore the remainder of the paper only refers to the <u>twelve</u> largest low-income debt-distressed African countries.

4. Financing. The program would be financed from four major sources:

(a) Concessional debt relief. The Venice Communique refers to extended grace and repayment periods within the framework of Paris Club debt rescheduling arrangements and to lower interest rates on rescheduled debt. Extension of grace and repayment periods is an important and helpful initiative. However, its impact would not be felt until 1993 since current Paris Club rescheduling practices already provide for five years of grace. An across-the-board reduction of Paris Club interest rates by half would lower debt service obligations by about $350 million per year during 1988-90. ODA forgiveness would provide an additional $50-75 million in debt relief annually.

(b) Increased World Bank concessional flows. Low-income debt-distressed countries did not benefit from the substantial increase in ODA flows in 1985 and 1986 as much as other low-income African countries. Consequently, a modest increase in planned IDA8 allocations to the twelve countries from about $900 million to $1.1 billion annually would appear to be justified. Half of the increase could be financed by reprogramming planned allocations. The other half could be financed by committing a part of future IDA reflows and/or utilizing a part of future Bank income for this purpose.[2] More importantly, the Bank would also consider increasing the share of adjustment-related quick-disbursing assistance from 40 to 70 percent of total IDA lending to the twelve countries. The combination of increased allocations and increased adjustment lending would provide additional IDA flows of about $300-350 million annually during 1988-90.

(c) Accelerated disbursements of other ODA commitments through co-financing programs with Bank adjustment lending. Recent initiatives by several bilateral donors, by the EEC Commission and by the African Development Bank point to the feasibility of organizing an effective and enlarged program of adjustment financing. A substantial increase in the share of quick disbursing assistance from these other multilateral agencies and bilateral donors could increase ODA flows to the twelve countries by about $300 million annually. The Bank would facilitate the process by organizing most of its own structural and sectoral adjustment operations in the form of co-financing

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2. The commitment of future IDA reflows is of course a matter for consideration by the Board of Directors of the Association. Previous staff studies have indicated that up to $1 billion of future reflows could prudently be committed by the Association during the IDA8 period 1988-90. Similarly, the Executive Board of Directors of IBRD would have to decide on future allocations of Board income. Current projections of Bank income include a standard provision of $100 million of annual transfers to IDA.

instruments. Periodic donor consultation meetings would review the adjustment financing programs envisaged by the Bank and other donors in low-income sub-Saharan Africa and provide a mechanism for an effective coordination of ongoing and planned policy-based lending.

(d) Increased resources for the IMF Structural Adjustment Facility. Current SAF practices limit SAF allocations to individual countries to 47 percent of their quota. An additional allocation equivalent to 94 percent of the twelve countries' quota would represent additional flows of about $450 million annually during the 1988-90 period.

5. Conclusion. The economic declaration issued by the Venice Summit Conference recognizes that the problems of the poorest countries in sub-Saharan Africa require special treatment and gives the IMF, the Bank, and other development agencies a clear mandate to develop a special action program for low-income debt-distressed countries implementing adjustment programs. Combined with modest reallocations of IDA resources and a major increase in the share of adjustment lending in IDA and other donor programs, the measures recommended by the Venice Communique can provide significant relief to these debt-distressed African countries during the 1988-90 period. Long-term projections of GDP, exports and debt service obligations show that this group of countries will continue to need special support during the 1990s. However, the proposed three-year program could play a major role in the interim by restoring growth and strengthening the political determination of African governments to implement the difficult policy reforms that are critically needed to deal with the problems of the 1990s.

ELEMENTS OF A SPECIAL ACTION PROGRAM FOR LOW-INCOME DEBT-DISTRESSED AFRICAN COUNTRIES WITH ADJUSTMENT PROGRAMS

INTRODUCTION

1. Of the 34 IDA-eligible countries in sub-Saharan Africa, we have identified 19 with severe debt problems which are reflected in a debt service ratio of over 30 percent (including IMF repurchases and charges) before debt rescheduling. The countries are: Benin, Comoros, Equatorial Guinea, Gambia, Guinea-Bissau, Liberia, Madagascar, Mali, Mauritania, Niger, Sao Tome/Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Zambia, and Zaire.

2. In these countries, debt more than tripled since 1975, and today total outstanding debt as a percentage of exports averages an extraordinarily high 450 percent. The ratio of scheduled debt service to exports (before reschedulings) ranges from 30 to 110 percent, with a rough average of 55 percent. Actual debt service payments are considerably lower, as a result of comprehensive rescheduling agreements with the Paris Club and commercial banks. However, it is increasingly clear that debt rescheduling on conventional terms is not an appropriate solution for heavily indebted low-income countries with very poor export prospects.

3. Based on current projections of debt service and export earnings, it appears that these countries will not be able to grow out of their debt problems during the next ten to fifteen years. A special action program is needed: (i) to reduce debt service payments to a sustainable level; and (ii) to restore the countries' import capacity to help them achieve at least modest per capita income growth.

4. Over the last six months, a wide variety of debt-relief proposals and special assistance programs have been outlined by a number of donor/creditor governments (Canada, France, Italy, Sweden, and the UK) and international agencies (including the Commission of the European Communities). The most recent initiative emanated from the Managing Director of the IMF, who recommended that resources available for the Structural Adjustment Facility be tripled to provide special support to poor countries facing extraordinary balance of payments problems. The economic declaration issued at the end of the Venice Summit Conference recognizes "that the problems of some of the poorest countries, primarily in sub-Saharan Africa, are uniquely difficult and require special treatment. For those of the poorest countries that are undertaking adjustment effort, consideration should be given to the possibility of applying lower interest rates to their existing debt and agreement should be reached, especially in the Paris Club, on longer repayment and grace periods." The communique also welcomes "the proposal for a significant increase in the resources of the Structural Adjustment Facility over the three years from January 1, 1988. [It urges] a conclusion on discussions on these proposals within this year."

5. The Venice Summit meeting has given a clear mandate for urgent and intensified action on the debt problems of poor countries in Africa. African countries, donor and creditor governments and multilateral agencies should, therefore, join in an effort to organize a comprehensive and coherent action program, which would address the three main components of the debt problems in highly-indebted low-income African countries: (i) the immediate cash flow problems; (ii) the long-term debt build-up problem; and (iii) the shortage of financing for imports required for growth. Such an action program must be realistic and, to the extent possible, should not

make further demands on aid budget appropriations beyond what will be necessary to finance IDA8, achieve increases in the Structural Adjustment Facility, and obtain interest rate concessions agreed in Paris Club arrangements.

6. A pragmatic step-by-step approach is more likely to produce results if it provides a framework in which creditors/donors can allocate planned aid flows to support adjustment and growth in debtor countries more effectively, and if it can provide for a more rapid disbursement of existing aid commitments to these countries. In this context, the Bank is ready to collaborate with African governments, the IMF, creditor agencies, bilateral donors, and other multilateral institutions to design, negotiate and implement a realistic but well coordinated three-year program of special assistance to low-income debt-distressed countries with adjustment programs.

7. The objective of this special action program would be to reduce scheduled debt service obligations to a more manageable and sustainable debt service ratio (both in the rest of the 1980s and during the 1990s) and to restore the per capita import capacity of eligible countries through a series of measures combining: (a) the debt relief program suggested in the Venice Communique; (b) a set of measures aimed at accelerating disbursement and increasing net flows of Bank concessional assistance to African debt-distressed countries during the IDA8 period; (c) a similar program of joint or parallel financing of adjustment operations aimed at accelerating disbursement of other available bilateral and multilateral ODA; and (d) the proposed increase in the resources of the IMF Structural Adjustment Facility.

EXTERNAL FINANCING REQUIREMENTS OF LOW-INCOME DEBT-DISTRESSED COUNTRIES

8. An effective debt relief and concessional assistance program requires a case-by-case approach within the framework of existing debt rescheduling and aid coordination mechanisms. In the context of the current exercise, however, we have prepared tentative estimates of external financing requirements for: (a) a minimum debt-relief program aimed at reducing debt service ratios to 25 percent of export earnings; and (b) a more comprehensive import-capacity rehabilitation program aiming at an average rate of growth of per capita import volume by one percent annually from the low 1985 base.[1]

9. Table 1 below summarizes the overall external financing requirements of a minimum debt relief program for twelve debt-distressed countries[2] with adjustment programs designed to keep debt service payments to no more than 25 percent of export earnings during the next three years.

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1. Obviously, it is difficult to estimate external financing requirements precisely because of the large number of variables and the uncertainty of forecasts. These factors, plus country diversity that is not taken into account by our standard assumptions, as well as the possibility that more countries may become eligible for the program, mean that the estimates should be considered as guidelines for determining the magnitude of the program.

2. The list of twelve countries includes Zambia, which decided recently to abandon the vigorous adjustment programs initiated by the government in 1983-84. Zambia would not be eligible for the proposed special action program until agreement is reached with the Bank and the IMF on a comprehensive package of policy reforms.

Table 1
(in billions of $; annual 1988-90 averages)

(a)	Total debt service obligations before debt rescheduling	3.8
(b)	Reduction in debt service obligations from conventional debt rescheduling	1.3
(c)	Debt service obligations after rescheduling (a-b)	2.5
(d)	Debt service obligations at or below the debt service ratio (DSR) of 25 percent of export earnings	1.7
(e)	Additional debt relief and concessional assistance necessary to achieve DSR target (c-d)	0.8

10. Table 2 recapitulates overall external financing requirements of an import rehabilitation program involving an annual one percent rate of growth of per capita import volume.

Table 2
(in billions of $; annual 1988-90 averages)

(a)	Annual import requirements to achieve modest growth		11.1
(b)	Debt service obligations after conventional rescheduling		2.5
(c)	Total foreign exchange needs (a+b)		13.6
(d)	Projected export earnings		7.7
(e)	Expected disbursements of development assistance		4.4
	of which: new ODA in sight	3.4	
	SAF	0.1	
	existing pipeline	0.9	
(f)	Other new capital flows		- 3/
(g)	Total foreign exchange available (d+e+f)		12.1
(h)	Estimated external financing gap (c-g) which could be divided as follows:		1.5
(i)	Additional debt relief and concessional assistance needed to achieve target DSR		0.8
(j)	Supplementary concessional assistance (in addition to (i)) needed to achieve target import growth		0.7

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3. Any significant amount of conventional borrowing would immediately raise debt service ratios to even more unmanageable levels in the 1990s. Consequently, all future capital flows should be on highly concessional terms.

THE PROPOSED SPECIAL ASSISTANCE PROGRAM FOR LOW-INCOME DEBT-DISTRESSED AFRICAN COUNTRIES

11. The additional debt relief and concessional assistance required (i) to reduce debt service payments to 25 percent of export earnings and (ii) to restore the import capacity of 12 debt-distressed countries is tentatively estimated at $1.5 billion annually during 1988-90 ($800 million for (i) and $700 million for (ii)). It could be financed by a package of special assistance involving: (a) a concessional debt relief program of $400 million; (b) measures aimed at increasing net flows of Bank concessional assistance by $300-350 million annually during the IDA8 period; (c) a program of adjustment co-financing by other bilateral or multilateral donors aimed at accelerating disbursement of available and planned ODA commitments which could provide about $300-350 million; and (d) an increase in SAF flows estimated at $450 million annually. These estimates are highly tentative, but, in line with the proposed pragmatic step-by-step approach, implementation of the program would be based on alternative options offered to donor and creditor governments, designed to facilitate their maximum participation in the program. Thus, for instance, some countries may prefer to make substantial contributions to the cofinancing programs rather than be involved in the concessional debt relief program.

A. Concessional debt relief programs

12. The debt relief measures mentioned in the recent proposal of the European Economic Commission and in the Venice Communique include extended grace and repayment periods and interest rate concessions.

13. Extended grace and repayment periods for debt rescheduling by Paris Club and other bilateral creditors is an important and helpful initiative. However, its impact would not be felt over the next five years since

current rescheduling practices already provide for five years of grace. The primary effect of the measure would be to smooth out repayment schedules after 1992, thus offering a small number of moderately debt-distressed countries more of a chance to grow out of their debt problems. Only two components of a possible concessional debt relief program would have an immediate impact during the 1988-90 period: retroactive terms adjustment for outstanding official development assistance, and interest rate concessions on rescheduled nonconcessional bilateral debt.

14. Retroactive terms adjustment. This measure consists of converting concessional bilateral official loans into grants, as agreed at the UNCTAD Conference in 1978. A number of bilateral creditors have already taken substantial action along these lines. Most of the remaining concessional loans are rescheduled at their original, concessional rates within the Paris Club framework. Therefore, the net additional debt service savings from retroactive terms adjustment are in fact quite small, about $200 million over the three years or $65 million per year.

15. Lower interest rates on rescheduled nonconcessional debt. This would involve rescheduling nonconcessional bilateral official loans (both those made directly by official creditor agencies and those guaranteed by them) by Paris Club creditors at interest rates below those normally charged (which are currently as much as 2 percentage points above LIBOR). An across-the-board reduction of these Paris Club interest rates by one-half would lower debt service obligations by about $350 million per year during 1988-90. The actual amount of interest rate reductions, however, could be modulated on a case-by-case basis, depending on the particular economic situation of individual debt-distressed countries and on the special constraints of creditor governments. The economic circumstances of some debt-distressed countries would indicate substantially lower (even

zero) interest rates on rescheduled debt. On the other hand, a few could probably afford to pay relatively high interest rates on rescheduled debt and still achieve the target debt service ratio while financing imports required for growth, provided all new borrowing is on highly concessional terms. Some creditor governments may find it more difficult than others to accord relief through reduced interest rates on rescheduled nonconcessional debt. In these cases, the governments may want to choose alternative measures to provide relief, including additional concessional assistance.

B. Additional Structural Adjustment Facility funding

16. The IMF Managing Director has proposed that resources available to the Structural Adjustment Facility (SAF) should be tripled. Current SAF practices limit SAF financing for an individual country to 47 percent of its quota. On that basis, SAF financing for the twelve debt-distressed countries concerned could not exceed about $650 million, only part of which would still be available in 1988-90. We have assumed that the tripling of SAF would enable the twelve countries to mobilize an additional contribution of $1.3 billion, which could be fully disbursed during the 1988-90 period. The same average annual flow of additional SAF funding ($450 million) could be obtained even if the overall increase of SAF proves to be less than 200 percent, provided priority was given in allocating the additional resources to the low-income debt-distressed African countries.

C. Increased World Bank concessional flows

17. If the proposed special action program for low-income debt-distressed African countries receives strong support from the donor community, Bank management would be prepared to recommend to its Executive Directors a special concessional funding effort consisting of two main components: (i) a sharp increase in disbursements resulting from a major

increase in the share of adjustment-related quick-disbursing assistance; and (ii) a modest increase in planned IDA8 commitments to these countries to be partly financed through a commitment of future IDA reflows.

18. Increased IDA8 commitments. The current IDA8 lending program allocates about $900 million annually to the twelve largest low-income debt-distressed African countries with adjustment programs. Since the aforementioned debt-distressed countries did not benefit from the substantial increase in overall ODA flows in 1985 and 1986 as much as other low-income African countries, an increased IDA allocation of about $100 million annually appears to be justified. In addition, another $100 million[4] annually in additional commitments for the twelve countries would have to be found from IDA reflows and/or transfers from Bank income.

19. Stepped-up adjustment lending and increased disbursements. Current lending programs already provide for a substantial share of adjustment-related lending for the twelve debt-distressed countries, averaging $350 million in commitments annually, or close to 40 percent of total IDA lending. Current disbursement projections assume that the twelve countries would receive about $750 million annually, of which $600 million from IDA and $150 million from the Special Facility for Africa (direct contributions only). A sharp increase in the share of SALs and other adjustment-related lending from 40 percent of $900 million to about 70 percent of $1.1 billion would probably yield additional IDA disbursements of $300 million annually.

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4. This is equivalent to the average annual repayment of principal on outstanding IBRD/IDA loans owed by the twelve countries during the IDA8 period.

D. Accelerated disbursement of bilateral and multilateral ODA through a program of co-financing of adjustment operations

20. The share of adjustment financing in other development assistance remains low. While food aid and technical assistance usually are fast-disbursing, the bulk of current ODA flows finances slow-disbursing traditional projects. A number of initiatives have been taken by individual donors which indicate the possibility of a major shift toward adjustment-related, quick-disbursing assistance. France, the UK and the US have developed a variety of fast-disbursing instruments in support of policy reforms. Within the framework of the Special Facility for Africa, six "joint financiers" (Belgium, Germany, Japan, Switzerland, Saudi Arabia, and the UK) have agreed to support a number of Bank-financed structural and sectoral adjustment projects. In its 1987 budget, the Federal Republic of Germany earmarked about $200 million for commodity aid and adjustment financing with the latter slated especially for Africa. Early in June, the Commission of the European Community announced its intention to step up the level of its quick-disbursing sectoral operations, particularly for debt-distressed countries. The African Development Bank also plans to allocate a modest but probably growing share of its loans and credits to macroeconomic and sectoral adjustment lending.

21. In view of these recent developments, a substantial increase in the share of adjustment-related, quick-disbursing assistance in other multilateral and bilateral ODA programs is already probable. It should be feasible to accelerate the trend and increase flows of other multilateral and bilateral adjustment financing to the twelve debt-distressed countries by about $300-350 million annually. This would require that ODA donors (outside the Bank) increase their average annual commitments of adjustment financing by $350-450 million annually, which is equivalent to less than 15 percent of ODA lending to low-income debt-distressed African countries.

22. Although some of this additional adjustment financing will be organized by individual donors themselves, the Bank would be prepared to facilitate and accelerate the process by organizing most of its structural and sectoral adjustment operations in the form of co-financing instruments. Experience of the Special Facility for Africa has shown that it is possible to mobilize substantial volumes of quick-disbursing bilateral aid through co-financing of adjustment programs, which at the same time strengthens the coherence of the policy reform programs supported by the Bank and other donors. Periodic donor consultation meetings could also review the adjustment financing programs envisaged by the Bank and other donors. These consultation meetings would be organized to cover the <u>group</u> of eligible debt-distressed countries, rather than being set up on a country-by-country basis. Such comprehensive meetings would give donors/creditors an opportunity to review and, if necessary, revise the overall program, which would be implemented on a case-by-case basis. This consultation process would also enable donors to better familiarize themselves with the policy objectives and implementation problems of Bank-financed adjustment programs, and would give them the opportunity to comment on, and advise on the effectiveness of these programs.

Annex

Brief Description of Analytical Study Under Preparation

The analytical study will provide a more detailed review of the economic performance and prospects of debt-distressed countries. It will indicate which combination of exogenous and policy-induced factors contributed to the rapid increase in the countries indebtedness. It will show the dramatic decline in per capita imports and per capita GDP since 1980. It will show that debt-distressed countries did not benefit from the substantial increase in overall ODA flows in 1985 and 1986 as much as other low-income African countries. Finally, it will compare the poor output and export prospects of debt-distressed countries with the more favorable outlook for other IDA-eligible African countries.

The study will also analyze the structure of the debt and the nature of the debt service and balance of payment problems of the debt-distressed countries. It will show the high share of bilateral loans in total outstanding debt (47 percent) and debt service obligations (43 percent), as well as the high and growing share of the IMF (19 percent) and multilaterals (21 percent) in actual debt service payments because the IMF and multilaterals do not participate in debt rescheduling agreements. The study, however, will also show how debt rescheduling on conventional terms, while providing short-term relief, can quickly compound the long-term debt problem of resource-poor countries with mediocre export prospects (for example, the high share of capitalized interest in total outstanding debt of Zaire at the end of 1986).

Based on that analysis, the study will identify three main components of the debt problem of low-income African countries:

(a) the short- and medium-term cash-flow problem, which mainly results from the growth of nonreschedulable debt service payments to the IMF and multilaterals.

(b) the medium- and long-term debt build-up problem, which is caused by conventional debt rescheduling; and

(c) the import-capacity and per capita income growth problems, which result from (a) and (b), as well as from the poor export performance of these countries and the sharp decline in overall external capital inflows.

Clearly, the adjustment process cannot succeed, and the ongoing adjustment effort cannot be sustained, unless the ongoing decline in per capita imports since 1980 is immediately reversed. In this context, the study will review the progress achieved by 12 to 15 low-income debt-distressed countries in implementing comprehensive policy reform programs (for example, substantial depreciation of real effective exchange rates; improved producer incentives; wage adjustments; sharp drop in central government deficits; rationalization of the public enterprise sector) from 1984 to 1986. It will also note that, despite these efforts, the adjustments have not yet resulted in as much improved economic performance as in other low-income African countries with adjustment programs. It will note that in some countries the political will to persist with far reaching reform programs shows signs of weakening, and that continued progress is likely to be possible only if governments can demonstrate evidence of improved growth and consumption prospects.

The analytical study will then review in detail the methodology and the main assumptions behind the proposed estimates of external financing requirements.

The analysis will be based on Bank projections of export prospects, debt service obligations, and development assistance disbursements in sight for 12 of the 15 low-income debt-distressed African countries with adjustment programs. (The remaining three are very small countries which despite their critical debt service positions are unlikely to influence the totals in a noticeable way.)

The study will indicate how the 25 percent debt service target was determined. Although it seems high for a low-income country, it is equivalent to the recent average <u>ex post</u> debt service ratio of low-income debt-distressed African countries; paying such a high debt service ratio is possible because of substantial ODA inflows to these countries.

The study will also review the rationale for the proposed import growth target, taking into account various macroeconomic considerations.

Finally, the study will analyze the proposed action program, including detailed estimates of additional IDA disbursements during the IDA8 period. The study will also outline the long-term debt-relief and concessional assistance requirements of the twelve debt-distressed countries during the 1990s.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 10, 1987

TO: The Members of the Policy Committee

FROM: Marianne Haug, EXC

EXT: 73585

SUBJECT: Policy Committee Agenda

1. As you are aware, the Policy Committee is asked to review and advise the President on:

(a) 15, regularly scheduled major policy papers;

(b) country strategy papers for major Borrowers and countries on the credit worthiness "watch" list;

(c) major adjustment loans and exceptional operational issues;

(d) specific policy papers as required and ad hoc issues.

2. I would appreciate your reviewing the attached material and tentative schedules and providing me with your comments by close of business, Friday, June 12. I will then circulate a draft agenda on Monday, June 15 for discussion at the Wednesday, June 17 committee meeting. This agenda should, in general: (i) establish the schedule for papers and issues to be considered during the coming three months; and (ii) confirm the long-term calendar of regular policy paper reviews.

Attachments

July 7
July 25
Aug 10 – recess

B. Conable's "availability" for P.C.
June 10 – July 7
July 25 – Aug 10

REGULARLY SCHEDULED MAJOR POLICY PAPERS

	Formulation Responsibility	Presidential Review	Board Review or Receipt
1. Intellectual Leadership			
• Overview paper on intellectual leadership (including public affairs strategy)	PPR	March	-
• WDR	PPR	March	April
2. Strategic Plans			
• Annual overview of strategic plans and agenda for Bank	PPR	October	-
3. Research			
• Annual assessment of research priorities and results	PPR	December	January
4. Financial Management			
• Overview paper on financial plans	FIN	May	Optional
• Country creditworthiness assessment	FIN/OPS	August	-
5. IBRD/IDA Resource Allocations			
• Annual paper on allocation of IBRD/IDA resources (for countries, sectors and products)	PPR	November	-
6. Development Effectiveness			
• Annual overview paper on development effectiveness of Bank's operations and proposed agenda for new ex post studies	PPR	February	March
7. Budget Plans and Policies			
• Budget framework paper	PPR	December	January
• Mid-year budget review	PPR	February	March
• Annual budget	PPR	April	June
• Retrospective assessment of budget outcome	PPR	August	-
8. Personnel and Administration			
• Annual general salary adjustment	IS	February	March
• Annual review of human resources strategy	IS	October	-
• Annual review of management succession plans	IS	October	-

MAJOR COUNTRY STRATEGY PAPERS

1. Country Strategy Papers would generally be reviewed for:

(a) major borrowers, i.e., countries with proposed lending programs in excess of about $500 million per year (IBRD plus IDA) and for selected pure IDA countries with annual lending programs of about $100 million; and

(b) countries which are on the creditworthiness "watch" list, i.e., noted III b., on loans.

The attached document shows the categories of borrowers for which country strategy papers ought to be reviewed by the Policy Committee according to the above criteria.

2. Please, review the Quarterly Schedule provided in Annex 2, page 3 and confirm, in particular, the dates and countries for First Quarter FY88 review.

CATEGORIES OF BORROWERS FOR WHICH COUNTRY STRATEGY PAPERS MIGHT BE REVIEWED BY THE POLICY COMMITTEE

1. Major Borrowers (Lending Programs in excess of US$500 million IBRD/IDA annually)

Argentina
Brazil
** China
** Colombia
** Egypt
** India
Indonesia
** Mexico
** Morocco
Nigeria
** Pakistan
** Philippines
Turkey

2. Major IDA-only Borrowers (Lending Programs in excess of US$100 million IDA annually)

** Bangladesh (US$461 m. average FY87-89)
** China ($532 m.)
Ethiopia ($123 m.)
Ghana ($149 m.)
** India ($684 m.)
** Kenya ($97 m.)
** Madagascar ($102 m.)
** Mozambique ($90 m.)
** Pakistan ($190 m.)
** Tanzania ($90 m.)
** Zaire ($189 m.)

3. Borrowers rated 3b or lower on the Creditworthiness Watch-List

(3b)
Chile
Congo
Costa Rica
** Cote d'Ivoire
** Dominican Republic
Ecuador
** Egypt
** El Salvador
Guatemala
Honduras
** Jamaica
** Kenya
** Mexico
** Morocco
Nigeria
Paraguay
** Philippines
Poland
Sri Lanka
Syria

(3c)
Lebanon
Peru

NOTE:

** indicates countries for which strategy reviews are planned with the OPC in FY 88.

Countries which present special policy issues for the Bank/IDA
E. Bloc countries
Chile

Quarterly Schedule of Reviews as Proposed by Regions

FY88			
1st quarter (Jul.-Sept. 87)	2nd quarter (Oct.-Dec. 87)	3rd quarter (Jan.-Mar. 88)	4th quarter (Apr.-June 88)
C.A.R.	Cameroon	Bangladesh b/	Dominican Rep. c/
Cote d'Ivoire c/	China a/ b/	Morocco a/ c/	Egypt a/ c/
El Salvador c/	Colombia a/		Jamaica c/
Philippines a/ c/	India a/ b/		Laos
Senegal	Kenya b/ c/		Malaysia
Thailand	Madagascar b/		Mali
Venezuela	Mexico a/ c/		Mozambique b/
	Nepal		Zaire b/
	Pakistan a/ b/		
	Panama		
	Tanzania b/		
	Yemen, A.R.		
	Yugoslavia		
	Zambia		
(7)	(14)	(2)	(8)

(9)

Total scheduled for FY88: 31

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a/ Major Borrowers (Lending Programs in excess of US$500 million IBRD/IDA annually

b/ Major IDA-only Borrowers (Lending Programs in excess of US$100 million IDA annually)

c/ Borrowers rated 3b or lower on the Creditworthiness Watch-List (only two countries - Lebanon and Peru) are rated 3c.

ANNEX 3

LENDING OPERATIONS

1. *Prima facie*, the Policy Committee is likely to review:

(a) Adjustment operations that the SVPOP (or any other member of the Policy Committee) believes raise major issues for the institution (by size on otherwise) or new initiatives or policies not covered by approved country strategies. It is expected that these criteria would result in most large or important adjustment operations being discussed by the Policy Committee;

(b) On an exception basis, investment lending operations that the SVPOP (or any member of the Policy Committee) believes represent a major departure from general Bank policy and/or practice (including Guarantees); and

Could I pick up w/ issues any other any complex for review

(c) Any operations issues which on an exception basis a member of the Policy Committee believes should be reviewed by the Policy Committee.

2. Based on the FY88 lending program (to be distributed separately) it would be useful to clarify:

- the likely operations to be reviewed,
- the timing of Policy Committee Review in the loan processing (i.e., IM or prior to negotiation), and
- the specific schedule for First Quarter FY88.

ANNEX 4

SPECIFIC POLICY ISSUES AND PAPERS

1. Following are a list of topics and papers the Policy Committee might want to consider. SVPs are requested to propose additional items for the June - September 1987 period.

Proposed Topics/Paper	Prime Responsibility	PC Review
Communication Strategy		6/17
UNCTAD Speech	PPR	6/24
Annual Meeting Speech	PPR	
- Outline		7/1
- Draft		7/29
President's Report to Development Committee	PPR	7/29
Debt management in middle income countries - options new initiatives		7/6
Africa initiative - Development Debt management in low-income countries	OPS/FIN	6/18
GCI		
- late July Board papers	FIN	7/1
- early September Board paper "Lending and Catalytic Role of the Bank and Ass. Capital Requirements"	FIN	8/?

2. The SVPPPR is requested to review the attached list of ongoing policy and research papers to consolidate efforts and to identify appropriate papers for PC reviews.

DEPART AGRICULTURE AND RURAL DEVELOPMENT   MAJOR POLICY AND ASTER) PRODUCT TASKS SCHEDULED FOR COMPLETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
08/87	*FISH DEV. STRAT.-1WLDMP187	DESIGN A FISHERIES DEVELOPMENT STRATEGY TO GUIDE THE BANK'S FUTURE INVOLVEMENT IN THE DEVELOPMENT OF THIR	LOAYZA	MAJOR POLICY WORK
10/87	*CROP DIVERSIFICATIO-1WLDMP224	TO ADVANCE WORK ALREADY ACCOMPLISHED, ESPECIALLY THE COMPLETION OF THE POLICY PAPER. TO DISCUSS RELEVANCE OF	BARGHOUTI	MAJOR POLICY WORK
	*GROWTH LINKAGES-1WLDRE562	ASSESS POLICY RELEVANCE OF GROWTH LINKAGES UNDER CONDITION OF CONSTRAINED FINAL DEMAND	NEW STAFF	RESEARCH PROJECTS
12/87	*AG. INV.,INFRA.&FIN-1WLDRE362	RESEARCH TO QUANTIFY INVESTMENT RESPONSES OF FARMERS TO CREDIT, PRICES PUBLIC INFRASTRUCTURE AND PERSONAL CHA	BINSWANGER	RESEARCH PROJECTS
03/88	*AG. PROJ. IN SSA-1WLDMP182	TO UNDERSTAND THE CAUSES OF FAILURE OF THE AGRICULTURAL PROJECTS IN AFRICA AND TO SUGGEST CORRECTIVE ME	VYAS	MAJOR POLICY WORK
06/88	*AG. INNOV. & POLICY-1WLDRE021	REVIEW AND SYNTHESIZE THE EXISTING BODY OF THEORETICAL AND EMPIRICAL LITERATURE. EXPAND AND ADVANCE THE DI	FEDER	RESEARCH PROJECTS
	*CROP LIVESTOCK SYST-1WLDRE559	STUDY CROP LIVESTOCK SYSTEMS IN SUB-SAHARAN AFRICA WITH SPECIAL EMPHASIS ON TECHNOLOGY OPTIONS, LAND R	H. BINSWAN	RESEARCH PROJECTS
	*FOOD SEC. STUDIES-1WLDRE557	ASSIST COUNTRIES IN ASSESSING THE IMPACT OF POLICIES, SPECIAL PROGRAMS AND CHANGING MARKET CONDITION	S. REUTLIN	RESEARCH PROJECTS
	*INCENT. NAT. RES.-1WLDGA732	REVIEW THE SCHEMES PROPOSED FOR INTERNALIZING EXTERNALITIES AND ACHIEVING EFFICIENT NATIONAL RESOURCE	O'MARA	GUIDELINES
	*PREP. O&M MANUALS-1WLDGA711	ASSIST IRRIGATION AGENCIES IN PREPARING O&M MANUALS FOR IRRIGATION AND DRAINAGED SYSTEMS.	PLUSQUELLE	GUIDELINES
	*SMALL RES. PROJ/PRE-1WLDRE425	SMALL RESEARCH TASKS LEADING TO LITERATURE REVIEWS AND RESEARCH PROPOSALS WILL BE CARRIED OUT UNDER TH	BINSWANGER	RESEARCH PROJECTS
	*SUP. TO STRUC. CHAN-1WLDGA736	SUPPORT TO STRUCTURAL CHANGE IN AGRICULTURE.	BERTRAND	GUIDELINES

DEPART: DUCATION AND TRAINING

MAJOR POLICY AND ASTERI[illegible] RODUCT TASKS SCHEDULED FOR COMPLETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
09/87	*PP INTERNAL EFFICIE-1WLDMP201	POLICY PAPER ON INTERNAL EFFICIENCY IN EDUCATION.	G. PSACHOR	MAJOR POLICY WORK
06/88	*ED IN PUB.EXP.REVW-1WLDOR106	TREATMENT OF EDUCATION IN PUBLIC EXPENDITURE REVIEWS	A. SCHWART	GENERAL OPERATIONAL REVIEW
	*EDU PROJ MANAGEMENT-1WLDOR107	DISCUSSION PAPER ON THE DESIGN OF PROJECT MANAGEMENT ARRANGEMENTS	A. VERSPOO	GENERAL OPERATIONAL REVIEW

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
06/88	*INCENT FOR SMAL FAM-1WLDGA529	ANALYZE ACCEPTABILITY, COSTS AND EFFECTIVENESS OF INCENTIVES FOR SMALL FAMILY SIZE	BIRDSALL	GUIDELINES

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
10/87	*ROAD TRANS/TRANS FA-1WLDOR136	ROAD TRANSPORT SERVICES AND TRANSPORT FACILITATION: ASSESSMENT OF BANK INVOLVEMENT IN ROAD TRANSPORT SERVICES	DE CASTRO	GENERAL OPERATIONAL REVIEW
05/88	*PAVEMENT MGT MODEL-1WLDGA198	ESTABLISHMENT OF PAVEMENT MANAGEMENT MODEL, AND PRODUCTION OF GUIDELINES FOR ITS USE.	W. PATERSO	GUIDELINES

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
07/87	*OMS2.50 USE OF CONS-1WLDMP149	OMS 2.50 - USE OF CONSULTANTS - REVISE IN ACCORDANCE WITH ADOPTED GUIDELINES	STROMBOM	MAJOR POLICY WORK
08/87	*OMS 2.40-PROC.REV.-1WLDMP147	OMS 2.40 - REVISE IN ACCORDANCE WITH NEW GUIDELINES	STROMBOM	MAJOR POLICY WORK
02/88	*OMS2.30 PRJ.MGT.-1WLDMP196	REWRITE OMS 2.30 (PROJ.MGT.) MANUAL STATEMENT REWRITTEN TO TAKE ACCOUNT IN BK. TREATMENT OF INST.	ISRAEL	MAJOR POLICY WORK
03/88	*PUB.ENTER.DEF.SSA-1WLDRE497	RES. PROJ. "PUBLIC ENTERPRISES DEFICITS IN SUB-SAHARAN AFRICA"	SHIRLEY	RESEARCH PROJECTS
04/88	SERVICE DELIVERY-1WLDMP304	SERVICE DELIVERY IN SOCIAL SECTORS: LESSONS FROM BANK PROJECTS	PAUL	MAJOR POLICY WORK
06/88	*ENV.NAT.RES.-AGR-1WLDGA492	DEVELOP A MANUAL OF GUIDELINES ON THE MANAGEMENT OF ENVIRON- MENTAL SYSTEMS & NATURAL RESOURCES IN	GOODLAND/W	GUIDELINES
	*HAZARD IDENT.ASSESS-1WLDGA627	DEVELOP GUIDELINES, MANUAL AND COMPUTER PROGRAM FOR MAJOR HAZARD IDENTIFICATION, ASSES	BATSTONE	GUIDELINES
	*HAZARDOUS WASTE DIS-1WLDGA626	MANUAL OF HAZARDOUS WASTE DISPOSAL TECHNIQUES - DEVELOP GUIDELINES AND MANUAL FOR THE	BATSTONE	GUIDELINES
	*PESTICIDES GUIDELIN-1WLDGA618	SUPPORT IMPLEMENTATION OF PESTICIDE GUIDELINES. PREPARE TECH NOTES,ADDITIONAL GUIDELINES ON PESTICI	BARAIZ	GUIDELINES
	OMS ON NGO'S-1WLDMP280	THE OMS PROVIDES GUIDANCE IN PROMOTING AND SETTING-UP COLLABORATIVE ARRANGEMENTS WITH NGOS IN PEOPLE-ORIEN	RAPHAELI	MAJOR POLICY WORK

DEPART: OUNTRY POLICY

MAJOR POLICY AND ASTERI. RODUCT TASKS SCHEDULED FOR COMPLETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
07/87	*FISCAL BEH IN HDEBT-1WLDRE542	RPO 674-02: THE RESEARCH WILL LOOK AT THE BEHAVIOR OF GOVERNMENT EXPENDITURES OF SIX LATIN AMERICAN COU	SELOWSKY	RESEARCH PROJECTS
08/87	*ADJ HIGH DEBT CNTRY-1WLDGA696	THIS WORK DRAWS ON THE EARLIER PAPER "THE DEBT PROBLEM AND GROWTH" WHICH ATTEMPTED TO DERIVE THE CRITICAL	SELOWSKY	GUIDELINES
09/87	*FINANCIAL LIBERALIZ-1WLDGA496	A REVIEW OF SOME EPISODES IN FINANCIAL LIBERALIZATION REFORMS.	BARANDIARA	GUIDELINES
	REHAB.IMPORT CREDIT-1WLDMP285	REVIEW PAPER ON THE BANK'S APPROACH TO REHABILITATION IMPORT CREDITS.	FOX	MAJOR POLICY WORK
10/87	*PROG REPT ADJ. LEND-1WLDMP247	PROGRESS REPORT TO THE BOARD ON STRUCTURAL AND SECTORAL ADJUSTMENT LENDING	TIDRICK	MAJOR POLICY WORK
11/87	*MED TERM ADJUST-1WLDMP245	STUDIES OF EXPERIENCE WITH IMPLEMENTATION OF ADJUSTMENT PROGRAMS.	TIDRICK	MAJOR POLICY WORK
12/87	*EXPORT PROMOTION RP-1WLDRE602	RPO 674-10: ANALYSIS OF THE THEORY AND EXPERIENCE WITH SELECTED INSTRUMENTS OF EXPORT PROMOTION INCLUD	FITZGERALD	RESEARCH PROJECTS
06/88	*COST OF STAB. PROG.-1WLDRE543	THIS RESEARCH WILL EXPLORE WAYS TO MINIMIZE THE COSTS OF STABILIZATION AIMED AT BRINGING EXPENDITURE MORE IN	SELOWSKY	RESEARCH PROJECTS

DEPAR WATER SUPPLY AND URBAN DEVELOPMENT MAJOR POLICY AND ASTER PRODUCT TASKS SCHEDULED FOR COMPLETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
09/87	*REVENUE COVENANTS-1WLDOR096	REVIEW OF DESIGN AND EFFECTIVENESS OF REVENUE COVENANTS FOR WATER SUPPLY AND SANITATION WITH RECOMMENDAT	D. JONES	GENERAL OPERATIONAL REVIE
06/88	*H'SG FINANCE MODELS-1WLDGA699	PRODUCTION OF SEVERAL TECHNICAL SUPPORT PAPERS ON: - INFLATION AND MORTGAGE INVESTMENTS	B. RENAUD	GUIDELINES

June 24 MEETING

MH

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP	Date June 24, 1987

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Conable	
Mr. Rajagopalan	
Mr. Qureshi	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Attached, please find Mr. Stern's comments on last week's paper on Elements of the Special Action Program for African untries.

From

M. Haug

POLICY COMMITTEE MEETING

WEDNESDAY, June 24, 1987

~~9:30~~ 10:30 a.m.

AGENDA

1. UNCTAD Speech - First Draft

Not Attached

2. Senior Appointments - Draft Progress Report and Analysis to the Board

3. Contracting Out - Proposal for Further Study

4. Miscellaneous

Attachments

MHaug:im

OFFICE MEMORANDUM

DATE June 25, 1987

TO Files

FROM M. Haug, Secretary to the Policy Committee

EXTENSION 73585

SUBJECT Minutes of Policy Committee Meeting
Wednesday, June 24, 1987

Attendees: Messrs. Conable, Rajagopalan (for Hopper), Qureshi, Stern, Wapenhans, Parmar (for Ryrie), Thahane, Shihata, Shakow
Ms. Haug

1. UNCTAD Speech - first draft

Mr. Conable requested all members present to submit written comments directly to Mr. Shakow. Mr. Shakow will send the revised paper and in addition, he would like to have a more substantive paper ready for distribution.

2. The papers on Senior Appointments and Contracting Out for Board consideration had not been completed. Mr. Conable requested Mr. Wapenhans to complete the paper with a view to having it distributed before the end of this week.

Miscellaneous

A lively and interesting discussion came up after Mr. Stern reported on interrelationships between the IMF SAF initiative, resource mobilization and co-financing. The IMF expects to raise funds from capital surplus countries and, thereby avoid using their gold reserves to restructure their own arrears to low income countries. This, invariably, will limit the available funds for concessionary lending. In addition, the IMF intends to coordinate bilateral co-financing and it's SAF Program much closer than in the past. Mr. Stern pointed out that such an approach was extremely dangerous if the SAF and PFP Program remained a short-term program while bilateral funds, as IDA funds, were supposed to meet long-term development needs. Mr. Qureshi pointed out that the United States still believed that they would not be drawned into this situation and could take a neutral position. Whether in the long-term this was possible, was doubtful if the pressure of the IMF mounted and depleted available concessionale resources. Mr. Conable said he would meet with Secretary Baker next week and discuss the matter. He request that a note be prepared for his meeting.

THE WORLD BANK

Office of the President

June 23, 1987

Messrs. Conable
Parmar (Ryrie)
Qureshi
Rajagopalan (Hopper)
Shihata
Stern
Thahane
Wapenhans

Re: Policy Committee Meeting
Wednesday, June 24, 1987
10:30 a.m.

ADM has withdrawn the papers (Items 2 and 3) on tomorrow's agenda.

M. Haug

cc: Mr. Shakow

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 22, 1987

TO: The Policy Committee
(through: Mr. V. Rajagopalan, Acting SVP/PPR)

FROM: Alexander Shakow, Director, SPR

EXTENSION: 78812

SUBJECT: Draft UNCTAD Spech

Attached is the just-received first draft of Mr. Conable's July 10 UNCTAD speech as prepared by Al Friendly. We would appreciate your reactions and any specific contributions which would strengthen the text. The oral statement will be about fifteen minutes long but the prepared text can be longer.

In PPR's view this is a good first draft which reads well and hits most of the key points. We believe that in general the tone is right and that it is especially important to emphasize the need for action by the industrialized countries to complement continued reform by the developing countries. (In this context, the first four points listed on page 6 might be developed in a little further detail).

There is need to emphasize early on the need for growth as well as adjustment (e.g., bottom of page 2). And it will be important to emphasize the resources issue; there is little reference to this other than on page 6. The role of the World Bank and the resources issue - both for low-income and middle-income countries - deserves a prominent place in the speech, especially given the UNCTAD audience and concerns that the IMF may be taking the lead in Africa.

On the trade issue, the text may go a little too far in a few places, so some toning down might be appropriate. We should also be able to incorporate references to agriculture earlier in the text and then end on the resources/Bank issues.

In any case, we would welcome your detailed suggestions as soon as possible, in addition to your comments at Wednesday's Policy Committee meeting.

Thanks very much.

Attachment

AShakow/eb

June 22, 1987

TO: Judy Maguire
FM: Alfred Friendly, Jr.
RE: UNCTAD speech

In the attached first draft of the July 10 address by Mr. Conable to UNCTAD VII, please note -- in addition to the bleak and provocative tone -- the following questions about statistics.

1. On page 3 of my draft, the figures in paragraph 2 come from the attached sheet provided to me by Mr. Baneth. They do not quite match statistics I looked for in the WDR or the figures in the June 14 draft for UNCTAD Mr. Baneth also gave me.

Also on page 3, the dollar figures on imports foregone by the HIC group come from that June 14 draft, p.4, paragraphs 6 and 7. I did not find these in the WDR.

2. On my page 4, paragraphs 4-8 are drawn from the same Baneth draft, p. 4-5, paras. 8 & 9. Again, these figures don't gibe with those on the sheet he gave me.

3. On my page 7, para. 3 is a rewrite of a one-paragraph insert given me at my meeting with Mr. Baneth and his colleagues. The WDR may have better or more alarming measures of the growth of protectionism, but I didn't find them.

4. On my page 10, the $60 billion figure in para. 3 is from Ed Schuh's paper to the Bank-sponsored seminar in Geneva of Feb. 6, 1987, p. 3, last paragraph.

The draft is long -- about 25 minutes -- and the conclusion on agricultural trade now sounds a bit like an afterthought. Mr. Stern thought it should be more prominent, but I confess to not knowing enough about the subject to give it that treatment.

Besides, how much can you offend the Part I countries? The draft already sticks it to them pretty hard.

I await reaction and revision orders.

per capita indicators for developing countries

	1965	1973	income 1980	1985	1986	1987	1990
All LDCs	57.3	79.0	100	103.7	105.0	106.8	110.3
LDCs-China,India,Korea,Brazil	59.7	80.2	100	91.0	88.7	89.2	90.0
subSaharan AFRICA	75.9	90.5	100	84.4	77.8	76.0	74.8
HIGHLY INDEBTED COUNTRIES (HIC	54.1	78.1	100	82.1	80.1	80.8	80.7
HIC - Brazil	57.7	78.5	100	77.0	71.8	72.6	72.9
AFRICA 15	121.2	115.5	100	83.3	82.6	80.5	80.1

	1965	1973	consumption 1980	1985	1986	1987	1990
All LDCs	62.7	80.9	100	104.2	105.0	105.5	109.2
LDCs-China,India,Korea,Brazil	67.2	83.9	100	96.2	95.1	92.7	93.6
subSaharan AFRICA	85.1	92.4	100	90.5	85.4	85.7	81.8
HIGHLY INDEBTED COUNTRIES (HIC	58.9	80.9	100	91.9	91.0	87.6	86.9
HIC - Brazil	66.3	83.8	100	87.7	84.4	80.6	80.2
AFRICA 15	115.7	111.7	100	92.9	92.3	86.7	82.2

	1965	1973	investment 1980	1985	1986	1987	1990
All LDCs	47.0	72.2	100	99.5	103.8	101.7	105.3
LDCs-China,India,Korea,Brazil	51.3	73.8	100	75.9	75.6	74.5	75.2
subSaharan AFRICA	53.8	85.6	100	55.5	50.8	51.5	49.1
HIGHLY INDEBTED COUNTRIES (HIC	49.8	72.1	100	59.6	64.3	59.7	59.2
HIC - Brazil	53.5	71.6	100	56.4	57.9	54.3	54.1
AFRICA 15	87.0	106.2	100	62.8	60.6	61.0	57.8

	1965	1973	imports 1980	1985	1986	1987	1990
All LDCs	60.3	75.3	100	96.2	95.2	94.1	101.1
LDCs-China,India,Korea,Brazil	64.9	76.6	100	86.5	83.9	81.7	85.8
subSaharan AFRICA	76.0	73.2	100	63.2	53.8	54.1	47.7
HIGHLY INDEBTED COUNTRIES (HIC	57.1	77.8	100	62.7	60.5	62.6	65.4
HIC - Brazil	59.8	69.8	100	63.8	58.2	59.0	54.1
AFRICA 15	119.6	120.8	100	68.6	65.4	63.5	52.6

	1965	1973	D.S.R. 1980	1985	1986	1987	1990
All LDCs	NA	13.6	11.9	21.4	22.2	23.3	24.0
LDCs-China,India,Korea,Brazil	NA	13.1	14.7	21.9	23.2	24.0	23.6
subSaharan AFRICA	NA	9.0	8.4	23.6	29.6	30.0	32.2
HIGHLY INDEBTED COUNTRIES (HIC	NA	23.0	27.0	33.5	37.4	40.9	49.5
HIC - Brazil	NA	22.2	22.1	33.2	40.6	40.6	45.5
AFRICA 15	NA	14.7	14.8	16.8	40.1	48.0	47.6

D.S.R. incl. interest on S.-T. debt

	1965	1973	1980	1985	1986	1987	1990
All LDCs	NA	NA	19.4	23.8	24.0	25.8	26.3
LDCs-China,India,Korea,Brazil	NA	NA	18.1	24.3	25.1	26.6	26.0
subSaharan AFRICA	NA	NA	10.6	26.2	31.9	33.2	35.1
HIGHLY INDEBTED COUNTRIES (HIC	NA	NA	32.7	37.0	40.1	44.7	53.0
HIC - Brazil	NA	NA	27.7	36.8	41.2	44.7	49.1

1st Draft -- AFriendly, 6/22/87

Remarks of Barber B. Conable
UNCTAD VII -- Geneva, July 10, 1987

It is a privilege to have a part in the important work of the United Nations Conference on Trade and Development. You have a demanding agenda, and I very much appreciate the opportunity to contribute to your deliberations at their start.

UNCTAD's seventh session comes at a crucial juncture for the world economy, a period when by decision or by default, the nations represented here will set a course toward either renewed global growth or stagnation and eventual recession.

Those are the choices.

Let us acknowledge fully the gravity of the current situation and the strength of the forces that threaten to undo the hard-won progress of the past.

Stuttering growth, volatile currencies, high real interest rates, heavy debt loads, sinking commodity prices, rising trade barriers and outsize payments imbalances have acted in destructive combination not just to slow earlier rates of advance but actually to erode many previous gains.

Let us also recognize that to sustain development, we require concerted action to assure

* significant, steady, non-inflationary expansion of economic activity by the industrial nations,

* urgent and imaginative relief of the debt service burdens on the peoples of Africa and Latin America,

* substantial new flows of external capital to those hard-pressed countries and regions, and

* decisive reversal of the rising tide of protectionism everywhere.

* * *

While I intend to address the trade and development issues which are your organization's primary concerns, I must start from a wider perspective.

Trade does not occur in a vacuum. It is both a function of and a force for international prosperity.

Progress toward a strong, open trading regime can decisively stimulate growth and efficiency, but cannot, by itself, stem global economic decline.

We now face that bleak prospect: one of stagnation in the developed nations and regression in the developing world.

With few exceptions, the wealthiest societies can look forward to only marginal improvements in their standard of living, while the poorest and most indebted must anticipate deepening austerity.

The World Bank's recently issued World Development Report documents the faltering economic recovery of the past two years and the case for prompt, sweeping changes.

I urge you to study its findings and to embrace its broadest conclusion: "There is no viable alternative to adjustment."

Without decisive, coordinated and continuing international action to reform prevailing fiscal, monetary, credit and commercial policies, it is clear that levels of income, consumption, imports and investment relative to population in most developing nations in 1990 will be ominously below the marks set ten and 25 years earlier.

Such setbacks would be a disaster. There is no other word for the effects of cutting per capita consumption in sub-Saharan Africa below its 1965 pace and of reducing per capita investment to 60 percent of 1980 levels in the highly indebted middle-income countries.

But the disaster -- the hopes and human potential wasted -- would not stop at the frontiers of the suffering nations. If their progress is strangled, the developed economies will also feel the pain in lost overseas sales, lost domestic growth.

We can already measure a portion of the cost that recession exacts.

Between 1980 and 1985 imports by the highly indebted middle-income countries dropped by one third, from $165 to $110 billion. If, instead, their purchases from abroad had grown at a modest annual rate of six percent, the value would have reached $220 billion.

The difference must be calculated not only in the $110 billion of sales the developed nations did not make, in the jobs that North Americans, Europeans, Japanese and others did not find, in the tax revenues their earnings did not generate.

That missing $110 billion also covers the construction equipment that never built roads or homes or sewage systems in the Third World, the modern medicines no one distributed in rural health clinics, the advanced textbooks no students opened and the fertilizer, tractors and hybrid strains no farmers employed to raise their output.

Austerity, in short, brings deprivation on all sides. As a long-term obligation, it is a formula for economic failure and political upheaval.

In the recent years of slack global growth, moreover, austerity has not even paid anticipated short-term dividends.

Under the pressure of heavy interest payments, the group of highly indebted nations made a dramatic push into world markets for manufactured exports. They turned a collective negative trade balance of $10 billion in 1980 into a surplus over $35 billion in 1985.

That shift came, however, as prices for their primary commodity exports collapsed. Hence their improved trade performance in one area was not enough to lighten their debt burden.

On the contrary, even with their debts partially rolled over, refinanced and rescheduled, the group as a whole saw their debt service ratio deteriorate from about 33 percent in 1980 to 37 percent in 1985.

Even more alarming, the ratio of their debt to GNP basically doubled over those years, from 23.5 percent to almost 50 percent. Export earnings paid for old borrowing and not new investment.

Out of these and other similarly disheartening experiences, one encouraging change has begun to reshape parts of the developing world.

Country after country is beginning to move away from rigid, closed and inefficient economic systems toward freer, more open markets and fewer price-distorting internal subsidies.

Theirs is a course born of necessity, in some cases, of desperation. It is a course the World Bank has done much to encourage and will do all in its power to sustain.

But these structural adjustments, coupled with the pain of debt-enforced austerity, impose a heavy social price on fragile regimes struggling for political stability as well as economic recovery.

And the process is far from complete. Its success is far from assured.

Nevertheless, the boldness of those nations' officials and the patience of their afflicted peoples should serve as examples to all policy-makers -- and especially to the leaders of wealthier societies.

For it is an open question whether or not the sacrifices of the poorest will earn them timely rewards.

The answer to that question lies not with them alone.

Their success, now in the balance, also depends on the willingness, the political resolve, of the industrial nations to adjust their own practices to the reality of global interdependence.

There can be no doubt about the measures required. I repeat them only to emphasize their urgency and the crucial linkage among them:

* steady budget deficit reductions by the United States;

* determined stimulus to growth by surplus economies in Europe and Asia;

* currency stabilization and anti-inflation practices by the powerful;

* innovative debt relief and substantial new lending from public and private sources; and

* trade liberalization around the globe.

Only by moving on all these fronts together can rich and poor alike hope to regain the economic momentum the world knew in past decades and to redeem the hopes of development and social progress kindled in the past.

In circumstances as demanding as today's economic crisis, all nations must recognize their shared interest in mounting and maintaining a coordinated and vigorous response. The duty to act, to change, is one they owe to themselves and to each other.

Facing severe threats almost 70 years ago, a great French military leader sent the following message from the battlefield: "My center is giving way; my right is in retreat; situation excellent. I shall attack!"

I recommend his courage as a lesson for our times. I urge its application without delay to the diplomatic struggle now getting underway here in Geneva: the fight for freer world trade.

We are in danger of losing that contest to the self-defeating tactics of protectionism. Elevated tariffs, defensive quotas, extravagant subsidies to farmers and to agricultural exports and a maze of non-tariff barriers are distorting regional and global flows of goods and services.

Particularly in the developed world, nations are increasingly shielding non-competitive sectors from the rigorous logic of free trade. Too many of these supposedly temporary fortifications, instead of providing relief during a process of adjustment and rebuilding, are becoming permanent refuges for powerful political interests unwilling to face new risks.

After 25 postwar years of progressive trade liberalization, except in textiles and agriculture, the industrial countries have reversed field to the point of imposing non-tariff restrictions on 20 percent of their 1985 imports and hiking tariff rates above 10 percent _ad valorem_ on a further ten percent.

Even with the advances of the Kennedy and Tokyo rounds, tariff burdens on developing countries' exports to the United States, the European Community and Japan remained higher than those on goods those buyers imported from each other.

And while Third World nations invested in becoming processors of their raw materials for export, their wealthy trade partners penalized those efforts by keeping duties on semi-manufactured imports higher than on primary commodities.

The developed world cannot expect success in preaching free trade as long as it practices such obvious protectionism.

Yet the fundamental truth that open markets spur efficient production and expanding prosperity is as sound today as it was 200 or 40 years ago, in Adam Smith's era and at the inception of the GATT.

The latest proof for the thesis can be found in the 1987 World Development Report and its study of the economic performance of 41 developing countries over the years 1963 to 1985.

It is a sophisticated and careful examination of the many factors that made those nations' policies more or less oriented to external forces, to global demand and competition. And in statistics that cannot be gainsaid, the study shows over and over that the more a developing economy exposed itself to the world and adjusted to outside forces, the more it prospered.

Both in the boom years before 1973 and the recession since, the most outward-oriented developing economies increased GNP, real per capita income, savings rates and employment in manufacturing at tempos far above the progress of most nations which sought to insulate themselves from global competition.

Some of those advances, of course, took their momentum and opportunity from the Tokyo Round. But now that the Uruguay Round is opening, it is fair to ask how much the process of adjustment should wait on the outcome of negotiations.

My answer is that adjustment cannot wait. Both because debt service burdens dictate export expansion and because competition in freer markets is such a strong force for efficient growth, trade liberalization has a logic and a life of its own.

I am not saying that freer trade can alone overcome the grave difficulties I have already discussed. It is one of the essentials of progress, one of the engines of growth, but it is not a single cure-all. There is no such remedy.

Nor do I intend to discount the importance of the GATT negotiations. They are vital. They will be the political testing ground of the developed and developing nations' ability to identify and act on a great common interest and to build an effective mechanism for speeding, increasing and improving the discipline of world commerce.

Rather, my message is that the nations which have remained outside the GATT regime should reexamine their abstention. At the same time, the nations at the bargaining table should measure their interest in progress not in terms of negotiating chips to be stored up but in the rewards to come from reforms instituted on their own merits.

As part of its growing involvement in structural adjustment lending, the World Bank has also increased its attention to trade policies and their consequences. We are gathering expertise and deepening our cooperation with UNCTAD and GATT in order to be even more effective in advising and assisting our members.

I look forward to new demands on our services in the field of trade and to greater opportunities to assist developing nations fight poverty by reforming policies which now distort trade.

I would like to conclude on an optimistic note, but I must end these remarks with a warning. Trade liberalization can involve significant short-term costs. Jobs, even inefficient industries, disappear. And such dislocations breed powerful political resentments.

It takes courage to undertake necessary reforms, but it also takes leadership by example. At present the leaders of the wealthiest nations are setting the rest of the world a particularly bad example in the agricultural trade sector.

The United States, the European Community and Japan together have been allocating over $60 billion of their recent budgets each year to price supports, production controls and export subsidies that profoundly distort the global agricultural market.

Their policies not only cost producers in developing nations sales at home and abroad. These practices also mirror, sometimes in reverse image, the very market restrictions they urge the poor to reform.

Such advice will not be credible until it is followed at home by those who offer it most ardently abroad. It is long past time for the industrial nations to put their own houses and farm policies in order.

It is also time for me to wish this session of UNCTAD a fruitful and searching examination of the paths toward revitalizing development, growth and international trade. Your work is of great importance. I hope for its success.

OLD VERSION

STRUCTURED ADVISORY POSITIONS
S U M M A R Y

22 June 19

ORGANIZATIONAL UNIT	STRUCTURED AT GRADES 26/27	OTHER SR. POSITIONS AT GRADES 26/27	Specialist Exception	TOTAL
A. SVPPPR Total of which:	10	16	2	28
SVP	2			
VP-Dev.Economics	2			
IED	2			
CED	1			
VP-Sector Policy	1			
Pop.&HR		3		
AGR		9		
ENV'T		1		
INFRST'RE		3	1	
EDI	2		1	
B.SVPOP Total of which:	68	21	7	96
SVPOP	2		1	
EAS	5			
COD	6	1		
VP-FIS	4	4		
VP-Cof		1		
RVP-Africa	15	4	5	
RVP-Asia	13	0	0	
RVP-EMENA	11	5	0	
RVP-LAC	12	6	1	

C. SVPFIN Total of which:	3	4	0	7
	===	===	===	===
SVP	1	0	0	
VP-FPR	0	4	0	
VP-TRS	2	0	0	
D. SVPADM Total of which:	1	1	2	4
	===	===	===	===
SVP	1	0	0	
EXT	0	0	2	
ITF		1		
E. Other Total of which:	6	0	0	6
VP-LEG	6	0	0	
GRAND TOTAL	88	42	11	141 *
	====	====	====	=====

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*The grand total is actually 140; a typo assigned three non-structured specialist positions to Africa, Technical Department, instead of two.

Record Removal Notice

The World Bank Group
Archives
& Records Management

File Title	Barcode No.
President's Council Records - Meeting records 02	1784349

Document Date	Document Type
June 22, 1987	Report

Correspondents / Participants

Subject / Title
Structured Advisory & Specialist Positions

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

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June 22 MEETING

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP

Date
June 18, 1987

OFFICE OF THE PRESIDENT

Name	Room No.
Messrs. Conable, Rajagopalan (Hopper),	
Qureshi, Stern, Wapenhans,	
Parmar (Ryrie), Thahane,	
Shihata	
cc: Mr. Shakow	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Attached, please find the papers for the Monday, June 22 Policy Committee Meeting. The postscript prepared after the June 12 Operations Committee Meeting will be distributed tomorrow.

From

M. Haug

POLICY COMMITTEE MEETING

MONDAY, June 22, 1987

9:30 a.m.

AGENDA

1. NIGERIA - Country Strategy Paper

2. Miscellaneous

Attachment: NIGERIA - Country Strategy Paper

MHaug:im

PC File

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 14, 1987

TO: Messrs. Vinod Dubey & Robert Liebenthal

FROM: Marianne Haug

SUBJECT: NIGERIA: Mr. Conable's Policy Committee; Record of Decision & Points

Thank you for your note of July 10 regarding the recording of decisions and points following Mr. Conable's decisions and Policy Committee Meetings.

I fully agree with your suggestion and would appreciate your making the appropriate changes.

cc: Mr. Alexander Shakow & Mr. Robert B. Myers

P-1867

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 10, 1987

TO: Ms. Marianne Haug, Secretary to the Policy Committee

FROM: R. Liebenthal, Acting Director, SPR

EXTENSION: 61810

SUBJECT: NIGERIA: Mr. Conable's Policy Committee, Record of Decisions and Points

1. The present Country Strategy Paper (CSP) process may need slight amendation to insure that Mr. Conable's Records from the Policy Committee (attached) affect country strategies. Presently the CSP contains as its final few paragraphs, a Postscript which sets out decisions reached in the Operations Committee. In cases also reviewed by the the Policy Committee it seems important to include the Records of these meetings, when relevant, as an integral part of the CSPs.

2. Probably the simplest way would be to add an additional, final, sub-heading in all CSPs entitled, "Record of Decisions and Points by the Policy Committee". If a Policy Committee meeting was not held on a particular CSP, or if no changes from the Postscript were decided, then the only words in this final section would be "Not Applicable".

Attachment

Cleared with and cc: Mr. Dubey

cc: Messrs. Shakow (o/r), Myers

THE WORLD BANK

Office of the President

Messrs. Alexander Shakow and Vinod Dubey

Re: Nigeria

These are the points Mr. Conable would like to have reflected.

Any comments, drafting changes would be appreciated.

Marianne Haug

June 30, 1987

NIGERIA
COUNTRY STRATEGY PAPER

Following the June 22, 1987, Policy Committee review of the Nigeria CSP (dated May 27, 1987), I wish to record the following decisions and points:

(a) The FY88 lending program of about US$1.0 billion including about US$500 million in adjustment lending is approved. This program assumes: (i) a thorough review and agreement on the Public Investment Program; (ii) continued commitment by the Government of Nigeria to administrative and policy reform; and (iii) direct linkage between the level of Bank lending and other capital flows.

(b) Nigeria's creditworthiness and the level of future Bank lending will be reviewed by me and the Policy Committee in about one year's time. This update report will present revised forecasts of IBRD and other lending sources under various growth scenarios and assess exposure risks and sustainability of policy reform. In addition, the report should examine:

- the modus operandi of linking realistically suggested IBRD lending levels with other capital flows;
- the necessary speed and impact of decentralisation and administrative reform; and
- the social cost of adjustment.

(c) The Nigerian Government should be encouraged to initiate a Population Census.

June 30, 1987

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(a) The FY88 lending program of about US$1.0 billion including about US$500 million in adjustment lending is approved. This program assumes: (i) a thorough review and agreement on the Public Investment Program; (ii) continued commitment by the Government of Nigeria to administrative and policy reform; and (iii) close monitoring and linkage between the level of Bank lending and other capital flows.

(b) Nigeria's creditworthiness and the level of future Bank lending will be reviewed by me and the Policy Committee in about one year's time. This update report will present revised forecasts of IBRD and other lending sources under various growth scenarios and assess exposure risks and sustainability of policy reform. In addition, the report should examine:

- the modus operandi of linking suggested IBRD lending levels with other capital flows, including concessional funds;

- the necessary speed and impact of decentralization and administrative reform; and

- the social cost of adjustment.

(c) The Nigerian Government should be encouraged to initiate a Population Census.

Barber B. Conable

Barber B. Conable

July 1, 1987

File

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 30, 1987

TO: Files

FROM: Marianne Haug MG

SUBJECT: Minutes of the Policy Committee Meeting of June 22, 1987

Nigeria Country Strategy Paper

Mr. Koch-Weser introduced the discussion giving a quick overview of the major issues as summarized in the Country Strategy Paper. It was agreed that Nigeria was in a rather difficult situation but had taken encouraging steps towards policy reform.

Mr. Rajagopalan made the following points:

1. Criteria will have to be established to know how to cut down the program if necessary within a certain time period as soon as the performance on policy matters has decreased. These criteria should be well established to provide for a certain automaticity.

2. It is already foreseeable that negative net transfer will occur in Nigeria if the Bank does not increase its lending to make up for possible lack of commercial bank lending.

3. Nigeria has traditionally had important problems of administrative control, implementation difficulties and inertia in project implementation. It would be difficult to see how a US$1.5 billion Program could be accommodated.

4. The paper made little reference to social cost of adjustment, population reform, and commitment.

Mr. Stern pointed out that the scenario as to our lending and the lending of the commercial banks were outright unrealistic and the assumed resulting growth rates were, at best, horrific. Considering this uncertainty, the Program for FY88 should be restricted to about US$1.0 billion. In addition, it was crucial to condition our involvement to a thorough review of the Public Investment Program and to other capital flows. In any case the level of our involvement should be reconsidered based on the capital flow from other sources.

Mr. Wapenhans made a mumbled presentation on what should be considered the base case and what differentiations were necessary.

Mr. Shihata pointed out that it was time to redefine the IDA eligibility issue and availability on concessional funds for Nigeria and other countries.

Mr. Stern responded that this was not an issue of IDA eligibility but a question of overall availability of concessional funds. Clearly, considering that there was a limited amount of money available, it would not be easy to decide that the 100 million people of Nigeria would be eligible thereby limiting immediately the aid flows to Nigeria. Mr. Qureshi concurred.

Mr. Thahane reconfirmed that he was also in favor of reviewing the Nigeria CSP next year and to establish clear criteria for future levels of lending to stop the program as soon as back-sliding did occur.

Mr. Qureshi agreed to review the CSP next year, to limit the Program to about US$1.0 billion in FY88 with a fifty/fifty split between adjustment lending and project lending. He also agreed to the principle of linkage of the overall Bank program to the contribution of others to an overall burden sharing in Nigeria.

MHaug:ejn

NIGERIA
COUNTRY STRATEGY PAPER

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(a) The FY88 lending program of about US$1.0 billion including about US$500 million in adjustment lending is approved. This program assumes: (i) a thorough review and agreement on the Public Investment Program; (ii) continued commitment by the Government of Nigeria to administrative and policy reform; and (iii) close monitoring and linkage between the level of Bank lending and other capital flows.

(b) Nigeria's creditworthiness and the level of future Bank lending will be reviewed by me and the Policy Committee in about one year's time. This update report will present revised forecasts of IBRD and other lending sources under various growth scenarios and assess exposure risks and sustainability of policy reform. In addition, the report should examine:

- the modus operandi of linking suggested IBRD lending levels with other capital flows, including concessional funds;

- the necessary speed and impact of decentralization and administrative reform; and

- the social cost of adjustment.

(c) The Nigerian Government should be encouraged to initiate a Population Census.

Barber B. Conable

Barber B. Conable

July 1, 1987

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 10, 1987

TO: Operation Committee

FROM: Vinod Dubey, Director, Economic Advisory Staff V. Dubey

EXT.: 60061

SUBJECT: NIGERIA - Country Strategy Paper (CSP)

1. Attached is an agenda and comments on major policy issues for consideration by the Committee. The suggested agenda items are:

(a) The Amount of Non-Concessional Borrowing

(b) Reacting to Other Lender and Government Behavior

(c) The Extent of Government Commitment

(d) Private Investment and Financial Market Reform, and

(e) Nigeria's Excessive Population Growth

2. The Review Meeting will be held on Friday, June 12, 1987, at 3:00 p.m. in Room E-1208.

Attachment

cc: Regional Office: Messrs. Koch-Weser
O'Brien
Humphrey
Stichenwirth
Squire
Ms. Salop

Mr. Ryrie

NIGERIA COUNTRY STRATEGY PAPER

Topics for Discussion

Introduction

1. The major thrust of this CSP is that substantial IBRD adjustment and project lending is needed in order to restore commercial creditworthiness to Nigeria by the late 1990s. The strategy relies heavily on the concept of "burden sharing" with other creditors; that is, with the IBRD and other creditors expanding or contracting lending (and rescheduling in the case of the others) together. This way the relative exposure of the various lenders changes little, with the exception that the IBRD's rises rapidly, possibly to a level of 25 percent. Since significant adjustment to the exchange rate and trade regime has occurred (although there has been some backsliding) the main areas for future reform are the public budgets, including the public investment programs, the financial system, the energy, agricultural and industrial sectors and population policy. The paper presents four lending option scenarios which differ depending on variations in the behavior of other lenders and/or the Government. It is proposed that a significant amount of adjustment lending be "frontloaded" in the earlier years and that project lending expand more rapidly in the later years of the program.

The Amount of Non-Concessional Borrowing

2. Nigeria is usually treated as an IBRD country. As such there is an underlying assumption that it is or will be creditworthy enough to borrow and repay at least some commercial money. This CSP makes the point that with adjustment, Nigeria will regain full commercial creditworthiness. This would reduce somewhat the riskiness of a level of Bank exposure of over 20 percent. However, it could be argued that except for the possibility of large windfall gains from oil price increments, Nigeria, like most other African countries, is not a particularly creditworthy, IDA country. Per capita income and productivity are very low and population is expanding rapidly. The debt overhang probably neutralizes any further oil price windfall gains since these will probably have to be used to repay existing debt. In such a situation, creditworthiness may be more difficult to achieve precisely because of the extent of non-concessional borrowing. Could the Region discuss the extent to which the risks of not achieving creditworthiness rise because of the extent of the increase in commercial and IBRD borrowing. Is there merit in an alternative strategy of limiting non-concessional borrowing, lowering average costs (perhaps by blending IDA and IBRD) and linking repayment of existing debt to any future oil price windfall gains?

Reacting to Other Lender and Government Behavior

3. The CSP presents a tightly interwoven set of assumptions regarding other lender, Bank, and Government behavior with respect to rescheduling and new lending/borrowing. If all goes as planned, it is reasoned, IBRD exposure would rise rapidly to a "problem" magnitude of 25 percent in 1995. Four scenarios are presented which are intended to indicate the Bank's response to various

different behaviors by other lenders and the Government. However, it is difficult to gain an impression regarding what is a most likely scenario and why it might be so. Also, little is said regarding how the Bank will determine which if any of these behavior possibilities are being followed. As a result, the Bank's exposure could rise more rapidly and to higher levels if, for instance, IBRD follows the preferred lending path while other lender and/or Government behavior is more consistent with a different scenario. Could the Region indicate, with substantiation, which scenario it considers most likely. What decision criteria and/or quantitative magnitudes, will trigger a change in the Bank's lending response from one to another scenario. Also, is it likely that calls for "nearly mandatory", repeated reschedulings of all London Club interest will be heeded.

The Extent of Government Commitment

4. The CSP notes that following the devaluation, because of SFEM, there was some backsliding with respect to tariffs and petroleum and fertilizer prices (para. 12). In the case of fertilizer prices a rather leisurely timeframe of three to five years is suggested as appropriate for reducing the subsidy element back to what it was in 1986. This, and indeed the general tone of the CSP suggests a desire by the Nigerians to at least pause in the reform process, something which can be economically costly, particularly if a new oil price upswing removes any desire for further adjustment. Can the Region indicate how substantial Nigerian support for further reform is, and what might happen to it if another oil price upswing occurs. Also, with respect to fertilizer, specifically, can the Region indicate why it is advocating a relatively slow pace of adjustment of fertilizer prices, particularly given the need to encourage efficiency of its use. Does it also seem wise, given all the improvements in the incentives for the agricultural sector, to suggest improvements in the taxation of agriculture so as to capture revenue from the larger beneficiaries of the new price and subsidy policies.

Private Investment and Financial Market Reform

5. Structural adjustment, if successful in Nigeria, will invariably involve stimulating private investment. The combination of Nigerians' entrepreneural tendencies and a potentially large domestic market insure this. In fact, there is evidence that the reforms undertaken so far have already stimulated entrepreneural interests. A potential problem, however, is that stringent credit and interest rate ceilings plus federal and state "control" over the amount of credit they get will crowd out private access to credit and lead to arbitrary allocation of the credit that remains for the private sector. Could the Region give its opinion regarding the appropriateness of the present overall credit ceilings and the present credit allocation system. Are there improvements which could be recommended now, even before the results of the study of the Financial Sector are available.

Nigeria's Excessive Population Growth

6. Nigeria's population problem consists of a lack of even rudimentary information on the numbers and characteristics of its people, and a rapidly growing population combined with very tepid policies to reduce the rate of

growth. The tendency has been to suppress even the discussion of another census and of effective family planning measures, on the grounds that these are too politically sensitive. The problem has now become so serious, however, that it does not seem possible for Nigeria to break out of its downward economic spiral without solving it. <u>The Region might be asked to add detail to the discussion in the CSP regarding the policies and strategies which it will recommend to the Nigerians to help solve these population problems.</u>

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COUNTRY STRATEGY PAPER

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NIGERIA COUNTRY STRATEGY PAPER

I. Conclusions and Recommendations

1. Summary Diagnosis: Part of the legacy of the oil boom and its subsequent collapse was a large overhang of external debt and an acute shortage of foreign exchange. While Nigeria's debt crisis should subside over the medium term, as projected export growth suggests a restoration of full commercial creditworthiness in about fifteen years, until then Nigeria will face a foreign borrowing constraint. In turn, this will limit the investment response to the structural adjustment program's changed incentive framework and constrain job creation and the growth in labor productivity. Even after full creditworthiness has been restored, the rapid rate of population growth will continue to constrain per capita income growth, particularly given desert encroachment and deteriorating soil fertility.

2. Success in increasing per capita income will depend on the maintenance of appropriate policies across a broad spectrum of macroeconomic and sectoral issues. But three critical areas can be singled out for close watch. First, there is clearly the need to ensure the adoption of production techniques with a degree of labor intensity consistent with Nigeria's factor endowments. In turn this requires appropriate pricing, exchange rate, regulatory, and public investment policies. Second, while these policies can encourage the economy to maximize within its given resource constraints, they need to be complemented in the near term by efforts to expand the availability of external financing so as to permit higher investment and promote faster growth. In the context of the existing debt overhang, this means the careful articulation and implementation of a foreign financing strategy. Third, even though significant results may be forthcoming only in the long run, formulation of a meaningful population program is essential, along with a concerted attack on agricultural research and environmental and land use questions.

3. Proposed Bank Strategy: The Region's proposed strategy is to use the opportunity afforded by Nigeria's curtailed access to international capital markets to secure effective implementation of the Government's reform program, to deepen the macroeconomic and sectoral reforms, and to set an appropriate course for institutional and infrastructural development. We thus propose for the next five years a substantial commitment of adjustment lending tied to macroeconomic and sectoral policy measures, complemented by a strong program of project loans which will also address sectoral reforms and institution-building. On current thinking, adjustment lending would stop after 1992, but the strong project lending program would continue. As commercial creditworthiness is increasingly restored in the late 1990s, we could pull back our project lending to key areas with high pay-off to Bank involvement.

4. In the Region's preferred strategy, the annual lending program would increase from US$1 billion in 1987 to US$1.5 billion by 1992, dropping back to US$1 billion for 1993-95 as adjustment lending is eliminated. This approach would imply a rapid rise in Bank exposure, which

would need to be conditioned on burden sharing with other creditors. Assuming generous but not unreasonable rescheduling terms and new money from the London and Paris Clubs, the ratio of IBRD debt to total debt would rise to 25 percent by 1995. Since this is above the Bank's normal limit, we have constructed the base-case scenario with a smaller lending program -- US$1 billion to US$1.2 billion a year. This downward adjustment would not be necessary if commercial bank lending increased more than assumed in the projections -- which would also lead to a higher growth scenario -- or if Management decided the Bank could tolerate an exposure level of 25 percent in 1995. Since the alternative lending programs are identical through 1989, we propose that the matter be reviewed in the next CSP -- scheduled for end-FY89 -- when we will be in a better position to assess the likely behavior of the commercial banks. If current expectations on commercial bank lending are exceeded, the preferred strategy could still be pursued. However, if in the meantime the reform program were to be interrupted, the Bank should suspend adjustment lending until the commitment to reform has been meaningfully reaffirmed.

5. Two other points need to be highlighted. First, the Region's recommendations will clearly have to take into account available staff resources. Within the West Africa group, it is now difficult to see much opportunity to increase the current three-year resource allocation to Nigeria. Unless this constraint is eased, the number of project lending operations will have to be cut back below the base case, reducing our sectoral coverage. The impact is likely to be felt most sharply in the social sectors, where the average project size tends to be smaller. Second, the combination of the drop in oil prices in late 1985 and the depreciation of the naira in 1986 have led to a sharp drop in income per capita -- to US$370 in 1987 on the Atlas methodology. In view of these low income levels, the Region recommends increasing the percentage of Bank funding of projects to 75 percent on average. Given the severe constraint on state finances, state projects would normally receive 80 percent funding.

6. Policy Conditionalities: Proceeding with the full lending program should be predicated on steady progress in several key areas. Shortfalls with respect to commitment or implementation, should result in corresponding cutbacks. If the exchange rate and trade reforms are reversed, lending should cease, except for a token program, in view of Nigeria's IIIb country risk rating. In the very near term, i.e., FY88, action will be needed on fertilizer and petroleum product prices, the remaining import prohibitions, and the public investment program. As the various studies the Nigerians are undertaking in collaboration with Bank staff are completed, action plans will need to be adopted on tariffs and the steel and petro-chemical sectors. State and federal finances warrant study and reform, and the privatization and commercialization program for public enterprises will also need to be implemented. These will be conditions for adjustment lending in FY89 and FY90. From a long-run perspective, the most important policy measure is the implementation and intensification of the Government's recently announced population policy, but because of its extreme sensitivity, we do not recommend explicit conditionality in this area.

7. Time Schedule for Next Review: 2 years.

II. Background

(a) Economic Situation

8. Buoyant oil revenues in the 1970s provided the basis for large increases in government expenditures designed to expand infrastructure and non-oil productive capacity, even as they served a valuable political and social purpose in healing the wounds of the civil war. But, with some important exceptions, much of the public spending was on economically inefficient projects. Furthermore, the resources needed to accommodate the expansion of construction and urban services associated with the increase in public expenditure came at the expense of non-oil traded goods. Agricultural exports were particularly hard hit since the exchange rate was allowed to appreciate substantially. Import-competing production was affected less, since import restrictions and an ineffective system of price controls allowed prices of these goods to be maintained well above world levels.

9. When oil revenues collapsed in the early 1980s, the Government responded slowly. Foreign exchange reserves were run down and external payments arrears piled up. When austerity measures were belatedly taken in 1984, non-oil GDP fell sharply. The inefficiencies that had developed during the period of strong oil revenues multiplied, as import restrictions and other administrative controls were tightened in an attempt to contain the growing balance of payment crisis. On coming to power in August 1985, the Babangida Government acknowledged the need for structural adjustment and initiated measures to arrest the deterioration in the economic environment. The commitment to reform intensified with the sharp fall in oil export earnings in early 1986. The Government adopted an ambitious structural adjustment program in early June.

10. The program involves radical measures to correct the exchange rate, to liberalize trade, payments, and prices, to restore equilibrium in public finances, and to generate the resources required by the private sector for growth. The program includes a complicated debt rescheduling exercise involving commercial banks, the Paris Club, and uninsured suppliers. The Bank is supporting the exchange rate and trade liberalization program with a US$452 million Trade Policy and Export Development (TPED) Loan. There is also a standby arrangement with the IMF, in the amount of SDR650 million (about US$800 million), although the Government, for domestic political reasons, does not intend to draw on this credit.

11. The core of the program has already been implemented. The second-tier foreign exchange market (SFEM), through which all trade transactions pass, has been functioning for over seven months. The value of the naira on that market is 70 percent below the official value prevailing just prior to the opening of SFEM. The official first-tier rate has also depreciated in the intervening period. The two rates are now only 15 percent apart and are to be unified by end-June. These are important achievements in a country that had long resisted outright devaluation. In conjunction with the opening of SFEM, the previous systems of import licensing and ex-factory price controls were abolished. Most import bans were also eliminated, and tariffs were reduced. The six agricultural

marketing boards have been disbanded. Action plans are being formulated for the privatization and commercialization of parastatals.

12. Although the Government has made considerable progress, there have been some important areas of slippage on implementation. Public spending absorbed a larger share of foreign exchange than programmed in the fourth quarter of 1986 and the first quarter of 1987. This threatened the funding of SFEM, but discussions with staff on the conditions for the release of the second tranche of the TPED loan and with the Fund on the financial program led to the adoption of a revised spending plan and cash flow. There have also been some reversals of the interim tariff introduced last fall, with excessive protection levels reintroduced for a few product groups. In other areas, the subsidy on petroleum products, which had been eliminated in 1986, was not to have reemerged under the program. But with the drop in the exchange rate, domestic product prices need to be doubled on average to restore world parities. The authorities have announced that there will be a phased reduction in the subsidy, but no specifics. With respect to fertilizer, the Government's agreement with the Fund called for elimination of the subsidy by end-1988, a far more ambitious undertaking than that agreed earlier with the Bank under a fertilizer import loan. But the depreciation of the exchange rate widened the subsidy by a substantial margin, and the Ministry of Agriculture fears the consequences of reducing it. However, in the context of the recent discussions in Lagos of the Agricultural Sector Report, it was agreed that the issue would be taken up in the second round of those discussions, scheduled for later this spring.

(b) Assessment of Past Bank Assistance Strategy

13. The Bank's basic strategy during the run-up to the adoption of the structural adjustment program was to work through both ESW and the lending program to accelerate policy reforms, maintaining sufficient contact and program readiness so that Bank lending operations could be quickly brought on stream in the event of a break in the policy stalemate. Bank staff -- both from headquarters and the Resident Mission -- took every opportunity to enrich the policy dialogue and to try to persuade the Government to adopt a major structural adjustment program. The operational strategy was also designed to encourage reform. The possibility of a US$1 billion lending program, including a major policy based loan, was discussed. Lending in the energy and transport sectors was conditioned on petroleum price reforms, while lending in industry, on exchange rate reform. A fertilizer import loan led to a commitment to phase down fertilizer subsidies. Meanwhile, operations in the social sectors made up the Bank's core program, along with selected projects in agriculture.

14. Even during this period when the lending program was fairly small, there were problems with project design, often deriving from Nigeria's federal character and the states' responsibility for key public services. In education, for example, where primary and secondary education is a state responsibility, the dialogue foundered in the middle 1970's when seven new states were created causing havoc to the ongoing third education project. In agriculture, the ADPs were developed as semi-autonomous units to implement key development initiatives. We are now seeking to integrate better the ADPs into the full spectrum of the states' state agricultural programs and to improve coordination in the sector between the states and

the federal government. Under the expanded lending program, we will need to give wider sectoral coverage to the state/federal question, both with respect to project design and appropriate funding mechanisms -- particularly in those areas where the federal government has rather little involvement. In general, the greater the involvement of the federal government with the states, the easier it should be to find means of channelling our funds to the states. The trickiest areas are those where we have to devise a wholesaling mechanism for on-lending to states in sectors or sub-sectors where the role of the federal government is limited.

15. There have also been problems in implementation of the Bank's lending program. Many of the problems are bureaucratic, with excessively long lags between appraisal and negotiations and between Board approval and signing -- usually over six months -- and further delays to effectiveness. In part this is also due to the federal system and the need to group a number of states within a project, thereby multiplying clearances. But implementation and disbursements have also been slowed by inadequate local funding and lack of autonomy of the executing organization, which delay contract approvals and hiring. Some of these problems will be ameliorated by the time-slice approach we are now taking, for example in highways and power, whereby a piece of the investment program is financed in exchange for sector wide policy conditionality. In addition, Bank staff has revived an earlier initiative and will meet with federal and state representatives to review the implementation of ongoing projects and to agree on measures to accelerate processing and implementation.

16. Our technical assistance projects have tended to have more than their share of implementation problems. This is partly because procurement of services tends to be weaker than procurement of goods, as amounts involved tend to be smaller and more infrequent, and the relevant project authorities are less accustomed to procurement issues. These problems notwithstanding, the projects themselves are proving extremely useful in helping to improve the authorities' policy making capability. And while the projects are costly in terms of staff supervision time, the consultants they finance free up staff time that might otherwise need to be budgeted for economic and sector work. The ITAP and ATAP are financing the creation of policy planning departments in the respective Ministries of Industry and Agriculture, while our close cooperation with Government in developing and implementing the structural adjustment program has helped surface the usefulness of the unallocated portion of the TAP with the Ministries of Planning and Finance, which is now being used as a line of credit to finance the computerization of data for monitoring the program and the project selection process being developed for the public investment program.

III. Development Issues, Policy Agenda, Program Risks

Development Issues

17. As a major oil exporter, Nigeria has enjoyed substantial rents from oil production since the early 1970s, which have augmented its resource availability. Per capita income was estimated at US$760 in 1985, some 60 percent of the average for middle income countries, but above the

level for sub-Saharan countries in this group. However, the sharp fall in both oil prices and the value of the naira have halved it since then. Reflecting the intervening 50 percent rise in population and fluctuations in real oil prices, it is now estimated that, in constant naira terms, income per capita is below the level prevailing prior to the oil boom. Levels of nutrition, health, and education are below those of countries with comparable income, and, for the most part, closer to those in neighboring countries. Infrastructural development in per capita terms ranks among the lowest in West Africa. Poverty is widespread.

18. While Nigeria's oil and gas deposits are extensive, they are unlikely to offer scope for considerable increases in per capita income. To be sure, oil export revenues are forecast to grow in real terms, because of projected increases in both the real price of oil and the volume of exports, but in per capita income terms, the projected increase is quite modest, given the 3.3 percent population growth rate. Gas exports, via LNG, are unlikely in this century and, in any case, their high transport costs would consume the bulk of potential rents. While the economics of substituting gas for domestic oil consumption, and increasing oil exports thereby, are better and clearly a high priority, the scope for this kind of substitution is fairly modest -- increasing GNP per capita by US$7 per annum through 1995. Rather, sustained growth in per capita income will need to derive from non-oil development.

19. Nigeria's natural resource and human endowment should provide ample opportunities for successful longer term development of the non-oil sectors. Despite desert encroachment in the north and fertility deterioration of light soils, the available combination of water, agricultural land, and other inputs suggests high potential returns from institutional investments in the provision of research, extension, and rural credit. The resulting agricultural development could also serve as the basis for a revitalization of agro-industry. Development of LPG and LNG for domestic use should serve to strengthen the industrial base during the 1990s. The large population provides an attractive domestic market and is distinguished by highly developed entrepreneurial skills.

Policy Agenda

20. Nigeria's situation in the long run will depend on how efficiently these resources can be harnessed for sustainable growth. Success will depend on adequate provision of infrastructure and maintenance of appropriate policies along a broad spectrum of macroeconomic and sectoral issues. Five critical areas can be identified: exchange rate and trade policy; investment policy; sectoral policies; resource mobilization policies; and population policy. A blueprint for the policy dialogue in these areas follows. The specific elements to be taken up in the context of Bank lending operations and ESW are described in Section V.

(1) Exchange Rate and Trade Policies

21. The expansion of non-oil exports and import substitution hold a key to Nigeria's growth prospects. It will be necessary to ensure that scarce foreign exchange continues to be correctly priced, to ensure efficient resource allocation and sufficient growth in exports to finance

import growth commensurate with an adequate rate of real output growth. The recent exchange rate adjustment and measures to remove export controls represent significant steps in a strategy designed to restore international competitiveness. But as Nigeria's inflation rate is projected to be above that of its trading partners, further nominal depreciations will be necessary.

22. Apart from exchange rate reform, efficient resource allocation in the non-oil sectors also requires further trade policy reform. This reform should concentrate on removing the remaining import bans, lowering effective rates of protection, and harmonizing tariff protection in the agricultural and industrial sectors. Disparities in protection between activities in manufacturing also need to be eliminated, and the structure of tariffs and excise taxes rationalized to maintain the revenue base without sacrificing the goal of reduced protection. (See para. 32.)

(2) Public Investment Program

23. The large overhang of ongoing public investment projects from the early 1980s, and the public sector's role as a provider of infrastructure, implies a continuing public sector presence in the investment process. The public investment planning and budgeting process needs to be reformed. The most important elements in the reform are: (i) ranking of projects according to specific economic criteria; (ii) re-evaluation of on-going projects on a sunk-cost basis and termination of those with negative cash flows; and (iii) a foreign financing strategy. Specific agreements on expenditures on steel and petrochemicals will also be necessary. These reforms will not be easy to secure. The termination of ongoing projects will be opposed by implementing ministries, and there will be resistance to giving predominance to economic criteria in the project selection process. The giant Ajaokuta steel project, for example, though not economically viable, is a political priority for the Government.

(3) Sectoral Policies

24. Energy. While non-oil exports will become increasingly important, petroleum exports will remain by far the dominant source of foreign exchange for the foreseeable future. Moreover, inasmuch as OPEC quotas are set on production and not on exports, policies directed at efficiently reducing domestic use have a high potential foreign exchange payoff. This involves pricing domestic use of energy products at economic levels and encouraging substitution into gas via the public investment program. The former requires eliminating the implicit subsidy on petroleum products that reemerged with the depreciation of the naira. The latter, in the first instance, means building the Escravos-Lagos Pipeline. It will also be important to take measures to improve the electricity distribution and transmission network -- which has deteriorated sharply from lack of maintenance -- in order to prevent power shortages from becoming the constraint on industrial development and expansion in other sectors. Long term investment in the oil sector will also be needed to ensure that productive capacity is maintained.

25. Agriculture. Industrial development notwithstanding, agriculture will remain the predominant source of employment, income, and non-oil

exports over the long term. Appropriate water, forest, and land use and tenure policies will have to be formulated and applied, and an effective research and extension effort aimed at increasing production and rural incomes will be needed. Policy will also need to be aimed at sustaining soil fertility in the face of the loss of fallow, destructive clearing and tillage in the forest zone, and, in the far north, of desert encroachment. Taking into account possible external effects on long term fertility, a policy toward fertilizer pricing needs to be established. The fertilizer subsidy, which had been reduced to 28 percent by early 1986, has risen to 70 percent in the wake of the devaluation, since the naira price for fertilizer has not been raised. We are looking to get the subsidy back to 25 percent over the next 3-5 years and to agree on a subsequent strategy for fertilizer. (Growth prospects for agriculture are discussed in paragraph 38.)

26. Industry. Efficient utilization of Nigeria's scarce capital resources will clearly require a favorable environment for private investment in industry. To this end, policy will need to be directed at maintaining the incentive framework, including an appropriate real exchange rate and freedom for producers to set prices according to market criteria. However, in order for the new policy to ensure that desirable levels of foreign investment, with its concomitant access to marketing, technology, and managerial expertise will be forthcoming, it will be necessary to streamline the regulatory framework. Key areas for reform are: regulatory controls on new investment, particularly direct foreign investment; ownership, technology transfer and returns to shareholders; and fiscal incentives. (Growth prospects for industry are discussed in paragraph 39.)

27. Financial Sector. Current interest rate ceilings on bank lending need to be raised, in order to increase the efficiency in allocation of credits among borrowers. Such a step would reduce the present bias against lending to smaller industrial enterprises and agricultural units associated with the higher risk of such lending. CBN regulation and supervisory functions also need to be improved, particularly with respect to state banks. Better monitoring of banking practices should encourage states and other borrowers to improve their financial positions. At the same time, alternative financial markets need to be strengthened to provide mechanisms for financing priority public and private sector investments.

28. Public Sector. The Government needs to secure a political consensus on its proposed programs of privatization and commercialization. Once the mandate to proceed is given, clear policies will be needed on implementation. These programs will imply substantial political and financial costs, particularly regarding the outstanding debt burden of enterprises. The largest part of these debts is owed to the Government and will have to be forgiven; other debts, especially those guaranteed, may also have to be honored by the Government. For public enterprises to become financially and commercially viable, their prices and user charges will need to reflect costs and a competitive environment. Autonomy over pricing, procurement, wages, and employment policies, including retrenchments, will be crucial for public enterprises to be able to function without subsidies.

(4) Internal Financial Policies

29. Restructuring of Federal Expenditures. Federal expenditures were slashed during the austerity period, with the particular onus falling on maintenance and materials and supplies. This interfered with the provision of public services and led to a rapid deterioration in the stock of infrastructure. Bank staff had recommended a 3 percent increase in real terms for this year, but a further large cutback is embodied in the 1987 budget. These cutbacks are unlikely to materialize fully, but, in any event, we are seeking adequate provision for maintenance expenditures in the 1988 budget. If corresponding reductions in the wage bill are not forthcoming, alternative revenue sources will need to be generated to restore these expenditures.

30. Restructuring of State Expenditures. Higher naira revenues from the Federation Account, because of the devaluation, should permit the restoration of state ministerial operational expenses to earlier levels. Within this, priority should be given to provision of basic services in health and primary education maintenance and rehabilitation of existing assets such as state highways, feeder roads, canals, rural electricity transmission and distribution equipment, etc. Increased provision for operating costs, such as fuel and spare parts, should also be a priority item, in order that essential public services can be restored. As part of the structural adjustment process, state governments also need to re-evaluate their existing portfolio of capital projects, completing only those with high rates of return on a sunk cost basis. Beyond this, priorities should be set in line with the criteria developed for the federal public investment program.

31. Rescheduling of State Domestic Debt. It is the intention of the Federal Government to offer relief to the states on their debt service. In the past, such relief has been on an ad-hoc basis, with the terms only loosely specified. Any new debt relief must have clearly specified terms. The rescheduling terms should be based on a systematic quantitative assessment of the states' financial positions. Any such relief should be contingent on the states' making the maximum effort to clear their arrears to banks and contractors. The cost to the federal government of relief should be small, as states are not currently servicing their federal debt.

32. Revenue Mobilization. The structure of domestic taxation -- federal, state, and local -- warrants systematic study and reform. Part of this will be taken up in the context of the forthcoming tariff review, which is to cover the wider issue of expenditure taxation, including the respective roles of the states and the federal government. The review is also to analyze the efficacy of introducing a "consumption tax", i.e., a protection-neutral, revenue-generating tax, which would be embodied in a tariff on imports and a corresponding excise duty on local production. Under such a scheme, which would be on top of a tariff structure established to provide a moderate level of protection, the distortions to incentives and the structure of production that typically arise from excessive protection could be eliminated, without jeopardizing budgetary revenues.

(5) Human Resources

33. Population Policy. Population is estimated to be growing at a rate of 3.3 percent per annum. If such a rate were to continue, population would double every 20 years, and in 25 to 30 years could outstrip the country's ability to feed itself. Without a substantial lowering of the population growth rate, most of Nigeria's development effort will be absorbed in simply maintaining present depressed per capita income levels. Nigeria has recently adopted a population policy, and the challenge will be to implement and strengthen this policy. This is all the more true, given that projected decreases in infant mortality will cause the population growth rate to rise otherwise. Still, there is no quick fix here. Government has taken on the ambitious target of reducing the growth rate to 2 percent by 2000, but even with the best efforts, only more modest results can be expected. Support for the program within Government is high, but a prioritized set of interventions needs to be agreed and phased implementation launched. The Federal Government, which has provided the essential leadership in developing the policy, now needs to establish a strong planning and coordination capacity and to galvanize agencies and personnel at the state and local levels, which will be implementing the national policy.

Prospects for Implementation of the Reform Program

34. There are both internal and external risks to the program. As noted in paragraph 12, there has already been slippage on implementing some of the policy undertakings made last year. To some extent this reflects technical problems, aggravated by the absence of timely, quantified information on program implementation and effects. But for the most part, it reflects unresolved political tensions and the decentralization of economic decision-making within Government. While the program is supported in broad terms by many in Government, including those at the top, a division is apparent between those who favor the program's more rigorous elements -- the Minister of Finance and the Governor of the Central Bank et al. -- and those who think a slower adjustment pace would be more sustainable politically. Indeed, with a few changes in key personnel, the tempo of the program could change dramatically, as the bureaucratic constituency for faster adjustment is slim compared with the combined forces of those who for one reason or another advocate a slower approach. It is worth noting that the Minister's and the Governor's influence at home tends to be positively correlated with the amount of financing they can secure from abroad.

35. While the pace of the adjustment process is vulnerable to a change in personnel, the broad thrust of the program is less so, as the Government itself is quite secure by African standards. This is partly due to its efforts to maintain its constituency. Civil rule is to be restored in 1990, however, there are doubts that democracy can withstand the rigors of structural adjustment, which will likely be still underway at that time. There has thus been the suggestion that the military should remain, although these ideas have probably been circulated by Babangida supporters. The popularity of the Babangida Government notwithstanding, religious fanaticism and conflict remain just below the surface in Nigeria and are a constant source of potential strife. Moreover, there is always the possibility of a military coup. However, the Government's broad based

support both within and outside the military, would make its success unlikely for now. Still, there are factors that could dislodge Babangida. While the Government appears secure in the short run, over time, as in all high debt countries, popular support for the adjustment program is bound to suffer serious erosion unless some degree of per capita income growth can be restored and maintained. This in turn will require that minimum external financing needs are met. Indeed, if capital inflows cannot be secured in sufficient magnitude over the next few years, declining per capita income could put the Government seriously at risk.

IV. Macroeconomic Prospects and External Capital Requirements

36. The deteriorating external situation has entailed a steady decline in imports since 1982, which has kept the economy in a depressed state. Present prospects for the balance of payments suggest a further drop in imports this year, to US$5.1 billion -- some one-third the value and one fourth the volume recorded early in the decade -- an 8 percent real decline from 1986. In turn, this implies a further contraction of industrial output. Even so, projected growth in agriculture, which is twice the size of the industrial sector and far less import dependent, should permit some positive growth in non-oil GDP. Last December's reduction in OPEC production quotas has had a negative impact on the petroleum sector, and overall GDP is forecast to drop by 2.5 percent in real terms in 1987 (see attached tables).

37. External financial conditions should ease in 1988 and 1989, based on EPD oil price projections, permitting a rebound of imports to US$6.3 billion in 1988, a real increase of almost 20 percent. Growth in non-oil GDP should reach 5 percent. Subsequently, import growth could be on the order of almost 4 percent per year in real terms. Under these assumptions, and full implementation of the program, the average annual rate of growth of non-oil GDP should average 4 percent over the period 1989-95. Developments in the petroleum sector are reflected in overall GDP, which will continue to grow more slowly than non-oil GDP, as the petroleum sector is outpaced by the other productive sectors.

38. Underlying the forecast growth in non-oil GDP are rather different prognoses for the agricultural, industrial, and service sectors. However, all the sectoral forecasts are predicated on the assumption that infrastructural improvements targeted in the lending program will be implemented. Agriculture is fairly insensitive to import growth, with climatic and institutional considerations by far the more important determinants. Assuming continuation of the conditions of recent years in the former and some progress particularly on research, extension, rural markets, and credit in the latter, we forecast agricultural growth at 3½ percent per annum over the period. The increase from the 2 percent annual average scored from 1980 to 1986 in part reflects the effects of the reform program in both encouraging export-oriented agricultural development and stemming the out-migration of labor from rural areas. To be sure, the revival of production on previously unexploited plantations has already been noticeable in the case of cocoa and oil palm, and considerable private sector interest has been evident in rubber, cotton, and groundnuts. At the same time, production of grains, primarily for subsistence, is expected to

keep pace with population growth. Although the reduction of the fertilizer subsidy will tend to have a negative impact on growth, the net effect is likely to be mitigated by the fact that considerable room exists to increase the efficiency of fertilizer use. In addition, action on the subsidy reduction is to be accompanied by a package of measures to improve fertilizer marketing and formulations, to ensure better access of farmers to seasonal credit, to strengthen the integration of rural markets, and to improve the quality of extension advice on fertilizer use.

39. Industrial growth, by contrast, is highly import sensitive, and while the cut in imports this year will adversely affect performance in the short run, the forecast rebound in imports in 1988 should fuel a substantial recovery. That recovery will likely be accompanied by a shift in the composition of production toward less dependence on imported inputs. Indeed, preliminary evidence at the plant level suggests significant shifts toward domestic-resource-based, high-value-added production. And there is considerable scope for expansion in consumer and intermediate goods production, which respectively account for 70 percent and 25 percent of manufacturing value added. Although there have been some plant closures and corresponding losses of output from reduced tariff protection, these are concentrated in low-value-added lines of production. The other lines can be expected to expand, albeit with some restructuring. Our analysis suggests that the better managed spinning and weaving firms should be able to compete, while the outlook for the food and beverage subsectors should be favorable after an initial adjustment. Several other resource-based intermediate goods industries such as tires and tubes, wood products, and building materials evidence a clear capacity to compete with imports. Considering the sharp decline in manufacturing output over the past five years, a recovery rate averaging 8 percent per annum through 1995 appears feasible, following an early surge to 19 percent in 1988. The net impact on industrial GDP should thus be strongly positive.

40. Per capita GNP is forecast to rise by 0.6 percent per annum over the period 1989-1995, and per capita consumption by 0.3 percent. These follow respective increases of 1.8 percent and 2.4 percent in 1988, which only partly reverse large respective decreases of earlier years. The distribution of income will also change, along the lines of the incentive framework introduced by the structural adjustment program and the elimination of the previous bias against exports. This means better incomes, profits, and employment opportunities in the agricultural export sector and in high-value-added industrial production. On the whole, there would be a redistribution of income from urban to rural areas, particularly in the South where tree crop cultivation predominates, and from consumers of petroleum products and other previously subsidized products to those who gain from the expansion of employment opportunities. But farmers in the North have been disadvantaged, as prices for grains have fallen in the face of a strong harvest, even as input prices have risen.

41. Developments on the balance of payments reflect the forecast growth in imports, the evolution of oil revenues, and the foreign debt and rescheduling situation. The current account remains in deficit through 1993, deteriorating through 1990 and improving thereafter. But over the period 1988-1995 as a whole, the value of imports grows by 6 percent per year, whereas exports grow by 8½ percent. The latter reflects price and

volume increases for oil and a phased reaction to the program's improvement in the incentive framework for non-oil exports. During the period through 1989, capital inflows -- after rescheduling and induced new money -- exceed the current account deficit, putting the overall balance in surplus. This permits the build-up of reserves necessary to pay down amounts due under the rescheduling agreements for insured and uninsured trade arrears beginning in 1990. The overall balance then remains in deficit through 1993. Reserves begin to be rebuilt thereafter.

42. In general, all reschedulable debt is assumed to be rescheduled serially through 1995, with the exception of the large stocks of arrears that Nigeria accumulated in 1982/83 and 1986. While there is clearly a cost in foregone imports in paying off these arrears, the view adopted here is that the "bad faith" engendered by trying to rereschedule them would ultimately cost more. Accordingly, these obligations are assumed to be paid down in line with the payment schedules agreed this year. They include the London Club letters of credit (LCs) to be repaid over 1987-1990 and the insured and uninsured trade arrears to be repaid over 1990-1993. The Paris Club is assumed to reschedule interest on pre-1986 medium- and long-term debt and to provide US$200-250 million in new money each year. New money from the London Club is assumed to equal total interest owed. The latter will be difficult to secure -- and may require some arrangement to withhold interest from banks who refuse to participate in new money agreements. But the assumption is at least grounded in the leverage that these obligations impart to the Nigerians at the negotiating table. IBRD disbursements on new commitments average US$0.7 billion per year, and the African Development Bank is assumed to provide US$150-200 million per year. Fund drawings would be necessary starting in 1991, assuming the Government would be willing to use this source. London Club exposure starts to rise in 1991, following the paydown of the LCs in 1990. The increase totals US$1.3 billion over the period as a whole. Paris Club exposure rises through 1989 and then falls off through 1993 as the arrears are repaid; by 1995 Paris Club exposure is US$0.5 billion above the level of 1987. The exposure of Paris Club and other official creditors taken together rises by US$3 billion over the period.

43. Under these assumptions, creditworthiness improves steadily, as foreign debt increases on average by only 2 percent per year over the period 1987-1995, while the value of exports of goods and non-factor services rises at an annual rate of 10½ percent. Indeed, the ratio of total debt to such exports, which equals 360 percent in 1987, is down to 190 percent by 1995. While export growth begins to decline towards the end of the period, the forecast improvement in creditworthiness should continue. Indeed, by the year 2003, total debt would be equal to total export revenues and, depending on the assumed interest rate and debt maturity structure, the pre-rescheduling, "steady state" debt service ratio would be in the range of 20-30 percent. Under such conditions, commercial banks should be willing to provide new money in the amount required to meet repayments falling due and to finance an increase in debt commensurate with export growth, thereby maintaining creditworthiness.

44. Given that oil revenues currently supply over 90 percent of export proceeds, any shortfall from the oil price or volume assumptions would lead to a reduction in resources available for imports and in turn

for production. For a 20 percent lower oil price starting in 1988, leaving the forecast rate of growth unchanged thereafter, the financeable level of imports would change by about 30 percent per annum. This would lower the level of GDP and per capita income. Indeed, in 1988, the latter would fall by 1.3 percent with low oil prices, compared with a rise of 1.8 percent under the base case using EPD projections. However, assuming no change in the rate of increase of oil export revenues after the initial drop, growth could resume at the same rate as the base case. Still, because of the lower export level, creditworthiness suffers and the time period it takes to reach equality of export and debt is extended -- but only by a few years.

V. Bank Assistance Strategy

Assistance Strategy Options

45. Various factors have to be considered in deriving an appropriate assistance strategy for Nigeria, particularly as regards the split between quick disbursing policy based lending and traditional investment projects. Both the balance of payments gap and the macroeconomic policy backlog are substantial, and implementation problems on project lending tend to keep our disbursement rates on such loans low. There is thus a temptation to provide urgently needed short term infusions of capital by concentrating on quick-disbursing adjustment loans tied to macroeconomic policy actions. But such a tactic would neglect the critical infrastructure and institution-building contribution of sectoral lending, which in the Nigerian context is as important as macroeconomic conditionality. In addition, the IMF's experience with the fertilizer subsidy suggests that undertakings by the Ministry of Finance will not be honored unless supported by the implementing ministries. It is, therefore, essential for the Bank to continue its dialogue with individual ministries, and states where relevant, and to help support that dialogue through project lending.

46. With respect to the size of the lending program, we have experimented with a variety of possibilities, taking into account the implications for policy conditionality and economic performance. Considerations of creditworthiness were also factored into the analysis, along with questions of portfolio risk and burden sharing. The text table summarizes our findings. More complete results for the base case are contained in Annex I. Four cases are considered: the Region's preferred lending program, the base case, a low IBRD and low commercial bank lending case, and a policy slippage case. In each of the first three cases, it is assumed that Nigeria perseveres with the reform effort. However, the overall efficiency of resource use is assumed to vary in line with the size of the Bank's lending program.

SUMMARY ASSISTANCE OPTIONS

Scenario	London Club 1/ Exposure as Percentage of 1987 Exposure		Implied Percentage of IBRD to Total Debt		Implied Ratio of IBRD to Total Debt Service 2/		Real Imports	Real GNP Per Capita	Real Consumption Per Capita
	1992	1995	1992	1995	1992	1995	Annual Percentage Rates of Growth 1989-95		
Preferred 3/4/	105.5	127.4	21.2	24.9	14.7	24.6	4.2	0.9	0.6
Base 4/5/	105.5	127.4	18.7	22.5	13.7	22.7	3.9	0.6	0.3
Low 6/	105.5	105.5	16.3	19.6	12.6	20.6	3.1	0.3	0.0
Slippage 7/	76.5	73.8	15.7	18.4	12.3	23.5	0.8	-0.6	-1.4

1/ Includes letters of credit as well as medium- and long-term debt.
2/ Post-rescheduling.
3/ IBRD lending program of US$1-1.5 billion. Adjustment lending program of US$500 million annually through 1992.
4/ New money from commercial banks equal to total interest due.
5/ IBRD lending program of US$1-1.2 billion. Adjustment lending declines to US$150 million in 1992.
6/ No new money from commercial banks after 1992. IBRD lending program drops from US$1.2 billion in 1988, averaging US$625 million annually during the period 1991-95.
7/ Starting in 1990, IBRD lending program of US$200 million per year. Commercial bank exposure held at 1992 level.

47. The Region's preferred lending program entails annual commitments of adjustment and project lending of US$1.0 billion rising to US$1.5 billion by 1992. Of this, US$500 million would take the form of quick disbursing, policy-based lending. Adjustment lending would stop after 1992, but the project lending portfolio would continue at US$1.0 billion per year through 1995. Given the above assumptions about the magnitude of reschedulings and new money inflows from the Paris and London Clubs, import growth in excess of 4 percent in real terms would be feasible with this program. In turn, this would imply a real growth rate in GNP per capita of almost 1 percent per year. Bank exposure would climb to 21 percent of total debt by 1992 and 25 percent by 1995. Although this exceeds the Bank's normal limit, Management may wish to make an exception in view of Nigeria's reform effort and its improving creditworthiness.

48. The base-case strategy preserves the same lending program through FY89, which then declines steadily as the proportion of quick-disbursing loans declines. Compared with the preferred strategy, the growth rates of imports and GNP per capita in real terms for 1989-1995 are lower (see table), but Bank exposure is correspondingly reduced. The ratio of IBRD to total debt would reach 18½ percent in 1992 and 22½ percent in 1995. While the latter is still marginally above the Bank's normal limit, we think it is warranted by the strength of the Government's program and by the continuing improvement in Nigeria's creditworthiness. Since the difference between the preferred lending programs and the base case occurs post-1989, the preferred strategy can be adopted in the short run, with a full review in the CSP for Nigeria scheduled for end-FY89. In the event that Bank management remains uncomfortable with the projected 1995 exposure and the prognosis for lending from commercial banks fails to exceed current expectations, the Region could switch to the base-case strategy starting in 1990.

49. The third case assumes lower commercial bank lending, which we have depicted by holding exposure at the 1992 level. IBRD lending has also been reduced to keep the Bank's share in total debt below 20 percent. Adjustment lending drops in 1989 and 1990, with project lending being held at its 1989 level. Under these circumstances, imports grow at 3.1 percent per year in real terms, GNP per capita grows by only 0.3 percent per year, and per capita consumption does not rise at all.

50. The fourth case considers the implications of abandonment of the program. The Region recommends that if a substantial pattern of non-performance and slippage on the Nigerian side -- on exchange rate management and tariffs for now, but on the public investment program and other key elements of future lending operations as they unfold -- the lending program should be scaled back accordingly. Indeed, if the Government's structural adjustment program were to cease being implemented altogether -- as evidenced by a return to foreign exchange controls -- policy-based operations should be suspended and lending pared to a "core" program of about US$200 million per year, for projects not dependent on a reform environment. New money inflows from other creditors would also be likely to fall off under such circumstances -- although arrears, "involuntary reschedulings", and outright default cannot be ruled out. But direct foreign investment would drop, and non-oil exports would stagnate. The "slippage" scenario reported in the table illustrates the probable consequences for growth of a failure to maintain the reform program beyond

1989. In this case, per capita income would decline by 0.6 percent per year, partly from reduced import growth and partly from a lower level of efficiency.

51. A change in oil prices should influence the Bank's lending program. The approach should be to adjust commitments up or down pari passu with commercial bank exposure and the authorities' commitment to reform. Lower export revenues would lengthen the period required for Nigeria to grow out of its debt problem, although only by a few years if imports bear the full brunt of lower export receipts. But although Nigeria's creditworthiness would worsen, the Bank's relative exposure position need not change, as other creditors would be unlikely to give less by way of reschedulings and new money under such circumstances, particularly since the latter is assumed to be equal to interest falling due. Moreover, reschedulings of trade arrears and London Club LCs -- if the oil price drop occurs before 1990 -- could improve the burden sharing arrangement. If other creditors were to increase their exposure, we should increase the lending program -- but only if the Nigerian authorities take further adjustment measures, including letting the real exchange rate depreciate. Conversely, if the price of oil were to turn out higher than forecast, less generous rescheduling packages would likely be forthcoming, thus reducing London and Paris Club exposures in the absence of a resumption of voluntary new money inflows. Unless we scaled back as well, our exposure would rise relative to other creditors, although the higher exposure risk would be balanced by an improvement in underlying creditworthiness. Assuming voluntary new commercial lending, the need for IBRD financing would be reduced, and our leverage with respect to inducing adjustment measures would be likewise lessened. If the adjustment effort faltered, we should pull back, despite scope for expansion under the Bank's exposure norms.

Adjustment Lending

52. Under the proposed program, broad policy initiatives would be supported by adjustment operations, in follow-ups to the Trade Policy and Export Development Loan. The next such operation is to focus on trade and investment policy issues. This would cover agreements on tariffs and import prohibitions (para. 22), private investment (para. 26), and reform of the federal capital budgeting process (para. 23), with specific measures to rationalize major public investments in the steel and petrochemical subsectors. Petroleum prices (para. 24) and the fertilizer subsidy (para. 25) will also be addressed. Under a subsequent, financial restructuring operation, we propose to tackle problems related to federal and state finances and financial markets (paras. 27 and 29-32). Key objectives would be to promote efficient resource intermediation by improving the ability of the states to mobilize resources and the financial system to mobilize savings. In addition, we have started to assist in the commercialization and privatization of Nigeria's large parastatal sector (para. 28) and to prepare a project consisting of technical assistance and program funds to assist Government in implementing its privatization program. This operation would provide the institutional and policy backing to complement investment projects aimed at restructuring and rehabilitating the major parastatals in the power, transport, and telecommunications sectors, as part of the Government's efforts to put these enterprises on a commercial footing.

Sectoral Lending

53. On present thinking, our adjustment lending would be complemented by a broad program of sector activities, the ultimate objective of which would be to facilitate growth in the productive sectors in line with long run comparative advantage. Indeed, the above macroeconomic forecast is predicated on a degree of success in these endeavors. A portfolio of six to seven projects a year is foreseen, with agriculture, infrastructure, and power accounting for almost half our sectoral lending. The sectoral strategies all stress improvements in efficiency, along with various sector-specific objectives. Project specific assistance would help ease the constraints to growth created by infrastructural bottlenecks, in many cases arising from years of inadequate maintenance. Institutional strengthening and rationalization, aimed at a greater degree of public sector cost effectiveness, would be integral parts of these operations.

54. Costs and inefficiencies arising from poorly maintained infrastructure are important themes in the water and urban, power, transport, and telecommunications sectors. These are all critical areas for growth in the productive sectors. In view of the large unmet needs, the strategy in the urban and water sector emphasizes both rehabilitation and expansion of infrastructure. Important institutional and policy objectives include improved management and resource mobilization, at both the state and local government levels, and establishment of sustainable, market-oriented, financing mechanisms for priority investments. In power, the emphasis is on both relieving bottlenecks and improving transmission facilities, while ensuring cost recovery through economic pricing (para. 28). In the transport sector, maintenance and rehabilitation of federal and state highways (paras. 29 and 30) take priority, along with improved operations and finances of the transport parastatals.

55. The social sectors also stress improvements in efficiency. In education, the concentration is on improving the quality and effectiveness of the sector's output, with technical assistance geared to improving planning capacity and upgrading public sector management capability. The objective is also to shift the focus of higher education, away from academic subjects towards providing more technical skills relevant to the market place. The health, population, and nutrition program is designed to help deliver effective primary health care and family planning services, focussing on rehabilitation of existing public health facilities, strengthening the capacities of local governments and communities to provide effective services, installing efficient drug supply measures, and mobilizing revenues through cost recovery. But of greatest importance, we are helping to develop a national population project to assist Government in implementing its recently enunciated population policy (para. 33). The project aims at developing a multi-sectoral institutional capacity to design and manage population activities. Because of Nigeria's limited experience with organized family planning activities, we are also stressing "learning by doing," which entails getting the various agencies involved initially in small-scale projects, which can be closely evaluated as a basis for more intensive efforts at a later stage.

56. The proposed program also covers the productive sectors. Agriculture will remain the backbone of the sectoral lending program, based

on developing institutional capability via time slice financing of programs designed to promote sustainable increases in crop and livestock production. The multi-state development projects would be designed to help to develop the dissemination of high yielding packages through strengthened extension and supporting credit systems (para. 25), while federal projects would cover irrigation, research, and credit. Industry is likely to respond to the structural adjustment program by a shift toward exports and a change in composition towards small and medium-sized firms and towards agro-based and high-domestic-value-added industries. Given the emphasis on private sector development, the Bank's current strategy stresses technical assistance and an apex lending operation for small- and medium-scale enterprises (para. 27). But the financial restructuring operation envisaged for FY89 would also cover industrial enterprises needing to adjust to the changes in the exchange rate and tariff protection. In the oil and gas sector, an LPG project, which would provide an abundant and cheap source of fuel to consumers and industry is a possibility. In the meantime, technical assistance is addressing the scope for progressively substituting natural gas usage for oil and other fuels in the domestic economy (para. 24).

Economic and Sector Work

57. ESW is for the most part geared to providing support for the Bank's lending operations, improving the formulation and execution of economic policy, and enhancing the efficiency of the public sector and the provision of services. In terms of supporting adjustment operations, the immediate concern is the public investment program, both the criteria by which projects are selected and the articulation of an appropriate foreign and domestic financing strategy. Overall budgetary finances, both federal and state, and the interrelation between the two is another high priority issue. We also intend to begin a series of administrative assessments of the underlying institutional capacity for developing and executing needed reforms and supporting programs. These assessments would complement the policy reforms to be pursued for the short-to-medium-run by adding the institutional dimension. At the same time, they will enable us to address the question of delay in project implementation.

58. Meanwhile, we are continuing work on other important sectoral issues, such as energy pricing, public sector pricing in general, and the optimal level (zero or non-zero) of the fertilizer subsidy and the appropriate time path for achieving it. These exercises will entail tracing second and third round effects on wages and other prices in order to fashion a systematic picture of the underlying shadow price structure. They will also contribute to our longer run analysis, the broad thrust of which is the formulation of a comprehensive picture of Nigeria's sectoral prospects and comparative advantage. The building blocks for this overview will be periodic sector reports in agriculture, industry, and energy, where the primary focus will be the sources of growth in the Nigerian economy. A list of priorities for the associated infrastructural and social service requirements should also emerge from this work, complementing the direct work in identifying sectoral priorities being undertaken in these sectors. We are also launching an investigation into urban and rural incomes and poverty issues.

Nigeria: Balance of Payments
(Billions of US$)

Population:100 Million (mid 1985)

	Actual					Est.	Projected								
14-May	1980	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
BALANCE OF PAYMENTS:															
Current Account Balance	4.31	-7.21	-5.01	-1.02	0.37	-1.92	-1.67	-1.70	-1.84	-2.23	-1.54	-1.10	-0.54	0.15	0.68
Exports of Goods	25.96	12.15	10.37	11.89	12.57	6.77	6.67	8.30	8.74	8.97	9.98	11.06	12.26	13.59	14.78
of which: Petroleum	24.94	11.89	9.95	11.57	12.20	6.37	6.17	7.56	7.91	8.04	8.96	9.93	11.01	12.20	13.24
Non-petroleum	1.01	0.27	0.42	0.32	0.36	0.40	0.50	0.74	0.83	0.92	1.02	1.13	1.25	1.39	1.54
Imports of Goods f.o.b.	14.74	14.88	11.45	8.88	8.28	5.41	5.10	6.30	6.71	7.15	7.59	8.06	8.56	9.09	9.65
Services and Income	6.34	-4.06	-3.53	-3.70	-3.66	-3.01	-2.96	-3.36	-3.50	-3.65	-3.53	-3.68	-3.82	-3.92	-3.99
Net Transfers	-0.58	-0.43	-0.40	-0.33	-0.26	-0.27	-0.28	-0.34	-0.37	-0.40	-0.41	-0.42	-0.43	-0.44	-0.45
Capital Account	0.05	4.85	4.75	1.49	0.33	1.16	1.57	2.85	2.40	0.71	0.49	0.33	0.29	0.47	1.61
Private Direct Investment	-0.74	0.43	0.37	0.19	0.35	0.37	0.39	0.41	0.43	0.45	0.47	0.49	0.52	0.54	0.57
MLT Loans (net) 1/	0.65	2.98	1.40	0.57	0.22	3.48	2.71	2.84	2.64	0.14	0.07	-0.12	-0.17	-0.01	1.08
Other Capital (short term) 2/	0.13	2.51	5.19	-0.05	0.34	-1.32	-1.52	-0.40	-0.66	0.12	-0.05	-0.05	-0.06	-0.07	[illegible]
Net Errors & Ommissions	0.19	-1.07	-2.20	0.79	-0.58	-1.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Overall Balance	4.55	-2.37	-0.26	0.47	0.70	-0.76	-0.10	1.15	0.56	-1.52	-1.06	-0.77	-0.25	0.62	2.29
Reserve Movements	-4.55	2.37	1.04	-0.47	-0.70	0.84	-0.03	-1.14	-0.56	1.52	1.06	0.06	-0.00	0.00	-1.94
Other								-0.00	0.00	0.00	0.00	0.71	0.25	-0.62	-0.35
MEMORANDUM ITEMS:															
Oil Price (US$ per barrel)	36.37	32.44	29.16	28.91	26.83	14.10	17.11	19.00	19.00	19.00	20.22	21.51	22.89	24.35	25.91
Oil Exports (mb/d)	1.88	1.00	0.94	1.10	1.25	1.24	0.99	1.09	1.14	1.16	1.21	1.27	1.32	1.37	1.40
Post 1988 Import Growth Rate:	3.9%														

1/ Includes new money and net relief from post 1986 rescheduling.

2/ Includes new short term flows, pre-1987 incurrence or cash payment of arrears, amortization of arrears rescheduled before 1986.

Population:100 Million (mid 1985)

Nigeria: External Capital and Debt
(Billions of US$)

		Actual					Est.	Projected								
	14-May	1980	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Public Debt Outstanding and Disbursed		7.79	12.00	18.29	18.47	19.87	23.43	24.86	26.75	28.44	28.36	28.43	29.02	29.10	28.48	29.22
Of which:																
London Club						4.56	4.85	4.93	4.91	4.88	4.76	4.98	5.20	5.40	5.85	6.28
Paris Club						7.80	10.21	11.06	11.86	12.46	12.30	12.07	11.85	11.63	11.39	11.49
IBRD						1.32	1.69	2.28	3.03	3.76	4.42	4.97	5.43	5.84	6.20	6.56
IMF						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.71	0.96	0.35	0.00
Other Official						1.79	1.88	2.28	2.65	3.04	3.43	3.82	4.12	4.41	4.70	4.88
Uninsured Arrears						4.40	4.81	4.31	4.31	4.31	3.45	2.59	1.72	0.86	0.00	0.00
Share in Total Debt (%)																
London						22.95	20.70	19.84	18.34	17.16	16.80	17.52	17.91	18.55	20.53	21.50
Paris						39.26	43.56	44.48	44.32	43.81	43.35	42.46	40.82	39.97	40.00	39.33
IBRD						6.63	7.20	9.16	11.33	13.21	15.60	17.49	18.71	20.06	21.77	22.46
IMF						0.00	0.00	0.02	0.00	0.00	0.00	0.00	2.44	3.31	1.21	0.00
Other Official						9.00	8.01	9.17	9.90	10.68	12.10	13.43	14.18	15.15	16.49	16.71
Uninsured Arrears						22.16	20.53	17.34	16.11	15.15	12.16	9.10	5.94	2.96	0.00	0.00
Total Service Payments 1/						4.80	3.34	2.86	3.30	3.42	5.04	4.46	4.86	5.25	5.12	3.94
of which: Interest 2/						2.14	1.81	1.77	2.08	2.19	2.33	2.21	2.35	2.46	2.52	2.54
memo: Paris int. resch.						0.00	0.13	0.39	0.33	0.26	0.19	0.14	0.10	0.06	0.03	0.01
As % of Exports GNFS:																
DOD						154.64	336.01	360.11	311.51	314.52	305.69	275.30	253.46	229.28	202.43	191.02
Total Debt Service						37.37	47.91	41.46	38.46	37.86	54.32	43.22	42.41	41.40	36.38	25.79
Interest 2/						16.69	25.96	25.64	24.28	24.23	25.13	21.36	20.49	19.35	17.91	16.59
memo: Incl. Paris int.						16.69	27.83	31.22	28.11	27.10	27.23	22.73	21.34	19.82	18.11	16.66
IBRD Service						1.07	3.11	4.27	4.79	5.43	6.07	5.78	5.81	5.92	5.91	5.86
IBRD/Total Debt Service						2.86	6.50	10.29	12.45	14.34	11.17	13.37	13.71	14.29	16.24	22.73
As % GDP:																
DOD						25.90	46.28	103.36	100.44	102.08	98.42	92.50	87.99	82.32	75.63	72.62
Interest 2/						2.80	3.58	7.36	7.83	7.87	8.09	7.18	7.11	6.95	6.69	6.31
memo: Incl. Paris int.						2.80	3.83	8.96	9.06	8.80	8.77	7.64	7.41	7.12	6.77	6.33
Exports G&NFS ($US)						12.85	6.97	6.90	8.59	9.04	9.28	10.33	11.45	12.69	14.07	15.29
GDP ($US) 3/						76.72	50.63	24.05	26.63	27.86	28.82	30.73	32.98	35.36	37.66	40.23

1/ Excludes rescheduled amortization.

2/ Excludes interest due rescheduled by Paris Club.

3/ Current GDP in Naira converted by current exchange rate.

15-May-87 WAINI, NIGERIA: CEM BASE CASE PROJECTIONS OF THE MEDIUM TERM WITH ECONOMIC REFORM, EPD OIL PRICES, 3.9% IMPORT GROWTH

NIGERIA - ECONOMIC INDICATORS

Population: 100 Million (mid 1985)

Constant 1984 Prices

Indicator	Amount (Bil. $US Current) 1985	Real Growth Rate (%) Actual 1980	1982	1983	1984	1985	Est. 1986	Projected 1987	1988	1989-95	1995
NATIONAL ACCOUNTS											
Gross Domestic Product	76.7	3.4	-2.1	-4.6	-5.4	3.4	-2.9	-2.5	5.5	3.9	4.0
Net Indirect Taxes	1.9	-6.0	5.3	0.8	-28.7	-12.4	-2.9	-2.5	5.5	3.9	4.0
Non Oil GDP	60.7	7.3	0.7	-4.8	-7.9	3.1	-3.3	0.5	5.0	4.1	4.5
Agriculture	27.3	4.9	14.6	-1.8	-3.6	3.2	4.0	3.0	3.3	3.6	3.6
Industry	12.3	7.1	-3.0	-11.6	-7.6	4.0	-24.0	-6.5	19.3	8.1	7.9
Services	21.1	4.7	-7.8	-5.5	-1.1	2.4	0.0	0.5	1.0	2.5	3.3
Petroleum	14.1	-11.6	-11.7	-2.5	13.0	7.0	-1.3	-15.6	8.1	3.0	1.9
Consumption	65.6	11.8	0.8	-5.8	-8.2	1.9	-6.6	0.9	5.8	3.7	4.0
Gross Investment	8.2	15.0	-23.9	-24.5	-27.8	-10.1	-21.6	-10.1	4.1	6.7	6.5
Exports of GNFS	12.8	-9.5	-30.6	-2.6	15.6	11.8	-1.5	-17.0	10.8	3.9	2.5
Imports of GNFS	9.9	21.9	-23.1	-22.4	-22.7	-8.9	-44.4	-7.6	20.9	3.9	3.9
Gross National Savings	8.5				16.7	28.1	-21.0	1.8	7.1	6.2	4.7

	Share of GDP (%) Actual 1980	1982	1983	1984	1985	Est. 1986	Projected 1987	1988	1989-95	1995
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net Indirect Taxes	4.3	4.9	5.0	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Non Oil GDP	74.7	82.1	81.8	80.0	79.8	79.5	82.0	81.6	82.0	82.6
Agriculture	28.8	31.8	34.0	35.5	35.4	38.0	40.1	39.3	38.9	38.4
Industry	17.5	19.6	19.1	16.8	16.9	13.2	12.7	14.3	17.0	18.9
Services	26.6	28.8	27.7	27.7	27.5	28.3	29.2	28.0	26.2	25.3
Petroleum	21.8	13.5	14.3	17.6	18.2	18.5	16.0	16.4	15.9	15.4
Consumption	73.0	82.7	85.1	85.8	84.5	81.3	84.1	84.4	83.4	82.9
Gross Investment	19.1	18.6	15.2	12.0	10.4	8.4	7.7	7.7	8.6	9.2
Exports of GNFS	14.1	7.0	7.7	15.4	16.7	17.0	14.4	15.2	15.3	15.1
Imports of GNFS	9.7	10.6	9.6	13.2	11.6	6.7	6.3	7.2	7.2	7.2
Gross National Savings	27.3	14.8	12.9	11.0	12.4	16.4	13.3	12.8	14.2	14.9

PRICES	Other Indicators Actual 1980	1982	1983	1984	1985	Est. 1986	Projected 1987	1988	1989-95	1995
Consumer Price Index (% change)	9.9	9.9	23.2	39.6	5.5	7.0	15.0	10.0	10.0	10.0
GDP Deflator (% change)	12.4	7.2	11.2	13.5	8.6	1.4	46.2	13.6	11.0	11.5
Exchange Rate (N1 = US$)	1.83	1.49	1.38	1.31	1.12	0.75	0.25	0.23	0.17	0.13
GNP Growth Rate (% change)	1.0	-2.0	-6.0	-2.0	3.6	-2.0	-2.6	5.2	4.0	4.1
GNP per Capita (% change)	18.1	-7.1	-16.3	-3.8	0.3	-5.3	-6.0	1.8	0.6	0.7
GNY Growth Rate (% change)	13.0	-4.0	-8.0	-5.0	1.0	0.9	0.2	5.5	4.3	4.7
GNY per Capita (% change)	9.4	-6.9	-11.5	-8.0	-1.5	-13.3	-3.2	2.1	0.9	1.3
Consumption per Capita (% change)	-0.5	7.1	-8.6	-10.4	-1.4	-9.6	-2.4	2.3	0.3	0.6
ICOR (Non-oil) 1/						-3.3	17.2	1.6	2.1	2.
ICOR (Industry) 1/						-0.7	-3.2	1.1	2.4	2.

1/ The overvaluation of the exchange rate in the base year for the constant price projections tends to underestimate investment, ICORs, and other variables with relatively high import content.

11-May-87 WAINI, NIGERIA: CEM BASE CASE PROJECTIONS OF THE MEDIUM TERM WITH ECONOMIC REFORM, EPD OIL PRICES, 3.9% IMPORT GROWTH

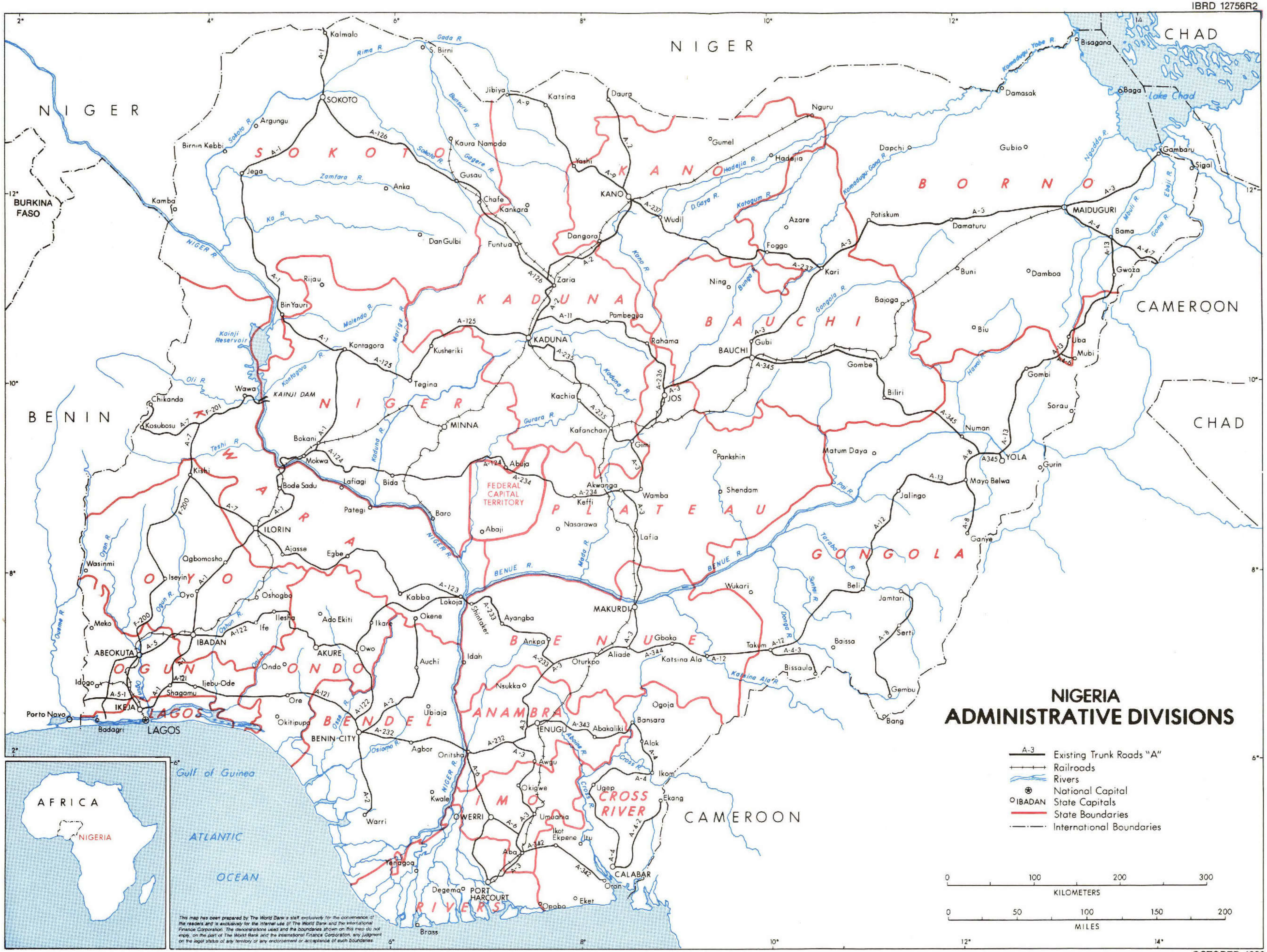
NIGERIA - ECONOMIC INDICATORS

Population: 100 Million (mid 1985)

Indicator	Amount (Bil. $US Current)	Annual Growth Rate (%)									
		Actual					Est.	Projected Scenario II			
	1985	1980	1982	1983	1984	1985	1986	1987	1988	1989-95	1995
EXTERNAL TRADE											
Merchandise Exports	12.6	-8.9	-25.6	-1.2	16.5	9.8	-1.2	-17.5	11.4	3.9	2.4
Oil	12.2	-8.9	-25.0	-7.1	18.6	8.8	-1.6	-18.9	10.1	3.8	2.2
Cocoa	0.26	-28.0	14.3	15.1	-32.3	14.7	13.6	12.0	21.4	5.4	4.3
Other	0.10	2.1	-85.2	129.0	-20.3	40.4	10.9	56.0	60.0	6.9	5.6
Merchandise Imports	8.9	31.4	-21.4	-21.7	-23.0	-7.0	-44.0	-7.6	20.9	3.9	3.9
Food	0.8	93.2	-15.2	-32.2	-32.0	-35.3	-50.0	0.0	0.0	1.7	3.0
Capital Goods & Raw Mater	6.8	3.0	-19.6	-20.4	-17.6	15.8	-5.0	-9.4	25.9	4.4	4.3
Consumer Goods	1.3	62.1	-29.3	-18.5	-31.5	-39.8	-47.8	0.0	3.0	3.0	3.0
PRICES											
Export Price Index		117.6	117.7	101.6	100.0	93.1	51.3	62.2	68.8		94.6
Import Price Index		109.8	102.8	100.9	100.0	103.5	121.4	124.1	126.8		145.1
Terms of Trade Index		107.1	114.5	100.7	100.0	90.0	42.3	50.1	54.3		65.2

	Composition of Merchandise Trade (%, at Current Prices)									
	1973	1980	1982	1984	1985	1986	1987	1988	1991	1995
Merchandise Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Oil		95.9	97.8	96.8	97.2	94.0	92.5	91.1	89.3	89.3
Cocoa		2.3	1.8	2.5	2.0	4.0	4.5	4.5	5.2	5.5
Other	100.0	1.8	0.4	0.7	0.8	1.9	3.0	4.3	5.5	5.3
Merchandise Imports	100.0	100.0	100.0	100.0	100.0	98.4	97.5	98.4	99.8	100.5
Food		15.8	16.3	15.9	9.0	7.4	7.3	6.5	6.9	7.2
Consumer Goods		23.9	25.8	6.0	5.8	10.3	11.1	9.5	9.1	8.7
Capital Goods & Raw Materials	100.0	60.3	57.9	78.1	85.1	80.7	79.2	82.5	83.7	84.5

IBRD 12756R2



OCTOBER 1986

CONFIDENTIAL

NIGERIA

COUNTRY STRATEGY PAPER

Postscript

59. The Country Strategy Paper on Nigeria was reviewed by the Operations Committee on June 12, 1987. The main items of discussions were: (a) Nigeria's creditworthiness for such large amounts of IBRD and commercial borrowing; (b) the extent of Government commitment to reform; (c) private investment and financial sector reform; and, (d) Nigeria's excessive population growth and need for administrative reform.

60. The Region made a general statement which stressed that the reform process in Nigeria is fragile and that there is pervasive concern about its rapid pace. The Bank's role is now central and the reform process, generally a good one, will be aided tremendously by the Bank's preferred lending strategy. Although four lending scenarios are presented, the preferred one may be the only one which is politically sustainable.

61. Regarding Nigeria's creditworthiness for such large amounts of non-concessional borrowing, it was generally agreed that the problem was potentially a very serious one, especially because of the heavy frontloading of adjustment lending. The risks to the Bank are high; exposure rises dangerously and the extent of non-concessional borrowing may make full creditworthiness hard to atttain. The Region was encouraged to find ways of increasing Nigeria's access to more concessional lending including, for example, borrowing from the Japanese EXIM Bank and recourse to the IMF's Structural Adjustment Facility (SAF). It was recognized, however, that the question of making Nigeria eligible for IDA should be addressed only as part of broader IDA allocation exercises. The Region expressed concern about how much the average cost of borrowing could be lowered. The Chairman stated that for the time being the Region should proceed to implement the preferred and base case scenarios since during the next two years it does not affect the level of the Bank's commitments. However, because exposure is projected to exceed established limits, this lending strategy might be reviewed by the Policy Committee in light of the level of risk implied.

62. In the discussion concerning the Government's commitment to reform it was noted that the Government's commitment may be eroded if the program does not show tangible results. There was also recognition that judgments on these matters could be improved by including analysis of the social costs of adjustment and of indices of government commitment. The Region recognized that 3-5 years seemed rather long for the readjustment of fertilizer prices and this matter is now being reviewed with the Government. It also welcomed suggestions regarding inclusion of an analysis of the impact of adjustment on employment. It was agreed that a text table be added to the CSP showing certain financial indicators, such as the inflation rate.

63. The issue of private investment and financial sector reform was enlarged to consider IFC's role as well. Discussion of the appropriateness of the credit ceilings disclosed that the IMF was emphasizing lower ceilings to stabilize the exchange rate while the Bank felt that somewhat higher ceilings were justified to stimulate growth. The potential role of higher interest rates, both as an exchange rate stabilizer and to improve credit allocation may bear further examination. The IFC stated that although payments arrears had hampered the previous year's operations these were being cleared up and several loans were expected. However, some past and some potential IFC operations were suffering because of the liberalization. This led to the meeting's general endorsement of the liberalization strategy although it was noted that some exceptions (e.g., against dumping) might be warranted. The Chairman also stated that since our strategy in Nigeria would rely heavily on private investment, encouragement of the sector in non-distortionary ways was extremely important.

64. Regarding the population problem and administrative reform the meeting noted the importance of both. There was a general feeling that speed was of the essence in reducing the population growth rate and that administrative reform would be extremely difficult for the Bank to tackle comprehensively and that current efforts in sectors relied on considerable help from the Nigerians.

65. At the close of the meeting, the Chairman expressed his opinion that the Bank's share in project financing could be raised to an average of 75 percent. The request for increasing the share to 80 percent for state projects was not approved, but is subject to later review.

June 18, 1987

CONFIDENTIAL

NIGERIA

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June 18, 1987

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 17, 1987

TO Mr. Willi A. Wapenhans, Senior Vice President, Administration

FROM Moeen A. Qureshi MAQ

EXTENSION 73665

SUBJECT Shortage of Sector Economists in the Operations Complex: Possible Remedial Actions

1. As you know, the shortage of sector economists in the Bank had already been identified before the reorganization as one of the key constraints to increased Bank's involvement in sector analysis and design of sector adjustment loans. Now that sweeping changes are being introduced through the reorganization to ensure that the Bank can address efficiently and effectively an increasingly complex agenda, this shortage of economists with a strong sectoral background is going to be felt very acutely. All my managers are reporting that they expect several vacancies to arise from this skills mismatch at a time where the ability to integrate macroeconomic and sectoral issues will clearly be a key ingredient in the design of our country assistance strategies.

2. I would therefore suggest you consider the following measures to address this issue which has to be brought under control quickly if we want to fully reap the benefits of the reorganization:

(a) increase the intake of Young Professionals to 50-60 per year starting the fall of 1987, with recruitment targeted on candidates with solid training in economics and in a more specialized field (industry, agriculture, natural resources, energy, ...);

(b) embark on an aggressive recruitment effort for more seasoned sector economists (2 to 10 years experience) who could fill a large number of the vacancies that I expect to have in all Regions at the end of Round 2.

3. In view of the importance of this matter, you may want to put it on the Policy Committee agenda within the next few weeks.

cc: Mr. Cosgrove
Ms. Haug

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 24, 1987

TO: Mr. Moeen Qureshi, Senior Vice President, Operations
Through Mr. Edward V. K. Jaycox, Vice President, Africa Region

FROM: Caio Koch-Weser, Country Director, Africa Region

Jaycox 6/24

EXTENSION: 34858

SUBJECT: NIGERIA: London Club and Policy Committee Meetings

London Club Meeting, June 18-19

1. The outcome of last week's London Club Steering Committee meeting of the London Club was positive, and a mid-September signing date is now targeted. The documents were turned over to the Nigerians, and the previous impasse over the promissory notes was broken, with the Committee now requiring the Nigerians simply to make a bona fide rescheduling offer to holders of existing promissory notes within 60 days. The Committee felt that four more Japanese banks -- Long-term Credit Bank of Japan, Dai-Ichi Kangyo, Mitsui Trust, and Fuji Bank -- would still be necessary for finalization of the agreement. With them on board, the acceptance rate for the Japanese banks would rise from the present 68 percent to about 90 percent. For our part, we may include someone in a proposed Steering Committee delegation to Tokyo in late July, but I believe it would also be useful if you could convince Mr. Gyohten to focus some effort on the need to secure a positive response from these banks.

CSP Meeting, June 22

2. My understanding of the principal outcome of Monday's meeting was that we should provide to the Policy Committee, in one year's time, an interim report on the status of the program and revised forecasts of IBRD, commercial bank, and official exposure. In the meantime, we can go ahead with the lending program of US$1.1-1.2 billion for FY88 that we have been working with, including US$500 million for a quick-disbursing adjustment loan. FY89 might also be developed in a similar vein, as the purpose of the report would be to ensure that we did not get too far committed for FY90 before the Policy Committee has had the opportunity to review recent developments.

3. I did not have a chance to set the record straight on all of the points raised at the Policy Committee meeting. I should like to have made the following points:

(a) With respect to political backsliding on the commitment to reform, the point is that the examples cited by Mr. Rajagopalan -- the increase in subsidies for fertilizer and petroleum products -- reflect the passive effects of the change in the exchange rate and not an active introduction of a subsidy. To eliminate these subsidies, the respective naira prices will need to be raised by 200 to 300 percent, and while the authorities are committed in principle to such actions, politically, these are clearly not small undertakings, hence the Government's desire to phase them in.

(b) With respect to Mr. Stern's queries about the forecast of the real economy, two points are worth noting. First, we are projecting real growth of 3.9 percent per year over the period 1989-1995, fueled by real import growth of 3.9 percent per year. Admittedly the level of imports is very low at present, as is the level of GDP. However, given these low levels, the projected rate of growth of GDP is consistent with the projected rate of growth of imports. Second, with respect to ICORs, it needs to be kept in mind that, in Nigeria, industrial output is largely driven in the short run by import availability. With total output reflecting the erratic course of imports, the weather, and, in recent years, OPEC production quotas, and, with investment following a smoother path, measured ICORs tend to be erratic as well. This is particularly so as we move from 1987 -- when real GDP suffers from a cutback in oil production as well as an 8 percent decline in real imports -- to 1988 when imports recover sharply and oil production stabilizes. In subsequent years, when output attains its steady state growth rate, the ICOR likewise assumes a more sustainable level. That these levels are so low -- only 2.1 for the whole economy -- is due to an index number problem, reflecting the severe overvaluation of the exchange rate in the base year 1984 (the last year for which we have data), which tends to impart a large downward bias to constant-price-projections of foreign-exchange-intensive variables. I should add that this point is explained in the footnote to the CSP table.

(c) With respect to the fact that Paris Club exposure is forecast to decline somewhat over the projection period, the answer to Mr. Wapenhans is that we tried to be even-handed in our capital inflow projections. Thus, while we assumed that there would be both rescheduling and rerescheduling of most commercial and official debt, we assumed that arrears -- in terms of insured and uninsured trade arrears as well as London Club LCs -- would be rescheduled only once, an assumption that is quite explicit in the paper. The magnitude of Paris Club arrears -- some US$3 billion -- is such that while MLT increases over the projection period, it does not fully offset the arrears paydown.

(d) In regard to Mr. Stern's charge of overly "optimistic" assumptions about London Club new money, I should note that, for the most part, we have assumed new money inflows broadly equal to interest payments due. Our reasoning was that the Nigerians have leverage over the commercial banks up to the point of scheduled interest and principle due. At the same time, we have allowed for the repayment of rescheduled LC arrears over 1988-90, and, in toto, London Club exposure grows by only US$1.3 billion through 1995 -- compared with total interest payments to banks of about US$3.5 billion. 1/ This could be achieved, even if gross inflows of new MLT fall short of interest, by rerescheduling the LCs or by a reopening of short term credit lines. This is not to say that the assumed new money for Nigeria is a sure thing, but simply that for the period as a whole, our assumptions are not unreasonable. Indeed, the question of new money for Nigeria is very much an open one, which we will soon be addressing in the context of the 1988/89 rescheduling exercise. How we use the leverage of our own lending to maximize the commercial bank contribution -- and to get them to come in quickly -- is a point that we are now beginning to work on in collaboration with Mr. Bock.

cc: Messrs. Bock, Dubey, O'Brien, Humphrey, Squire, Swayze.

JSalop:pm
LC Policy/SALOP3

1/ This suggests an average net new-money/interest-payment ratio of under 40 percent. In the Mexico rescheduling, new commercial bank money for the public sector (in 1987 and 1988) totals US$6 billion, compared with annual interest payments from the public sector to banks of about US$5 billion per annum. This corresponds to a new-money/interest-payment ratio of 60 percent over the two years.

MH

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP	Date June 19, 1987

OFFICE OF THE PRESIDENT

Name	Room No.
Messrs. Conable, Rajagopalan (Hopper),	
Qureshi, Stern, Wapenhans,	
Parmer (Ryrie), Thahane,	
Scott (Shihata)	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Attachments for Monday's PC meeting:

(A) Postscript on Nigeria.

(B) Memo: Shortage of Sector Economists in the Operations Complex. (you may wish to comment)

From M. Haug

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NIGERIA

COUNTRY STRATEGY PAPER

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62. In the discussion concerning the Government's commitment to reform it was noted that the Government's commitment may be eroded if the program does not show tangible results. There was also recognition that judgments on these matters could be improved by including analysis of the social costs of adjustment and of indices of government commitment. The Region recognized that 3-5 years seemed rather long for the readjustment of fertilizer prices and this matter is now being reviewed with the Government. It also welcomed suggestions regarding inclusion of an analysis of the impact of adjustment on employment. It was agreed that a text table be added to the CSP showing certain financial indicators, such as the inflation rate.

63. The issue of private investment and financial sector reform was enlarged to consider IFC's role as well. Discussion of the appropriateness of the credit ceilings disclosed that the IMF was emphasizing lower ceilings to stabilize the exchange rate while the Bank felt that somewhat higher ceilings were justified to stimulate growth. The potential role of higher interest rates, both as an exchange rate stabilizer and to improve credit allocation may bear further examination. The IFC stated that although payments arrears had hampered the previous year's operations these were being cleared up and several loans were expected. However, some past and some potential IFC operations were suffering because of the liberalization. This led to the meeting's general endorsement of the liberalization strategy although it was noted that some exceptions (e.g., against dumping) might be warranted. The Chairman also stated that since our strategy in Nigeria would rely heavily on private investment, encouragement of the sector in non-distortionary ways was extremely important.

64. Regarding the population problem and administrative reform the meeting noted the importance of both. There was a general feeling that speed was of the essence in reducing the population growth rate and that administrative reform would be extremely difficult for the Bank to tackle comprehensively and that current efforts in sectors relied on considerable help from the Nigerians.

65. At the close of the meeting, the Chairman expressed his opinion that the Bank's share in project financing could be raised to an average of 75 percent. The request for increasing the share to 80 percent for state projects was not approved, but is subject to later review.

June 18, 1987

International Bank for Reconstruction and Development

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SecM87-659

FROM: Vice President and Secretary

June 10, 1987

DRAFT AGENDA FOR DEVELOPMENT COMMITTEE MEETING

September 28, 1987

Attached is a communication dated June 3, 1987, from the Executive Secretary, Development Committee, on the draft agenda for the Development Committee Meeting on September 28, 1987.

The draft agenda will be considered by the Executive Directors meeting as the Committee of the Whole on June 23, 1987.

Questions on this document may be referred to Mr. Fischer, (Extension 76424), Executive Secretary of the Committee.

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Development Committee Secretariat
Secretary, IMF

International Bank for Reconstruction and Development

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Record Removal Notice

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File Title President's Council Records - Meeting records 02		**Barcode No.** 1784349
Document Date June 3, 1987	**Document Type** Memorandum	

Correspondents / Participants

Subject / Title
Development Committee Draft Provisional Agenda for the Development Committee Meeting, Sept. 28, 1987

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.

Withdrawn by	**Date**
Ann May	March 12, 2018

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 25, 1987

TO: Files

FROM: M. Haug, Secretary to the Policy Committee

EXTENSION: 73585

SUBJECT: Minutes of Policy Committee Meeting
Wednesday, June 24, 1987

Attendees: Messrs. Conable, Rajagopalan (for Hopper), Qureshi, Stern, Wapenhans, Parmar (for Ryrie), Thahane, Shihata, Shakow
Ms. Haug

1. UNCTAD Speech - first draft

Mr. Conable requested all members present to submit written comments directly to Mr. Shakow. Mr. Shakow will send the revised paper and in addition, he would like to have a more substantive paper ready for distribution.

2. The papers on Senior Appointments and Contracting Out for Board consideration had not been completed. Mr. Conable requested Mr. Wapenhans to complete the paper with a view to having it distributed before the end of this week.

Miscellaneous

A lively and interesting discussion came up after Mr. Stern reported on interrelationships between the IMF SAF initiative, resource mobilization and co-financing. The IMF expects to raise funds from capital surplus countries and, thereby avoid using their gold reserves to restructure their own arrears to low income countries. This, invariably, will limit the available funds for concessionary lending. In addition, the IMF intends to coordinate bilateral co-financing and it's SAF Program much closer than in the past. Mr. Stern pointed out that such an approach was extremely dangerous if the SAF and PFP Program remained a short-term program while bilateral funds, as IDA funds, were supposed to meet long-term development needs. Mr. Qureshi pointed out that the United States still believed that they would not be drawned into this situation and could take a neutral position. Whether in the long-term this was possible, was doubtful if the pressure of the IMF mounted and depleted available concessionale resources. Mr. Conable said he would meet with Secretary Baker next week and discuss the matter. He request that a note be prepared for his meeting.

THE WORLD BANK

Office of the President

June 23, 1987

Messrs. Conable
Parmar (Ryrie)
Qureshi
Rajagopalan (Hopper)
Shihata
Stern
Thahane
Wapenhans

Re: Policy Committee Meeting
Wednesday, June 24, 1987
10:30 a.m.

ADM has withdrawn the papers (Items 2 and 3) on tomorrow's agenda.

M. Haug

cc: Mr. Shakow

POLICY COMMITTEE MEETING

WEDNESDAY, June 24, 1987

~~9:30~~ 10:30 a.m.

AGENDA

1. UNCTAD Speech - First Draft

2. Senior Appointments - Draft Progress Report and Analysis to the Board

3. Contracting Out - Proposal for Further Study

4. Miscellaneous

Attachments

MHaug:im

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP	Date 6/22/87

OFFICE OF THE PRESIDENT

Name	Room No.
Messrs. Conable, Rajagopalan (Hopper),	
Qureshi, Stern, Wapenhans,	
Parmar (Ryrie), Thahane,	
Shihata	
cc: Mr. Shakow	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

RE: Policy Committee Meeting
Wednesday, June 24, 1987

The remaining attachments will be forwarded to you tomorrow morning.

From
M. Haug

MH

THE WORLD BANK

Office of the President

June 19, 1987

Policy Committee Members

Re: Policy Committee Meeting on Monday, June 22, 1987

Please note that the President plans to discuss under Miscellaneous, any comments you might have on the Development Committee's Agenda which is in front of the Board for discussion on Tuesday. In case you have not received the document which has been circulated to the Board, attached is a copy.

M. Haug

ATTACHMENT

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

SecM87-659

FROM: Vice President and Secretary

June 10, 1987

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September 28, 1987

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Withdrawn by	Date
Ann May	March 12, 2018

June 17 MEETING

FORM NO. 89
(2-83)

M. Haug

THE WORLD BANK

ROUTING SLIP	Date 6/15/87

OFFICE OF THE PRESIDENT

Name	Room No.
Messrs. Conable, Hopper, Qureshi,	
Stern, Wapenhans, Ryrie,	
Thahane, Shihata	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Attached, please find the remaining papers for tomorrow's Policy Committee Meeting. Please note that the attached papers on Africa include an "approach paper" for the proposed July meeting in Paris in addition to the requested Report to the Board.

From

M. Haug

F. 89
(2-83)

THE WORLD BANK

ROUTING SLIP

Date: 6/15/87

OFFICE OF THE PRESIDENT

Name	Room No.
Messrs. Conable, Hopper, Qureshi,	
Stern, Wapenhans, Ryrie,	
Thahane, Shihata	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

I will forward the remaining papers as soon as I have received them. Your comments are needed, hopefully c.o.b. ight.

From

Marianne Haug

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP	Date 6/15/87

OFFICE OF THE PRESIDENT

Name	Room No.
Messrs. Conable, Hopper, Qureshi,	
Stern, Wapenhans, Ryrie,	
Thahane, Shihata	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

I will forward the remaining papers as soon as I have received them. Your comments are needed, hopefully c.o.b. night.

TO:

From

Marianne Haug

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 17, 1987

TO Mr. Willi A. Wapenhans, Senior Vice President, Administration

FROM Moeen A. Qureshi HAQ

EXTENSION 73665

SUBJECT Shortage of Sector Economists in the Operations Complex: Possible Remedial Actions

1. As you know, the shortage of sector economists in the Bank had already been identified before the reorganization as one of the key constraints to increased Bank's involvement in sector analysis and design of sector adjustment loans. Now that sweeping changes are being introduced through the reorganization to ensure that the Bank can address efficiently and effectively an increasingly complex agenda, this shortage of economists with a strong sectoral background is going to be felt very acutely. All my managers are reporting that they expect several vacancies to arise from this skills mismatch at a time where the ability to integrate macroeconomic and sectoral issues will clearly be a key ingredient in the design of our country assistance strategies.

2. I would therefore suggest you consider the following measures to address this issue which has to be brought under control quickly if we want to fully reap the benefits of the reorganization:

(a) increase the intake of Young Professionals to 50-60 per year starting the fall of 1987, with recruitment targeted on candidates with solid training in economics and in a more specialized field (industry, agriculture, natural resources, energy, ...);

(b) embark on an aggressive recruitment effort for more seasoned sector economists (2 to 10 years experience) who could fill a large number of the vacancies that I expect to have in all Regions at the end of Round 2.

3. In view of the importance of this matter, you may want to put it on the Policy Committee agenda within the next few weeks.

cc: Mr. Cosgrove
Ms. Haug

RECEIVED
87 JUN 15 AM 10: 12

POLICY COMMITTEE MEETING

Wednesday, June 17, 1987

2:30 - 4:30 p.m.

MH

AGENDA

This looks good. I have one or two questions but no disagreement. What does MP do? Will he be the Director?

1) Staff Retirement Plan

Memoranda of June 12, 1987 (E. Stern to Members, Policy Committee) and June 10, 1987 (M. Paijmans to B. Conable)

2) Internal and External Communications - Issues Paper of June 15, 1987 — I will talk with you about this.

3) Proposed Policy Committee Agenda

4) Africa Debt - Requested Report to the Board

5) Miscellaneous

MHaug:im
June 15, 1987

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 15, 1987

TO: David Hopper SVP PPR, Willi Wapenhans SVPA

FROM: Frank Vogl, DIRIPA

EXTENSION: 72468

SUBJECT: Policy Committee & Communications

Attached is a draft of the planned paper for Wednesday's meeting of the Policy Committee.

I am sorry to rush you, but I would greatly appreciate having your comments either tonight or before 10.45 am in the morning so that I can get the paper in final by noon Tuesday.

The paper does not seek to be overly explicit or fully comprehensive. Rather it aims to serve as a basis for a strong discussion that, as the final paragraph suggests, can lead to the formulation of a concrete Communications Agenda.

To my mind the discussion needs to focus, in effect, on the three different elements noted in the third paragraph.

In the event that I am not available later today, please give your comments to Julian Grenfell on 78843.

CC: Mrs. M. Haug, Ms. Maguire
Mr. Stanton, Mr. Grenfell

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

D R A F T

DATE: June 15, 1987

TO: The Policy Committee

FROM: Frank Vogl

EXTENSION: 72468

SUBJECT: Communications Agenda

1. Internal and external perceptions of Bank management need to be improved to take maximum advantage of the benefits of reorganization and secure maximum shareholder support for the institution. The Policy Committee is asked to consider approaches to improve these perceptions.

2. An important aim is to secure by the time of the annual meeting perceptions of the Bank's management that are positive and that are concentrated on the critical substantive issues : to get reorganization out of the public interest domain and get the focus of attention on the Bank's future agenda for action.

3. To achieve this objective it will be necessary to develop strategies (1) to secure staff commitment to the new organization in the next few months; (2) develop strategies in the public domain that underscore the benefits of reorganization and that shift attention to the Bank's creative and effective work on the priority development issues; (3) determine policies on the critical issues confronting the developing nations that can be woven together into a far-reaching and effective " agenda for action " speech by the President at the annual meeting.

4. Effective communications must be concentrated around substantive decisions and actions by the Bank's top management. While the President must play a visible leadership role with the Board, staff and external audiences, he should not be over-exposed in the months directly ahead - coordinated involvement by all Policy Committee members in moving forward in the areas noted in the previous paragraph is important.

5. Actions are now quite urgent, given the serious state of Bank staff morale, the continued questioning of reorganization by some members of the Board and a possibly worsening set of external perceptions as one bad newspaper article tends to influence reporters to write negative pieces of their own.

6. Internal and external perceptions feed on each other and cannot be neatly seperated. A major issue for Policy Committee consideration concerns the need for swift action to improve staff morale and to secure staff commitment for the reorganization. Committed people rallying around positive shared objectives and values will make the reorganization work. A first priority is to make it evident that management by clear vision, rather than by fear, exists and to convince staff of the long-term benefits that will result from reorganization. Members of the Policy Committee should consider appropriate ways to demonstrate to staff the coordinated team nature of top management approaches to reorganization, the ways in which line managers can be enthused to forcefully support the reorganization and work to secure staff commitment to it.

7. In this respect management needs to focus not only on overt ways in which it can secure commitment and strong understanding by staff to the goals of reorganization, but also appreciation by staff of the fact that the reorganization will be implemented well. In this latter regard it will be important for staff to have a sense, as swiftly as is possible, that the Bank has returned to " normalcy. " Articulation of procedures, approvals of new mission travel, focus on work programs, visible involvement by the President in key decisions on borrowing and lending, discussions on matters of development substance by senior managers with the President through a President's Council, or a Senior Management Council, or some such similar group ---- such are the elements that need to be considered by the Policy Committee as a strategy for returning the Bank to normalcy is considered.

8. Further, the reorganization reports talked about the new culture of the Bank with the implication that a critical factor here would be greater delegation of responsibility and authority. Implicit here is also the suggestion of enhanced two way flows of ideas and information between members of the staff at different levels, as well as increased exchanges of views and ideas on a more creative basis across Bank SVP, department and divisional lines. Policy Committee members might consider ways in which such elements of the new culture can be swiftly introduced -- it will be by such actions, not just by words, that staff support for the new reorganization will be secured (it would be false to assume that staff will become advocates of the reorganization once they have been selected for jobs - many are resentful about the whole selection-in process and will want to see that their anxieties of recent weeks have, at least, been unavoidable costs in a reorganization where the benefits clearly outweigh the costs).

9. On the external front the Policy Committee must, in the first instance, consider ideas for strengthening support from the Board for the implementation of the reorganization. Progress reports to the Board, joint PC member actions on this front, are some of the approaches that might be considered. Turning the Board's attention to the critical substantive development issues will also be an important element in this regard.

10. On the broader external front in the immediate weeks ahead it might be useful for PC members to individually reach out to talk to diverse Bank counterparts, from individual officials in some national capitals, to leading NGOs, influential academics and journalists, to describe the benefits that will accrue from reorganization. Presentations to such groups should be around a determined and coordinated timetable for the PC members so that each member of the PC knows who is speaking to whom on what subject in this concerted public information effort.

11. Some of these presentations can be in conjunction with official media events - such as briefings on forthcoming speeches (say the UNCTAD speech); presentations on the final FY'87 operational and financial results of the Bank; briefings on the annual report in September. A program of select interviews with individual journalists can also be developed.

12. Guidance will also be important to the Bank's managers, Resident Representatives and information officers, on key messages to give on the most topical issues now coming before the Bank from the public --- PC members may

have some concrete proposals on public messages on reorganization, IDA, GCI, commercial bank lending to developing nations, African debt and other highly topical issues ---- to focus discussion here it might be useful for PC members to look at what is said on these subjects in Mr. Conable's Hudson Institute speech and discuss whether these issues can be sharpened and expanded upon at this time.

13. Finally, it is important that the annual meeting be an event that firmly turns things around, that leaves a deep and strong perception that the Bank's leadership on the crucial issues is clear and firm. In this regard the PC might discuss as soon as possible the diverse elements of the President's annual meeting speech in conjunction with discussion of the substance of proposals that the President might make to the Development Committee.

14. The goal of this first paper on Communications is to raise issues for Policy Committee consideration and so launch a process that can address the immediate issues of negative perceptions of Bank management internally and externally and prepare for moving out front on the issues in a bold manner at the annual meeting. It is our hope that the PC discussion will yield an array of concrete proposals that can be put together into a coordinated timetable for actions that can amount to a Communications Agenda to be recommended to the President at next week's Policy Committee meeting.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 15, 1987

TO: Mrs. Marianne Haug, EXC

FROM: Gerard T. Rice, SEC GB

EXTENSION: 74571

SUBJECT: Clearance of Board Documents - Borrowing Papers

Please be advised that, in our processing of Board documents on borrowings, we shall be acting in accordance with the arrangements indicated in the attached note from Mr. Stern to Mr. Vergin.

cc: Messrs. Burmester, Choi

copy to Mr.
Shiata
Linda
file FC BB

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

ERNEST STERN
Senior Vice President
Finance

June 12, 1987

Mr. Vergin

Heinz:

Just to confirm, what I mentioned the other day re clearance of Board documents on borrowings, to make sure there is no confusion. Board documents asking for Board decisions should be prepared for the President's signature per current practice. They should be sent to my office in two copies. Unless they involve something out of the ordinary, I have arranged with the President that I will authorize Board distribution. This will be done by sending one copy to Secretary's indicating authorization for distribution. This parallels our procedure on the loan side. If anything requires the President's attention, I will discuss it with him; in any event I will send him a copy for information.

Papers providing non-routine information for the Board will, again following current practice and format, be prepared for my signature.

If there are any categories not covered by the above, let me know and we can decide how to handle them.

Ernie

June 12, 1987

Ms. Haug

Marianne -

With reference to the Policy Committee agenda:

(a) Annex 3 - The only time the Committee can review adjustment loans and be of relevance is at the IM stage. By the time the Green Cover is done, the basic features and much of the detail has been agreed. Any "decisions" by the Committee at that stage, which are at variance with the text, would severely disrupt the process.

(b) Papers from Finance: You have the schedule for the GCI papers. The "late July" paper you refer to in Annex 4 has already gone to the Board. In addition, we plan to develop a paper for utilizing allocated but unsubscribed shares. The date will depend on the consultation process.

You can also add the following papers:

- Allocation of Net Income:

  PC Review - Late June
  Board - July 28, 1987

- Foreign Currency Management:

  PC Review - Late November
  Board Date - Late December/early January

- Review of Liquidity Policy:

  PC Review - Late October
  Board Date - Late November

ES.

Ernest Stern

MH

THE WORLD BANK

Office of the President

June 19, 1987

Policy Committee Members

Re: Policy Committee Meeting on Monday, June 22, 1987

Please note that the President plans to discuss under Miscellaneous, any comments you might have on the Development Committee's Agenda which is in front of the Board for discussion on Tuesday. In case you have not received the document which has been circulated to the Board, attached is a copy.

M. Haug

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International Bank for Reconstruction and Development

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SecM87-659

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June 10, 1987

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September 28, 1987

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Withdrawn by	Date
Ann May	March 12, 2018

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 25, 1987

TO: Policy Committee Members

FROM: Barber B. Conable, President

EXT: 72001

SUBJECT: Staff Retirement Plan

1. Based on the June 17th Policy Committee discussion and Mr. Stern's memorandum of June 12th on the Staff Retirement Plan, I agreed that the SVPFN initiate immediately negotiations to contract out the management of the pension investment function. The terms of that contract must be consistent with standard industry practices, including termination provisions linked, inter alia, to performance.

2. I want to be informed regularly on the progress of this effort before the negotiated draft contract is submitted for consideration to the Policy Committee and for approval to the Pension Finance Committee.

3. We have received resignations from three members of the Pension Finance Committee -- the retiree, one outside member and one member representing the Staff Association. I wish to nominate three new members, prior to the submission of the draft contract to the Pension Finance Committee. It would be desirable for the outside member to have some institutional investment experience.

Barber B. Conable

cc: Mr. Stanton

PC

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 22, 1987

TO: Policy Committee Members

FROM: Barber Conable

EXTENSION: 72001

SUBJECT: Communications

1. I appreciated the frank discussion about our external and internal communications strategy during the Policy Committee last week.

2. I plan to meet this Wednesday at 2:30 with the Delegate Assembly of the Staff Association, and expect you to brief me in advance on any support you or your managers need from me.

3. I expect more direct support on external communication, particularly from the Senior Vice Presidents, in the immediate few weeks. The Senior Management, including myself, represents the institutional memory and is the decision-making body. We must be seen more visibly as such, by insiders and outsiders alike. I count on your full support.

4. Attached is a short note prepared by Frank Vogl, which contains some specific requests and other general suggestions. I encourage you to pursue other appropriate initiatives, as well.

Barber Conable

Attachment

cc: Mr. Stanton

MHaug:im

OFFICE MEMORANDUM

TO: BARBER CONABLE, President

FROM: Frank Vogl, IPADR

June 19, 1987 Ext: 72468

Subject: Interviews

1. A variety of publications have requested interviews with you. A number of reporters want to do articles based on your first year in office, while others are preparing major features for magazines that will be published at the time of the annual meeting.

2. Those in this latter category are:-

Anthony Rowley, Business Editor of the Far Eastern Economic Review, who will be flying here next week from Hong Kong to do a larger series of interviews with Bank/IFC staff for a special report for the annual meeting. You are already scheduled to see Rowley. The Review is read throughout Asia and is probably the single most influential publication across the region, including Japan.

Johnathen Friedland, reporter for the Institutional Investor saw Bill Stanton and some of the CMP consultants and, as Bill noted the other day he is doing a 4,000 word piece on reorganization and your first year in office. Bill tells me that he has already arranged for Friedland to see you.

Peter Koenig, a reporter for Euromoney (which in terms of the international financial and banking audiences is today much more influential than Institutional Investor) will be here towards the end of the month to do a series of interviews for a major piece for the annual meeting report. I do suggest that you squeeze him into your tight schedule.

Mr. Chodery, Editor and director of Asian Finance will be here in late July to prepare a major series of article for an international edition of his publication for the annual meeting. I suggest that you see him at that time.

3. The Paris office arranged with your office for a leading reporter from Le Monde to come and see you in early July and I believe a date has been fixed. This is for an article for immediate publication and it will range across the variety of development and Bank issues we now confront.

Bill Tavetski of Business Week has requested an interview on your first anniversary here. I consider this to be an influential publication and would hope that somehow time could be found to meet his request.

We have additional interview requests, all for exclusives, from Mindy Fetterman of USA Today (formerly with the Rochester Times-Union and claims to know you), who want to do a piece for the MONEY section of the paper. David Turner of the Buffalo News, the Gannet News Service and Knight-Ridder newspapers. I also expect a request from the Christian Science Monitor.

I would turn all of these down at this time, simply because of pressures on your time , but I would like to suggest that you do interviews with these reporters and possibly others in the early part of September as we start to build interest for the annual meeting.

4. Walt Mossberg has taken over the international economic brief from Art Pine at the Wall Street Journal. He asked to see you before the Venice Summit, but we said you were too busy. I think the best approach would be if we invited him to lunch with you and me following your trip to Africa.

5. We are now preparing an article for your signature for the annual meeting issue of " Leaders " magazine. We'll get other requests soon.

6. We will be preparing detailed proposals for each of the above mentioned reporters to see Messrs. Hopper, Stern and Qureshi for interviews to talk about current issues, noting reorganization, but really striving to get the reporters to focus on our current and prospective development work.

7. Mr. Stern has already been discussing plans for a financial results press conference in New York in mid-July.

8. I would like to see small lunches for groups of journalists seperately with Mr. Stern and Mr. Qureshi in coming weeks on the key operations and finance issues and I will be making proposals directly to them.

9. The focus of our attention from now to July I will be on stimulating interest in the media on the World Development Report (release date July I). Then we'll turn the media interest towards your UNCTAD speech, but we'll need the text a week in advance if we are to make the most of this opportunity. Then we'll continue in July with the focus on the FY'87 operations and finance results.

10. I would also like to start moving out in July to deal directly with the British and German press who have been particularly negative on reorganization and I'll give you more detailed plans on this in due course.

CC: Mr. Stanton, Ms. Haug, Ms. Maguire

POLICY COMMITTEE MEETING

Wednesday, June 17, 1987

2:30 - 4:30 p.m.

strategy agreed:
Q: leaving; 9 months
St: limited way
formula 2-3 years
talk to us, but
we all: Investment market, will take longer

AGENDA

1) Staff Retirement Plan

Memoranda of June 12, 1987 (E. Stern to Members, Policy Committee) and June 10, 1987 (M. Paijmans to B. Conable)

2) Internal and External Communications - Issues Paper of June 15, 1987

3) Proposed Policy Committee Agenda

4) Africa Debt - Requested Report to the Board

5) Miscellaneous

MHaug:im
June 15, 1987

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June 12, 1987	Memorandum

Correspondents / Participants
From: Ernest Stern, SVPFI
To: Members, Policy Committee

Subject / Title
Staff Retirement Plan

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.

Withdrawn by	Date
Ann May	March 12, 2018

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 16, 1987

TO : Members of the Policy Committee

THRU : J. William Stanton, Counsellor to the President JWS

FROM : Frank Vogl, IPADR FV

EXTENSION : 72468

SUBJECT : Communications Issues

The purpose of this brief note is to stimulate discussion that can lead to action on critical communications issues. This paper does not attempt to represent a comprehensive plan, but the views of Policy Committee members are sought on each of the points raised here so that a plan can be developed in the near future.

Attachment

FV:rgw

cc: Ms Haug

1. Issue:

The Bank's management has recently had a bad press and staff morale is low. The continuation of such trends will impede the Bank's progress in its critical missions. The response must involve decisions on matters of substance, but there is also a need for an effective and well coordinated communications strategy involving all of the Policy Committee members.

2. Objective:

The basic aim of such a communication strategy needs to be, in effect, to strengthen confidence in management by the staff, the shareholders and the public and to strengthen perceptions among these audiences of the Bank's sense of purpose and its focus on the critical development challenges that now exist.

3. Recommendations in Summary:

(a) That recommendations be made to the President by the Policy Committee on the key themes, policy decisions and, possibly, major new initiatives, that should be announced by him at the Annual Meeting. And that a work plan and timetable for developing the speech be swiftly agreed upon.

(b) That there be discussion on the key messages on critical issues - from IDA and African debt, to GCI and the Baker Plan - to determine whether in the period leading to the Annual Meeting the Bank should go beyond the statements made in the President's Hudson Institute speech in responding to external audiences when they seek answers to questions on these issues in their efforts to determine the Bank's leadership roles and skills.

(c) That a timetable be developed for particular actions by Policy Committee members - from press interviews and conferences to meetings with key officials in capitals and the Board - to demonstrate the benefits of the reorganization, turn around the negativism on this subject and underline that the Bank is moving forward on the issues.

(d) That senior managers develop a set of messages and an action plan for dealing directly with the issue of low staff morale to restore, as fast as possible, a sense of enthusiasm on the part of staff for the institution, its management and its goals, leading to action on FY'88 work plans.

4. The Annual Meeting:

Turning around some of the negative perceptions will take time and it will be difficult. It will best be achieved with substantive arguments on the critical issues that confront the Bank. It will take time to shape and finalize these, but expectations will be high from the staff, the shareholders and the media, that the President will use the Annual Meeting as an opportunity to outline his agenda for action and demonstrate how more resources for the new institution, the Bank's new organization and its strong management team, can combine to still more effectively and creatively attack the major development problems. Expectations will be very high for such an address. In addition to developing the key arguments the Policy Committee may also want to discuss whether there is an opportunity or a need to announce some sort of special initiative at that time.

5. Publicity on Issues:

The President and the Bank's top managers have not been highly visible on the issues in public in recent times. The President has not, for example, made a major speech before a key audience on the debt issue - an issue that remains the most dominant subject of external enquiries to the Bank from the media, politicians, academics and bankers. Other senior managers have also played low key roles in this area. Before changing this course, however, the Policy Committee should provide direction on the key messages that the institution ought to publicly deliver at this time on this issue. The latest set of statements on issues concerned with debt and the Bank were contained in Mr. Conable's Hudson Institute speech. Should the Bank be more precise and outspoken on African debt, on the need for a GCI, on the impact of new actions on Third World debt by commercial banks, on the Baker Plan, in the next couple of months? The advantages of going further on these issues are considerable in terms of demonstrating concern on the key issues and leadership and so reversing some of the current negative comment. On the other hand there is a danger of going too far without more substantive analysis of the issues and, in so doing, upstage to a degree the Annual Meeting address.

6. President's Visibility:

There is a need for senior management to become more visible publicly in discussing key Bank issues. The President should not be over-exposed, although he should give more one-on-one mdeia interviews with key reporters and move ahead with his present schedule of speeches - notably his UNCTAD speech and possibly other appearances in the next couple of months.

7. Opportunities for Senior Managers:

Meanwhile, the end of the fiscal year provides opportunities for senior managers to go public in discussing the achievements of the Bank in terms of operations and finance in FY'87 through a series of interviews and press conferences in July, should this be seen as desirable. And to follow this up with briefings in September on the Annual Report and on what is in prospect for the Development Committee and Annual Meeting.

8. Reorganization Benefits:

It would be useful to seek to take advantage of all media and public speaking opportunities to underline the longer-term benefits of the reorganization and it might be useful if on this subject, as on some of the substantive issues noted above, some guidance was given to the Bank's managers on the key messages that we want to see widespread.

9. Timetable:

It would be useful if the Policy Committee members could determine a timetable for their individual public statements and appearances for the next couple of months that could be well coordinated and which could be supported to secure maximum visibility by External Affairs.

10. Internal Communications:

External perceptions are influenced by internal staff views, just as the opposite is the case. The Policy Committee members should consider actions that they could take jointly and that they could inspire their senior subordinates to take to deal with the serious problem of low staff morale. Again, a coordinated timetable of actions would be helpful here and External Affairs could provide some support. In this regard one factor of importance is conveying to staff a sense of strong cohesion among the top management in support of the reorganization.

The President has directly addressed all of the Bank's new managers and while there are some other actions that he might take vis-a-vis the staff at large, it might well be appropriate now for other senior managers to move out on his initiatives to consolidate commitment to the reorganization.

11. Vice Presidents Roles:

Here the Policy Committee may wish to differentiate between staff groups. Vice Presidents assuredly want to be part of this process and can be helpful, not just now, but in the future in securing cohesion across the Bank and strong support. Communications between the President and the Vice Presidents - through a President's Council, or a Senior Management Council, or, simply, through the Senior Vice Presidents - is a matter worth deliberating in this context. So too, is the matter of how Policy Committee decisions are communicated and the degree to which senior staff have the means to have an input into the policy formulation process now that such committees as the Operations Policy Committee or the Personnel and Adminstsration Committee have been disbanded.

12. Focus on Work Ahead:

Perhaps the single most effective means of reviving staff morale over time is going to be a sense of a return to normalcy - a focus again on immediate tasks ahead, on missions, on fashioning and implementing work programs, on discussion about country needs and sectoral priorities. The speed with which this effective atmosphere is restored can depend to a degree on the signals provided by top managers to staff.

13. Conclusion:

1) Senior Staff meeting

2)

This paper has sought to initiate discussion that can lead to an action plan on a communication strategy. Effective communciations must be concentrated around substantive decisions and actions by the Bank's top management. While the President must play a leadership, visible, role in internal and external communications, the burden of communications must be widely shared among senior managers. The determination of actions is urgent given the low state of staff morale and the negative perceptions that abound in some quarters. Work over the next couple of weeks on each of the four areas noted in paragraph 4 of this paper can lead to the development and implementation of an effective communications strategy.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 15, 1987

TO Members of the Policy Committee

FROM M. Haug, Secretary to the Policy Committee

EXTENSION 73585

SUBJECT Proposed Policy Committee Agenda

1. Please find attached:

- a detailed draft agenda for June/July 1987 (Attachment 1) including scheduled Board papers, major lending operations, CPP speeches and major topics; additional papers will be added as soon as PPR has completed the review of ongoing research and policy work.

- an agenda outline for the remaining months (Attachment 2). The committee might wish to discuss whether the preparation of "Country Creditworthiness" by FIN/OPS for August is a realistic schedule.

The Secretariat of the Policy Committee will update the agenda regularly, add ad hoc items as needed and distribute documents to all members. It is not planned to circulate detailed minutes of Policy Committee meetings. The President will, however, inform Members of understandings reached in the Policy Committee and his subsequent decisions.

2. Adjustment Operations and Country Strategy Papers are reviewed by the Policy Committee (after reviewed by the Operations Committee) and as proposed by the SVPOP on request by other Policy Committee members. It is proposed that Adjustment Operations are discussed by the Policy Committee at the Initiating Memorandum Stage. An indicative list of scheduled Adjustment Operations and Strategy Papers in the First Quarter of FY88 is attached (Attachment 3).

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ATTACHMENT 1

PROPOSED POLICY COMMITTEE AGENDA

June - July 1987

PC Review Date	Topic	Area of Responsibility	Board Date
June 24	(1) NIGERIA - CPP	OPS	-
	(2) UNCTAD Speech	PPR	-
	(3) Reorganization - Progress Report to the Board on Manager Selection	ADM	
July 1	(1) Allocation of Met Income	FIN	July 28
July 6	(1) Chile - SAL III	OPS	
July 8	(1) Debt Management in middle income countries - Options and new Initiatives	PPR	-
	(2) Outline - Annual Meeting Speech	PPR	-
July 15	(1) Use of allocated, unsubscribed shares	FIN	August
July 22			
July 29	(1) President's Report to Development Committee		
	(2) Debt Management (Follow-up paper)	PPR	
August 5	(1) Draft - Annual Meeting Speech	PPR	-
	(2) Lending and Catalytic Role of the Bank and Associated Capital Requirements	FIN	September

LONG-TERM POLICY COMMITTEE AGENDA
(Major Papers)

Topic	Responsible	PC Review	Board Review
o Country creditworthiness assessment	FIN/OPS	August	
o Retrospective assessment of budget outcome	PPR	August	
o Reorganization - Report to the Board	ADM	September	October
o Annual overview of strategic plans and agenda for Bank	PPR	October	
o Annual review of human resources strategy	ADM	October	-
o Annual review of management succession plans	ADM	October	-
o Review of Liquidity Policy	FIN	October	November
o Annual paper on allocation of IBRD/IDA resources (for countries, sectors and products)	PPR	November	-
o Review of Currency Management	FIN	November	January
o Budget Framework Papers	PPR	December	January
o Annual assessment of research priorities and results	PPR	December	January
o Annual general salary adjustment	ADM	February	March
o Annual overview paper on development effectiveness of Bank's operations and proposed agenda for new ex post studies	PPR	February	March
o Mid-year budget review	PPR	February	March
o Status Report on Retrofitting (Buildings)	ADM		February
o Overview paper on intellectual leadership (including public affairs strategy)	PPR	March	-

Topic	Responsible	PC Review	Board Review
o WDR	PPR	March	April
o Annual budget	PPR	April	June
o Overview paper on financial plans	FIN	May	Optional

ATTACHMENT 3

Adjustment Operations and Strategy Papers Scheduled For Operations Committee Meeting During June to September 1987

I. Adjustment Operations

Country	Name	Stage	Date
Argentina	Banking Sector Reform	Initiating Memo.	June 18
Bangladesh	Energy Sector	Green Cover	June ?
Chile	Structural Adjustment Loan III	Initiating Memo.	July ?
Cote d'Ivoire	Agricultural Sector Loan	Initiating Memo.	July ?
Ecuador	Export Development Loan	Initiating Memo.	July ?
Mexico	Industrial Restruct. Loan	Initiating Memo.	July ?
Nigeria	Trade & Investment Policy	Initiating Memo.	July ?
Pakistan	Energy Sector Loan	Initiating Memo.	July ?
Togo	Structural Adjustment Loan III	Initiating Memo.	July ?
Uganda	Economic Recovery	Green Cover	July ?
Bolivia	Financial Sector	Green Cover	Aug. ?
Chad	Structural Adjustment	Initiating Memo.	Aug. ?
Dominican Rep.	Sugar Sub-sector Adjustment	Initiating Memo.	Aug. ?
Guatemala	Export Development Project	Green Cover	Aug. ?
Mexico	Agricultural Sector	Green Cover	Aug. ?
Nigeria	PE Restructuring	Initiating Memo.	Aug. ?
Philippines	Sugar Rehab. & Diversification	Initiating Memo.	Aug. ?
Senegal	Industrial Sector	Green Cover	Aug. ?
Sierra Leone	Structural Adjustment Loan	Green Cover	Aug. ?
Tanzania	Indust. & Trade Adjustment	Initiating Memo.	Aug. ?
Argentina	Banking Sector Reform	Green Cover	Sept. ?
Bangladesh	Financial Sector	Initiating Memo.	Sept. ?
CAR	Structural Adjustment Loan II	Initiating Memo.	Sept. ?
Chile	Structural Adjusment Loan III	Green Cover	Sept. ?
Colombia	Education Sector	Initiating Memo.	Sept. ?
Colombia	Energy Sector	Initiating Memo.	Sept. ?
Cote d'Ivoire	Water Supply Sector Adjustment	Initiating Memo.	Sept. ?
Egypt	Energy Sector Loan	Initiating Memo.	Sept. ?
Egypt	Industrial Sector Loan	Initiating Memo.	Sept. ?
Hungary	Industrial Restruct. Loan III	Initiating Memo.	Sept. ?
Jamaica	Agricultural Sector Loan	Initiating Memo.	Sept. ?
Morocco	Structural Adjustment Loan I	Initiating Memo.	Sept. ?
Nigeria	Trade & Investment Policy	Green Cover	Sept. ?
Pakistan	Industrial Sector Loan	Initiating Memo.	Sept. ?
Togo	Structural Adjustment Loan III	Green Cover	Sept. ?
Turkey	Agricultural Sector Adjustment	Initiating Memo.	Sept. ?

II. Strategy Papers.

Country	Type	Date
Algeria	Country Program Paper	July ?
Jamaica	Country Strategy Paper	July ?

June 15, 1987

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

BARBER B. CONABLE
President

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: The Debt Problem in Low Income Africa

Attached is a memorandum which summarizes the results of staff analysis of the economic situation and prospects of certain severely indebted low income sub-Saharan countries. This analysis was done in connection with discussions on debt relief within the framework of the Paris Club.

In informal discussions with Paris Club members and with other interested parties, staff have indicated the Bank's willingness to explore ways of alleviating the extremely severe and escalating burden of debt of these low income sub-Saharan African countries. The purpose of these informal discussions however was to review alternative possibilities of alleviating the indebtedness problem and promoting sustainable growth in these countries rather than to make any specific proposals on behalf of the Bank.

THE DEBT PROBLEM IN LOW-INCOME AFRICA

1. In preparation for the Development Committee meeting of April 1986, the World Bank prepared a report entitled "Financing Adjustment with Growth in Sub-Saharan Africa". The report included most of the data and projections necessary to analyze the debt problem of low-income Sub-Saharan Africa. It singled out a number of countries which, given their current debt situation and export prospects, are unlikely to grow out of this problem within the next ten years, and which might thus be fairly described as "debt-distressed". The World Bank is currently updating the information and analysis provided in its 1986 report. Bank staff have also undertaken a series of informal consultations with officials of a number of donor/creditor governments in the context of Paris Club debt discussions and in other fora to review the alarming and escalating debt situation in low-income Sub-Saharan Africa, and to explore alternative solutions for helping mitigate its impact.

2. During these informal consultations, the World Bank emphasized the following points:

a) A growing number of African governments are implementing major programs of structural and sectoral adjustment to help set the stage for sustainable growth. These programs involve critical policy decisions which are extremely difficult to take in any economy and particularly so in economies which are already desperately poor and vulnerable. In some countries, the political will to persist with far reaching reform programs already shows signs of weakening, and continued progress will be possible only if governments can demonstrate evidence of improved growth and consumption prospects. The problem is that, based on all known sources of additional aid flows and basic commodity trade prospects, the prospects of many low-income Sub-Saharan countries are for minimal growth and a decline in per capita consumption. Clearly, it will be impossible to sustain the adjustment process unless there is a real hope for significant improvement in these growth prospects.

b) Of the many low-income Sub-Saharan African countries undertaking adjustment programs, 12-15 are identified as having major debt problems. In this group, total outstanding debt as a percentage of exports averages an extraordinarily high 430%; and the ratio of scheduled debt service to exports (before reschedulings) ranges from 30% to 130%, with a rough average of 52%.

c) Actual debt service payments of this group of countries are considerably lower, as a result of comprehensive rescheduling agreements with the Paris and London Clubs. The Paris Club, in particular, has demonstrated considerable flexibility, within its agreed practices, rescheduling up to 100% of principal and 95-100% of interest for demonstrated hardship cases. However, the seriousness of the debt problem has been exacerbated by the capitalization of interest payments with interest rates far in excess of the export growth capacity of these resource-poor countries. For example, 20% of Zaire's debt at the end of 1986 stems from this capitalization process. Longer grace and amortization periods for the re-scheduled debt would be necessary to relieve the severity and respond to the long-term nature of the debt problem in many of these countries.

d) It is increasingly urgent that creditors and donors explore a variety of alternative financing and debt-relief schemes to support those countries which have demonstrated their commitment to adjustment programs. The particular solutions applied by each donor/creditor to each debtor country will depend on the case, and need not be uniform. They might be developed to consider the particular legislative, budgetary and political constraints of each donor country and they must be adjusted to the relative situation, export prospects, debt profile and debt-servicing capacity of individual recipient countries. They must, however, have as their objectives: to fully support the adjustment process, to restore growth of per capita incomes and consumption in low-income Sub-Saharan Africa; and to increase the concessionality of the overall package of assistance and debt relief.

3. Over the last few months, the media reported discussions among the Paris Club members, and statements made by individual governments on possible adjustments to traditional rescheduling terms for the benefit of a group of low-income debt-distressed countries, particularly in Sub-Saharan Africa. Most of these statements referred to the extension of grace periods (from 5 to 10 years) and maturities (from 15-20 years). A few governments also mentioned the possibility of interest rate concessions and/or special refinancing mechanisms. In this context, the World Bank has prepared a series of projections and simulations aimed at determining the possible impact of alternative debt rescheduling terms on the debt service position of a number of heavily indebted Sub-Saharan countries. This analysis took into account the following considerations:

a) on the basis of recent experience, it would appear that, on average, a debt service ratio of about 25% is the most that these countries can be expected to carry. Some countries have managed to pay somewhat more, and tolerate higher ratios, either by severely curtailing the level of imports normally considered essential for sustainable growth, or when extraordinary levels of additional aid have been provided. However, others have been unable even to pay 25% of export earnings in debt service. Overall, it is clear that the low income of these highly-indebted countries, and their great dependence on primary commodity exports, means that a 25% debt service ratio is about the maximum limit which can be sustained, while also allowing implementation of growth-oriented adjustment strategies;

b) calculations have been made of the terms of rescheduled official bilateral non-concessional credits necessary to reach the 25% debt service ratio, assuming that (i) the London Club continues to reschedule commercial bank debt, on comparable terms to the recent past, (ii) servicing of the debt due to the multilateral lending institutions and to the IMF is continued, and (iii) the Paris Club continues to reschedule at least through 1993. It is also assumed that all new financing required by these debt-distressed countries is provided on highly concessional terms.

4. Based on these considerations, it appears that formal extension of Paris Club rescheduling terms to 15-20 years, with 10 years grace, is an important and helpful initiative. Even so, the impact of this extension would not be felt until after 1992, and, in the short term, many countries will continue to require additional external funds. The primary effect of the measure would be to smooth out repayment schedules after 1992, thus offering some countries more of a chance to grow out of this overwhelming debt problem.

5. The results of the World Bank analysis also point up the diversity of the situations and prospects of the low-income debt-distressed countries. While a few, which are only "moderately" affected, could achieve and sustain a 25% debt service ratio with the proposed Paris Club measures alone, some others would require measures beyond this to reach the 25% debt service ratio.

6. In summary, the debt problem in low-income Africa is a critical problem which needs to be addressed as a matter of high priority by African countries and donor/creditor governments. African governments should continue the ongoing effort to adjust exchange rates and producer incentives, reduce central government fiscal deficits, improve the structure of public expenditures and strengthen the performance of the parapublic sector. Donor governments should support the adjustment efforts of African countries with a variety of interventions including additional concessional assistance; increased share of adjustment related quick disbursing financing in their aid programs and special debt relief measures. Debt relief measures could include retroactive terms adjustment for official development assistance, extended grace and amortization periods within the frameworks of debt rescheduling agreements and additional measures to be considered by individual donors and creditors to help debt-distressed countries achieve a sustainable debt service level and restore growth. These measures need not be uniform; provided they result in a broadly comparable impact on the debtor. The World Bank is continuing its analytical work on the debt problem of Sub-Saharan Africa and, as requested in the Communique of the April 1987 Development Committee Meeting, will make proposals of action at the next Development Committee Meeting to address the problem of low income countries facing exceptional difficulties, with special emphasis on highly indebted African countries.

ELEMENTS OF A SPECIAL ACTION PROGRAM FOR LOW-INCOME DEBT-DISTRESSED AFRICAN COUNTRIES

SUMMARY

1. Description of the program. The objective of the proposed Bank initiative would be to build on the conclusions of the recent Summit Conference in Venice to develop a coherent three-year program (1988-1990) of debt relief and growth-oriented import financing for low-income debt-distressed African countries implementing comprehensive and vigorous policy reforms. The three-year program would have the following important features:

- It would reduce debt service payments by low-income debt-distressed African countries to a more manageable and sustainable level, both during the program and into the next decade. This would be accomplished by converting existing ODA loans into grants and by extending grace and maturity periods and reducing interest rates on rescheduled official bilateral nonconcessional debt.
- It would involve a modest reallocation of IDA8 resources to low-income debt-distressed African countries, partly financed by expected IDA reflows, and, more importantly, it would provide for a major increase in IDA disbursements by raising the share of adjustment related quick-disbursing assistance to about 70 percent of total IDA lending to these countries.
- It would provide for a parallel increase in the share of quick-disbursing assistance in the aid programs of other multilateral agencies and bilateral donors, with a Bank-led adjustment co-financing program as the main instrument of the proposed reorientation of other donor programs.

- It would also support the initiative taken by the IMF Managing Director in recommending the tripling of resources available to the Structural Adjustment Facility.

2. The implementation of the program outlined above would significantly augment the countries' import capacity to support growth-oriented adjustment programs. It would also minimize the need for additional budgetary appropriations from donor governments beyond those required to finance the increased SAF and the replenishment of IDA.

3. External financing requirements. There are about 19 low-income debt-distressed countries, including 15 with adjustment programs.[1] The additional external financing requirements of this group of countries have been estimated for the period 1988-90 based on their current export prospects, their projected debt service obligations after rescheduling, and ODA commitments in sight. These additional requirements are expected to average about $1.5 billion annually during 1988-90. Of this amount, about $800 million would be required to reduce debt service payments to the target of 25 percent of projected export earnings, and $700 million would provide additional finance to enable countries to resume import growth and achieve modest per capita GDP growth.

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1. Three of the fifteen debt-distressed countries with adjustment programs (Equatorial Guinea, Guinea-Bissau and Sao Tome) have not been included in our analysis for lack of adequate data. These three countries are very small and, despite their critical debt service positions, are unlikely to influence the totals in a noticeable way. Therefore the remainder of the paper only refers to the twelve largest low-income debt-distressed African countries.

4. Financing. The program would be financed from four major sources:

(a) Concessional debt relief. The Venice Communique refers to extended grace and repayment periods within the framework of Paris Club debt rescheduling arrangements and to lower interest rates on rescheduled debt. Extension of grace and repayment periods is an important and helpful initiative. However, its impact would not be felt until 1993 since current Paris Club rescheduling practices already provide for five years of grace. An across-the-board reduction of Paris Club interest rates by half would lower debt service obligations by about $350 million per year during 1988-90. ODA forgiveness would provide an additional $50-75 million in debt relief annually.

(b) Increased World Bank concessional flows. Low-income debt-distressed countries did not benefit from the substantial increase in ODA flows in 1985 and 1986 as much as other low-income African countries. Consequently, a modest increase in planned IDA8 allocations to the twelve countries from about $900 million to $1.1 billion annually would appear to be justified. Half of the increase could be financed by reprogramming planned allocations. The other half could be financed by committing a part of future IDA reflows and/or utilizing a part of future Bank income for this purpose.[2] More importantly, the Bank would also consider increasing the share of adjustment-related quick-disbursing assistance from 40 to 70 percent of total IDA lending to the twelve countries. The combination of increased allocations and increased adjustment lending would provide additional IDA flows of about $300-350 million annually during 1988-90.

(c) Accelerated disbursements of other ODA commitments through co-financing programs with Bank adjustment lending. Recent initiatives by several bilateral donors, by the EEC Commission and by the African Development Bank point to the feasibility of organizing an effective and enlarged program of adjustment financing. A substantial increase in the share of quick disbursing assistance from these other multilateral agencies and bilateral donors could increase ODA flows to the twelve countries by about $300 million annually. The Bank would facilitate the process by organizing most of its own structural and sectoral adjustment operations in the form of co-financing

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2. The commitment of future IDA reflows is of course a matter for consideration by the Board of Directors of the Association. Previous staff studies have indicated that up to $1 billion of future reflows could prudently be committed by the Association during the IDA8 period 1988-90. Similarly, the Executive Board of Directors of IBRD would have to decide on future allocations of Board income. Current projections of Bank income include a standard provision of $100 million of annual transfers to IDA.

instruments. Periodic donor consultation meetings would review the adjustment financing programs envisaged by the Bank and other donors in low-income sub-Saharan Africa and provide a mechanism for an effective coordination of ongoing and planned policy-based lending.

(d) Increased resources for the IMF Structural Adjustment Facility. Current SAF practices limit SAF allocations to individual countries to 47 percent of their quota. An additional allocation equivalent to 94 percent of the twelve countries' quota would represent additional flows of about $450 million annually during the 1988-90 period.

5. Conclusion. The economic declaration issued by the Venice Summit Conference recognizes that the problems of the poorest countries in sub-Saharan Africa require special treatment and gives the IMF, the Bank, and other development agencies a clear mandate to develop a special action program for low-income debt-distressed countries implementing adjustment programs. Combined with modest reallocations of IDA resources and a major increase in the share of adjustment lending in IDA and other donor programs, the measures recommended by the Venice Communique can provide significant relief to these debt-distressed African countries during the 1988-90 period. Long-term projections of GDP, exports and debt service obligations show that this group of countries will continue to need special support during the 1990s. However, the proposed three-year program could play a major role in the interim by restoring growth and strengthening the political determination of African governments to implement the difficult policy reforms that are critically needed to deal with the problems of the 1990s.

ELEMENTS OF A SPECIAL ACTION PROGRAM FOR LOW-INCOME DEBT-DISTRESSED AFRICAN COUNTRIES WITH ADJUSTMENT PROGRAMS

INTRODUCTION

1. Of the 34 IDA-eligible countries in sub-Saharan Africa, we have identified 19 with severe debt problems which are reflected in a debt service ratio of over 30 percent (including IMF repurchases and charges) before debt rescheduling. The countries are: Benin, Comoros, Equatorial Guinea, Gambia, Guinea-Bissau, Liberia, Madagascar, Mali, Mauritania, Niger, Sao Tome/Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Zambia, and Zaire.

2. In these countries, debt more than tripled since 1975, and today total outstanding debt as a percentage of exports averages an extraordinarily high 450 percent. The ratio of scheduled debt service to exports (before reschedulings) ranges from 30 to 110 percent, with a rough average of 55 percent. Actual debt service payments are considerably lower, as a result of comprehensive rescheduling agreements with the Paris Club and commercial banks. However, it is increasingly clear that debt rescheduling on conventional terms is not an appropriate solution for heavily indebted low-income countries with very poor export prospects.

3. Based on current projections of debt service and export earnings, it appears that these countries will not be able to grow out of their debt problems during the next ten to fifteen years. A special action program is needed: (i) to reduce debt service payments to a sustainable level; and (ii) to restore the countries' import capacity to help them achieve at least modest per capita income growth.

4. Over the last six months, a wide variety of debt-relief proposals and special assistance programs have been outlined by a number of donor/creditor governments (Canada, France, Italy, Sweden, and the UK) and international agencies (including the Commission of the European Communities). The most recent initiative emanated from the Managing Director of the IMF, who recommended that resources available for the Structural Adjustment Facility be tripled to provide special support to poor countries facing extraordinary balance of payments problems. The economic declaration issued at the end of the Venice Summit Conference recognizes "that the problems of some of the poorest countries, primarily in sub-Saharan Africa, are uniquely difficult and require special treatment. For those of the poorest countries that are undertaking adjustment effort, consideration should be given to the possibility of applying lower interest rates to their existing debt and agreement should be reached, especially in the Paris Club, on longer repayment and grace periods." The communique also welcomes "the proposal for a significant increase in the resources of the Structural Adjustment Facility over the three years from January 1, 1988. [It urges] a conclusion on discussions on these proposals within this year."

5. The Venice Summit meeting has given a clear mandate for urgent and intensified action on the debt problems of poor countries in Africa. African countries, donor and creditor governments and multilateral agencies should, therefore, join in an effort to organize a comprehensive and coherent action program, which would address the three main components of the debt problems in highly-indebted low-income African countries: (i) the immediate cash flow problems; (ii) the long-term debt build-up problem; and (iii) the shortage of financing for imports required for growth. Such an action program must be realistic and, to the extent possible, should not

make further demands on aid budget appropriations beyond what will be necessary to finance IDA8, achieve increases in the Structural Adjustment Facility, and obtain interest rate concessions agreed in Paris Club arrangements.

6. A pragmatic step-by-step approach is more likely to produce results if it provides a framework in which creditors/donors can allocate planned aid flows to support adjustment and growth in debtor countries more effectively, and if it can provide for a more rapid disbursement of existing aid commitments to these countries. In this context, the Bank is ready to collaborate with African governments, the IMF, creditor agencies, bilateral donors, and other multilateral institutions to design, negotiate and implement a realistic but well coordinated three-year program of special assistance to low-income debt-distressed countries with adjustment programs.

7. The objective of this special action program would be to reduce scheduled debt service obligations to a more manageable and sustainable debt service ratio (both in the rest of the 1980s and during the 1990s) and to restore the per capita import capacity of eligible countries through a series of measures combining: (a) the debt relief program suggested in the Venice Communique; (b) a set of measures aimed at accelerating disbursement and increasing net flows of Bank concessional assistance to African debt-distressed countries during the IDA8 period; (c) a similar program of joint or parallel financing of adjustment operations aimed at accelerating disbursement of other available bilateral and multilateral ODA; and (d) the proposed increase in the resources of the IMF Structural Adjustment Facility.

EXTERNAL FINANCING REQUIREMENTS OF LOW-INCOME DEBT-DISTRESSED COUNTRIES

8. An effective debt relief and concessional assistance program requires a case-by-case approach within the framework of existing debt rescheduling and aid coordination mechanisms. In the context of the current exercise, however, we have prepared tentative estimates of external financing requirements for: (a) a minimum debt-relief program aimed at reducing debt service ratios to 25 percent of export earnings; and (b) a more comprehensive import-capacity rehabilitation program aiming at an average rate of growth of per capita import volume by one percent annually from the low 1985 base.[1]

9. Table 1 below summarizes the overall external financing requirements of a minimum debt relief program for twelve debt-distressed countries[2] with adjustment programs designed to keep debt service payments to no more than 25 percent of export earnings during the next three years.

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1. Obviously, it is difficult to estimate external financing requirements precisely because of the large number of variables and the uncertainty of forecasts. These factors, plus country diversity that is not taken into account by our standard assumptions, as well as the possibility that more countries may become eligible for the program, mean that the estimates should be considered as guidelines for determining the magnitude of the program.

2. The list of twelve countries includes Zambia, which decided recently to abandon the vigorous adjustment programs initiated by the government in 1983-84. Zambia would not be eligible for the proposed special action program until agreement is reached with the Bank and the IMF on a comprehensive package of policy reforms.

Table 1
(in billions of $; annual 1988-90 averages)

(a)	Total debt service obligations before debt rescheduling	3.8
(b)	Reduction in debt service obligations from conventional debt rescheduling	1.3
(c)	Debt service obligations after rescheduling (a-b)	2.5
(d)	Debt service obligations at or below the debt service ratio (DSR) of 25 percent of export earnings	1.7
(e)	Additional debt relief and concessional assistance necessary to achieve DSR target (c-d)	0.8

10. Table 2 recapitulates overall external financing requirements of an import rehabilitation program involving an annual one percent rate of growth of per capita import volume.

Table 2
(in billions of $; annual 1988-90 averages)

(a)	Annual import requirements to achieve modest growth		11.1
(b)	Debt service obligations after conventional rescheduling		2.5
(c)	Total foreign exchange needs (a+b)		13.6
(d)	Projected export earnings		7.7
(e)	Expected disbursements of development assistance		4.4
	of which: new ODA in sight	3.4	
	SAF	0.1	
	existing pipeline	0.9	
(f)	Other new capital flows		- 3/
(g)	Total foreign exchange available (d+e+f)		12.1
(h)	Estimated external financing gap (c-g) which could be divided as follows:		1.5
(i)	Additional debt relief and concessional assistance needed to achieve target DSR		0.8
(j)	Supplementary concessional assistance (in addition to (i)) needed to achieve target import growth		0.7

3. Any significant amount of conventional borrowing would immediately raise debt service ratios to even more unmanageable levels in the 1990s. Consequently, all future capital flows should be on highly concessional terms.

THE PROPOSED SPECIAL ASSISTANCE PROGRAM FOR LOW-INCOME DEBT-DISTRESSED AFRICAN COUNTRIES

11. The additional debt relief and concessional assistance required (i) to reduce debt service payments to 25 percent of export earnings and (ii) to restore the import capacity of 12 debt-distressed countries is tentatively estimated at $1.5 billion annually during 1988-90 ($800 million for (i) and $700 million for (ii)). It could be financed by a package of special assistance involving: (a) a concessional debt relief program of $400 million; (b) measures aimed at increasing net flows of Bank concessional assistance by $300-350 million annually during the IDA8 period; (c) a program of adjustment co-financing by other bilateral or multilateral donors aimed at accelerating disbursement of available and planned ODA commitments which could provide about $300-350 million; and (d) an increase in SAF flows estimated at $450 million annually. These estimates are highly tentative, but, in line with the proposed pragmatic step-by-step approach, implementation of the program would be based on alternative options offered to donor and creditor governments, designed to facilitate their maximum participation in the program. Thus, for instance, some countries may prefer to make substantial contributions to the cofinancing programs rather than be involved in the concessional debt relief program.

A. Concessional debt relief programs

12. The debt relief measures mentioned in the recent proposal of the European Economic Commission and in the Venice Communique include extended grace and repayment periods and interest rate concessions.

13. Extended grace and repayment periods for debt rescheduling by Paris Club and other bilateral creditors is an important and helpful initiative. However, its impact would not be felt over the next five years since

current rescheduling practices already provide for five years of grace. The primary effect of the measure would be to smooth out repayment schedules after 1992, thus offering a small number of moderately debt-distressed countries more of a chance to grow out of their debt problems. Only two components of a possible concessional debt relief program would have an immediate impact during the 1988-90 period: retroactive terms adjustment for outstanding official development assistance, and interest rate concessions on rescheduled nonconcessional bilateral debt.

14. Retroactive terms adjustment. This measure consists of converting concessional bilateral official loans into grants, as agreed at the UNCTAD Conference in 1978. A number of bilateral creditors have already taken substantial action along these lines. Most of the remaining concessional loans are rescheduled at their original, concessional rates within the Paris Club framework. Therefore, the net additional debt service savings from retroactive terms adjustment are in fact quite small, about $200 million over the three years or $65 million per year.

15. Lower interest rates on rescheduled nonconcessional debt. This would involve rescheduling nonconcessional bilateral official loans (both those made directly by official creditor agencies and those guaranteed by them) by Paris Club creditors at interest rates below those normally charged (which are currently as much as 2 percentage points above LIBOR). An across-the-board reduction of these Paris Club interest rates by one-half would lower debt service obligations by about $350 million per year during 1988-90. The actual amount of interest rate reductions, however, could be modulated on a case-by-case basis, depending on the particular economic situation of individual debt-distressed countries and on the special constraints of creditor governments. The economic circumstances of some debt-distressed countries would indicate substantially lower (even

zero) interest rates on rescheduled debt. On the other hand, a few could probably afford to pay relatively high interest rates on rescheduled debt and still achieve the target debt service ratio while financing imports required for growth, provided all new borrowing is on highly concessional terms. Some creditor governments may find it more difficult than others to accord relief through reduced interest rates on rescheduled nonconcessional debt. In these cases, the governments may want to choose alternative measures to provide relief, including additional concessional assistance.

B. Additional Structural Adjustment Facility funding

16. The IMF Managing Director has proposed that resources available to the Structural Adjustment Facility (SAF) should be tripled. Current SAF practices limit SAF financing for an individual country to 47 percent of its quota. On that basis, SAF financing for the twelve debt-distressed countries concerned could not exceed about $650 million, only part of which would still be available in 1988-90. We have assumed that the tripling of SAF would enable the twelve countries to mobilize an additional contribution of $1.3 billion, which could be fully disbursed during the 1988-90 period. The same average annual flow of additional SAF funding ($450 million) could be obtained even if the overall increase of SAF proves to be less than 200 percent, provided priority was given in allocating the additional resources to the low-income debt-distressed African countries.

C. Increased World Bank concessional flows

17. If the proposed special action program for low-income debt-distressed African countries receives strong support from the donor community, Bank management would be prepared to recommend to its Executive Directors a special concessional funding effort consisting of two main components: (i) a sharp increase in disbursements resulting from a major

increase in the share of adjustment-related quick-disbursing assistance; and (ii) a modest increase in planned IDA8 commitments to these countries to be partly financed through a commitment of future IDA reflows.

18. <u>Increased IDA8 commitments</u>. The current IDA8 lending program allocates about $900 million annually to the twelve largest low-income debt-distressed African countries with adjustment programs. Since the aforementioned debt-distressed countries did not benefit from the substantial increase in overall ODA flows in 1985 and 1986 as much as other low-income African countries, an increased IDA allocation of about $100 million annually appears to be justified. In addition, another $100 million[4] annually in additional commitments for the twelve countries would have to be found from IDA reflows and/or transfers from Bank income.

19. <u>Stepped-up adjustment lending and increased disbursements</u>. Current lending programs already provide for a substantial share of adjustment-related lending for the twelve debt-distressed countries, averaging $350 million in commitments annually, or close to 40 percent of total IDA lending. Current disbursement projections assume that the twelve countries would receive about $750 million annually, of which $600 million from IDA and $150 million from the Special Facility for Africa (direct contributions only). A sharp increase in the share of SALs and other adjustment-related lending from 40 percent of $900 million to about 70 percent of $1.1 billion would probably yield additional IDA disbursements of $300 million annually.

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4. This is equivalent to the average annual repayment of principal on outstanding IBRD/IDA loans owed by the twelve countries during the IDA8 period.

D. Accelerated disbursement of bilateral and multilateral ODA through a program of co-financing of adjustment operations

20. The share of adjustment financing in other development assistance remains low. While food aid and technical assistance usually are fast-disbursing, the bulk of current ODA flows finances slow-disbursing traditional projects. A number of initiatives have been taken by individual donors which indicate the possibility of a major shift toward adjustment-related, quick-disbursing assistance. France, the UK and the US have developed a variety of fast-disbursing instruments in support of policy reforms. Within the framework of the Special Facility for Africa, six "joint financiers" (Belgium, Germany, Japan, Switzerland, Saudi Arabia, and the UK) have agreed to support a number of Bank-financed structural and sectoral adjustment projects. In its 1987 budget, the Federal Republic of Germany earmarked about $200 million for commodity aid and adjustment financing with the latter slated especially for Africa. Early in June, the Commission of the European Community announced its intention to step up the level of its quick-disbursing sectoral operations, particularly for debt-distressed countries. The African Development Bank also plans to allocate a modest but probably growing share of its loans and credits to macroeconomic and sectoral adjustment lending.

21. In view of these recent developments, a substantial increase in the share of adjustment-related, quick-disbursing assistance in other multilateral and bilateral ODA programs is already probable. It should be feasible to accelerate the trend and increase flows of other multilateral and bilateral adjustment financing to the twelve debt-distressed countries by about $300-350 million annually. This would require that ODA donors (outside the Bank) increase their average annual commitments of adjustment financing by $350-450 million annually, which is equivalent to less than 15 percent of ODA lending to low-income debt-distressed African countries.

22. Although some of this additional adjustment financing will be organized by individual donors themselves, the Bank would be prepared to facilitate and accelerate the process by organizing most of its structural and sectoral adjustment operations in the form of co-financing instruments. Experience of the Special Facility for Africa has shown that it is possible to mobilize substantial volumes of quick-disbursing bilateral aid through co-financing of adjustment programs, which at the same time strengthens the coherence of the policy reform programs supported by the Bank and other donors. Periodic donor consultation meetings could also review the adjustment financing programs envisaged by the Bank and other donors. These consultation meetings would be organized to cover the group of eligible debt-distressed countries, rather than being set up on a country-by-country basis. Such comprehensive meetings would give donors/creditors an opportunity to review and, if necessary, revise the overall program, which would be implemented on a case-by-case basis. This consultation process would also enable donors to better familiarize themselves with the policy objectives and implementation problems of Bank-financed adjustment programs, and would give them the opportunity to comment on, and advise on the effectiveness of these programs.

Annex

Brief Description of Analytical Study Under Preparation

The analytical study will provide a more detailed review of the economic performance and prospects of debt-distressed countries. It will indicate which combination of exogenous and policy-induced factors contributed to the rapid increase in the countries indebtedness. It will show the dramatic decline in per capita imports and per capita GDP since 1980. It will show that debt-distressed countries did not benefit from the substantial increase in overall ODA flows in 1985 and 1986 as much as other low-income African countries. Finally, it will compare the poor output and export prospects of debt-distressed countries with the more favorable outlook for other IDA-eligible African countries.

The study will also analyze the structure of the debt and the nature of the debt service and balance of payment problems of the debt-distressed countries. It will show the high share of bilateral loans in total outstanding debt (47 percent) and debt service obligations (43 percent), as well as the high and growing share of the IMF (19 percent) and multilaterals (21 percent) in actual debt service payments because the IMF and multilaterals do not participate in debt rescheduling agreements. The study, however, will also show how debt rescheduling on conventional terms, while providing short-term relief, can quickly compound the long-term debt problem of resource-poor countries with mediocre export prospects (for example, the high share of capitalized interest in total outstanding debt of Zaire at the end of 1986).

. Based on that analysis, the study will identify three main components of the debt problem of low-income African countries:

(a) the short- and medium-term cash-flow problem, which mainly results from the growth of nonreschedulable debt service payments to the IMF and multilaterals.

(b) the medium- and long-term debt build-up problem, which is caused by conventional debt rescheduling; and

(c) the import-capacity and per capita income growth problems, which result from (a) and (b), as well as from the poor export performance of these countries and the sharp decline in overall external capital inflows.

Clearly, the adjustment process cannot succeed, and the ongoing adjustment effort cannot be sustained, unless the ongoing decline in per capita imports since 1980 is immediately reversed. In this context, the study will review the progress achieved by 12 to 15 low-income debt-distressed countries in implementing comprehensive policy reform programs (for example, substantial depreciation of real effective exchange rates; improved producer incentives; wage adjustments; sharp drop in central government deficits; rationalization of the public enterprise sector) from 1984 to 1986. It will also note that, despite these efforts, the adjustments have not yet resulted in as much improved economic performance as in other low-income African countries with adjustment programs. It will note that in some countries the political will to persist with far reaching reform programs shows signs of weakening, and that continued progress is likely to be possible only if governments can demonstrate evidence of improved growth and consumption prospects.

The analytical study will then review in detail the methodology and the main assumptions behind the proposed estimates of external financing requirements.

The analysis will be based on Bank projections of export prospects, debt service obligations, and development assistance disbursements in sight for 12 of the 15 low-income debt-distressed African countries with adjustment programs. (The remaining three are very small countries which despite their critical debt service positions are unlikely to influence the totals in a noticeable way.)

The study will indicate how the 25 percent debt service target was determined. Although it seems high for a low-income country, it is equivalent to the recent average ex post debt service ratio of low-income debt-distressed African countries; paying such a high debt service ratio is possible because of substantial ODA inflows to these countries.

The study will also review the rationale for the proposed import growth target, taking into account various macroeconomic considerations.

Finally, the study will analyze the proposed action program, including detailed estimates of additional IDA disbursements during the IDA8 period. The study will also outline the long-term debt-relief and concessional assistance requirements of the twelve debt-distressed countries during the 1990s.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 10, 1987

TO: The Members of the Policy Committee

FROM: Marianne Haug, EXC

EXT: 73585

SUBJECT: Policy Committee Agenda

1. As you are aware, the Policy Committee is asked to review and advise the President on:

(a) 15, regularly scheduled major policy papers;

(b) country strategy papers for major Borrowers and countries on the credit worthiness "watch" list;

(c) major adjustment loans and exceptional operational issues;

(d) specific policy papers as required and ad hoc issues.

2. I would appreciate your reviewing the attached material and tentative schedules and providing me with your comments by close of business, Friday, June 12. I will then circulate a draft agenda on Monday, June 15 for discussion at the Wednesday, June 17 committee meeting. This agenda should, in general: (i) establish the schedule for papers and issues to be considered during the coming three months; and (ii) confirm the long-term calendar of regular policy paper reviews.

Attachments

July 7
July 25
Aug 10 – recess

B. Conable's "availability" for P.C.

June 10 - July 7
July 25 - Aug 10

REGULARLY SCHEDULED MAJOR POLICY PAPERS

	Formulation Responsibility	Presidential Review	Board Review or Receipt
1. Intellectual Leadership			
• Overview paper on intellectual leadership (including public affairs strategy)	PPR	March	-
• WDR	PPR	March	April
2. Strategic Plans			
• Annual overview of strategic plans and agenda for Bank	PPR	October	-
3. Research			
• Annual assessment of research priorities and results	PPR	December	January
4. Financial Management			
• Overview paper on financial plans	FIN	May	Optional
• Country creditworthiness assessment	FIN/OPS	August	-
5. IBRD/IDA Resource Allocations			
• Annual paper on allocation of IBRD/IDA resources (for countries, sectors and products)	PPR	November	-
6. Development Effectiveness			
• Annual overview paper on development effectiveness of Bank's operations and proposed agenda for new ex post studies	PPR	February	March
7. Budget Plans and Policies			
• Budget framework paper	PPR	December	January
• Mid-year budget review	PPR	February	March
• Annual budget	PPR	April	June
• Retrospective assessment of budget outcome	PPR	August	-
8. Personnel and Administration			
• Annual general salary adjustment	IS	February	March
• Annual review of human resources strategy	IS	October	-
• Annual review of management succession plans	IS	October	-

MAJOR COUNTRY STRATEGY PAPERS

1. Country Strategy Papers would generally be reviewed for:

(a) major borrowers, i.e., countries with proposed lending programs in excess of about $500 million per year (IBRD plus IDA) and for selected pure IDA countries with annual lending programs of about $100 million; and

(b) countries which are on the creditworthiness "watch" list, i.e., noted III b., on loans.

The attached document shows the categories of borrowers for which country strategy papers ought to be reviewed by the Policy Committee according to the above criteria.

2. Please, review the Quarterly Schedule provided in Annex 2, page 3 and confirm, in particular, the dates and countries for First Quarter FY88 review.

CATEGORIES OF BORROWERS FOR WHICH COUNTRY STRATEGY PAPERS MIGHT BE REVIEWED BY THE POLICY COMMITTEE

1. Major Borrowers (Lending Programs in excess of US$500 million IBRD/IDA annually)

Argentina	** Egypt	** Morocco
Brazil	** India	Nigeria
** China	Indonesia	** Pakistan
** Colombia	** Mexico	** Philippines
		Turkey

2. Major IDA-only Borrowers (Lending Programs in excess of US$100 million IDA annually)

✓ ** Bangladesh (US$461 m. average FY87-89)	** Kenya ($97 m.)
** China ($532 m.)	** Madagascar ($102 m.)
✓ Ethiopia ($123 m.)	** Mozambique ($90 m.)
Ghana ($149 m.)	** Pakistan ($190 m.)
** India ($684 m.)	** Tanzania ($90 m.)
	✓ ** Zaire ($189 m.)

3. Borrowers rated 3b or lower on the Creditworthiness Watch-List

✓ (3b)	Chile	Ecuador	** Jamaica	Paraguay
	Congo	✓ ** Egypt	** Kenya	** Philippines
	Costa Rica	** El Salvador	** Mexico	Poland
	** Cote d'Ivoire	Guatemala	** Morocco	Sri Lanka
	** Dominican Republic	Honduras	Nigeria	Syria
(3c)	Lebanon			
	Peru			

NOTE:

** indicates countries for which strategy reviews are planned with the OPC in FY 88.

Countries which present special policy issues for the Bank/IDA
E Bloc countries
Chile

Quarterly Schedule of Reviews as Proposed by Regions

FY88			
1st quarter (Jul.-Sept. 87)	2nd quarter (Oct.-Dec. 87)	3rd quarter (Jan.-Mar. 88)	4th quarter (Apr.-June 88)
C.A.R.	Cameroon	Bangladesh b/	Dominican Rep. c/
Cote d'Ivoire c/	China a/ b/	Morocco a/ c/	Egypt a/ c/
El Salvador c/	Colombia a/		Jamaica c/
Philippines a/ c/	India a/ b/		Laos
Senegal	Kenya b/ c/		Malaysia
Thailand	Madagascar b/		Mali
Venezuela	Mexico a/ c/		Mozambique b/
	Nepal		Zaire b/
	Pakistan a/ b/		
	Panama		
	Tanzania b/		
	Yemen, A.R.		
	Yugoslavia		
	Zambia		
(7)	(14)	(2)	(8)

(9)

Total scheduled for FY88: 31

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a/ Major Borrowers (Lending Programs in excess of US$500 million IBRD/IDA annually

b/ Major IDA-only Borrowers (Lending Programs in excess of US$100 million IDA annually)

c/ Borrowers rated 3b or lower on the Creditworthiness Watch-List (only two countries - Lebanon and Peru) are rated 3c.

LENDING OPERATIONS

1. *Prima facie*, the Policy Committee is likely to review:

(a) Adjustment operations that the SVPOP (or any other member of the Policy Committee) believes raise major issues for the institution (by size on otherwise) or new initiatives or policies not covered by approved country strategies. It is expected that these criteria would result in most large or important adjustment operations being discussed by the Policy Committee;

(b) On an exception basis, investment lending operations that the SVPOP (or any member of the Policy Committee) believes represent a major departure from general Bank policy and/or practice (including Guarantees); and

(c) Any operations issues which on an exception basis a member of the Policy Committee believes should be reviewed by the Policy Committee.

need to pick up issues in any other any complex for review

2. Based on the FY88 lending program (to be distributed separately) it would be useful to clarify:

- the likely operations to be reviewed,
- the timing of Policy Committee Review in the loan processing (i.e., IM or prior to negotiation), and
- the specific schedule for First Quarter FY88.

ANNEX 4

SPECIFIC POLICY ISSUES AND PAPERS

1. Following are a list of topics and papers the Policy Committee might want to consider. SVPs are requested to propose additional items for the June - September 1987 period.

Proposed Topics/Paper	Prime Responsibility	PC Review
Communication Strategy		6/17
UNCTAD Speech	PPR	6/24
Annual Meeting Speech	PPR	
- Outline		7/1
- Draft		7/29
President's Report to Development Committee	PPR	7/29
Debt management in middle income countries - options new initiatives		7/6
Africa initiative - Development Debt management in low-income countries	OPS/FIN	6/18
GCI		
- late July Board papers	FIN	7/1
- early September Board paper "Lending and Catalytic Role of the Bank and Ass. Capital Requirements"	FIN	8/?

2. The SVPPPR is requested to review the attached list of ongoing policy and research papers to consolidate efforts and to identify appropriate papers for PC reviews.

DEPART! AGRICULTURE AND RURAL DEVELOPMENT MAJOR POLICY AND ASTERI PRODUCT TASKS SCHEDULED FOR COMPLETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
08/87	*FISH DEV. STRAT.-1WLDMP187	DESIGN A FISHERIES DEVELOPMENT STRATEGY TO GUIDE THE BANK'S FUTURE INVOLVEMENT IN THE DEVELOPMENT OF THIR	LOAYZA	MAJOR POLICY WORK
10/87	*CROP DIVERSIFICATIO-1WLDMP224	TO ADVANCE WORK ALREADY ACCOMPLISHED, ESPECIALLY THE COMPLETION OF THE POLICY PAPER. TO DISCUSS RELEVANCE OF	BARGHOUTI	MAJOR POLICY WORK
	*GROWTH LINKAGES-1WLDRE562	ASSESS POLICY RELEVANCE OF GROWTH LINKAGES UNDER CONDITION OF CONSTRAINED FINAL DEMAND	NEW STAFF	RESEARCH PROJECTS
12/87	*AG. INV.,INFRA.&FIN-1WLDRE362	RESEARCH TO QUANTIFY INVESTMENT RESPONSES OF FARMERS TO CREDIT, PRICES PUBLIC INFRASTRUCTURE AND PERSONAL CHA	BINSWANGER	RESEARCH PROJECTS
03/88	*AG. PROJ. IN SSA-1WLDMP182	TO UNDERSTAND THE CAUSES OF FAILURE OF THE AGRICULTURAL PROJECTS IN AFRICA AND TO SUGGEST CORRECTIVE ME	VYAS	MAJOR POLICY WORK
06/88	*AG. INNOV. & POLICY-1WLDRE021	REVIEW AND SYNTHESIZE THE EXISTING BODY OF THEORETICAL AND EMPIRICAL LITERATURE. EXPAND AND ADVANCE THE DI	FEDER	RESEARCH PROJECTS
	*CROP LIVESTOCK SYST-1WLDRE559	STUDY CROP LIVESTOCK SYSTEMS IN SUB-SAHARAN AFRICA WITH SPECIAL EMPHASIS ON TECHNOLOGY OPTIONS, LAND R	H. BINSWAN	RESEARCH PROJECTS
	*FOOD SEC. STUDIES-1WLDRE557	ASSIST COUNTRIES IN ASSESSING THE IMPACT OF POLICIES, SPECIAL PROGRAMS AND CHANGING MARKET CONDITION	S. REUTLIN	RESEARCH PROJECTS
	*INCENT. NAT. RES.-1WLDGA732	REVIEW THE SCHEMES PROPOSED FOR INTERNALIZING EXTERNALITIES AND ACHIEVING EFFICIENT NATIONAL RESOURCE	O'MARA	GUIDELINES
	*PREP. O&M MANUALS-1WLDGA711	ASSIST IRRIGATION AGENCIES IN PREPARING O&M MANUALS FOR IRRIGATION AND DRAINAGED SYSTEMS.	PLUSQUELLE	GUIDELINES
	*SMALL RES. PROJ/PRE-1WLDRE425	SMALL RESEARCH TASKS LEADING TO LITERATURE REVIEWS AND RESEARCH PROPOSALS WILL BE CARRIED OUT UNDER TH	BINSWANGER	RESEARCH PROJECTS
	*SUP. TO STRUC. CHAN-1WLDGA736	SUPPORT TO STRUCTURAL CHANGE IN AGRICULTURE.	BERTRAND	GUIDELINES

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
09/87	*PP INTERNAL EFFICIE-1WLDMP201	POLICY PAPER ON INTERNAL EFFICIENCY IN EDUCATION.	G. PSACHOR	MAJOR POLICY WORK
06/88	*ED IN PUB.EXP.REVW-1WLDOR106	TREATMENT OF EDUCATION IN PUBLIC EXPENDITURE REVIEWS	A. SCHWART	GENERAL OPERATIONAL REVIEW
	*EDU PROJ MANAGEMENT-1WLDOR107	DISCUSSION PAPER ON THE DESIGN OF PROJECT MANAGEMENT ARRANGEMENTS	A. VERSPOO	GENERAL OPERATIONAL REVIEW

DEPARTM POPULATION, HEALTH, AND NUTRITION MAJOR POLICY AND ASTERISK PRODUCT TASKS SCHEDULED FOR COMPLETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
06/88	*INCENT FOR SMAL FAM-1WLDGA529	ANALYZE ACCEPTABILITY, COSTS AND EFFECTIVENESS OF INCENTIVES FOR SMALL FAMILY SIZE	BIRDSALL	GUIDELINES

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
10/87	#ROAD TRANS/TRANS FA-1WLDOR136	ROAD TRANSPORT SERVICES AND TRANSPORT FACILITATION: ASSESSMENT OF BANK INVOLVEMENT IN ROAD TRANSPORT SERVICES	DE CASTRO	GENERAL OPERATIONAL REVIEW
05/88	#PAVEMENT MGT MODEL-1WLDGA198	ESTABLISHMENT OF PAVEMENT MANAGEMENT MODEL, AND PRODUCTION OF GUIDELINES FOR ITS USE.	W. PATERSO	GUIDELINES

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
07/87	#OMS2.50 USE OF CONS-1WLDMP149	OMS 2.50 - USE OF CONSULTANTS - REVISE IN ACCORDANCE WITH ADOPTED GUIDELINES	STROMBOM	MAJOR POLICY WORK
08/87	#OMS 2.40-PROC.REV.-1WLDMP147	OMS 2.40 - REVISE IN ACCORDANCE WITH NEW GUIDELINES	STROMBOM	MAJOR POLICY WORK
02/88	#OMS2.30 PRJ.MGT.-1WLDMP196	REWRITE OMS 2.30 (PROJ.MGT.) MANUAL STATEMENT REWRITTEN TO TAKE ACCOUNT IN BK. TREATMENT OF INST.	ISRAEL	MAJOR POLICY WORK
03/88	#PUB.ENTER.DEF.SSA-1WLDRE497	RES. PROJ. "PUBLIC ENTERPRISES DEFICITS IN SUB-SAHARAN AFRICA"	SHIRLEY	RESEARCH PROJECTS
04/88	SERVICE DELIVERY-1WLDMP304	SERVICE DELIVERY IN SOCIAL SECTORS: LESSONS FROM BANK PROJECTS	PAUL	MAJOR POLICY WORK
06/88	#ENV.NAT.RES.-AGR-1WLDGA492	DEVELOP A MANUAL OF GUIDELINES ON THE MANAGEMENT OF ENVIRON- MENTAL SYSTEMS & NATURAL RESOURCES IN	GOODLAND/W	GUIDELINES
	#HAZARD IDENT.ASSESS-1WLDGA627	DEVELOP GUIDELINES, MANUAL AND COMPUTER PROGRAM FOR MAJOR HAZARD IDENTIFICATION, ASSES	BATSTONE	GUIDELINES
	#HAZARDOUS WASTE DIS-1WLDGA626	MANUAL OF HAZARDOUS WASTE DISPOSAL TECHNIQUES - DEVELOP GUIDELINES AND MANUAL FOR THE	BATSTONE	GUIDELINES
	#PESTICIDES GUIDELIN-1WLDGA618	SUPPORT IMPLEMENTATION OF PESTICIDE GUIDELINES. PREPARE TECH NOTES,ADDITIONAL GUIDELINES ON PESTICI	BARAIZ	GUIDELINES
	OMS ON NGO'S-1WLDMP280	THE OMS PROVIDES GUIDANCE IN PROMOTING AND SETTING UP COLLABORATIVE ARRANGEMENTS WITH NGOS IN PEOPLE ORIEN	RAPHAELI	MAJOR POLICY WORK

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
07/87	*FISCAL BEH IN HDEBT-1WLDRE542	RPO 674-02: THE RESEARCH WILL LOOK AT THE BEHAVIOR OF GOVERNMENT EXPENDITURES OF SIX LATIN AMERICAN COU	SELOWSKY	RESEARCH PROJECTS
08/87	*ADJ HIGH DEBT CNTRY-1WLDGA696	THIS WORK DRAWS ON THE EARLIER PAPER "THE DEBT PROBLEM AND GROWTH" WHICH ATTEMPTED TO DERIVE THE CRITICAL	SELOWSKY	GUIDELINES
09/87	*FINANCIAL LIBERALIZ-1WLDGA496	A REVIEW OF SOME EPISODES IN FINANCIAL LIBERALIZATION REFORMS.	BARANDIARA	GUIDELINES
	REHAB.IMPORT CREDIT-1WLDMP285	REVIEW PAPER ON THE BANK'S APPROACH TO REHABILITATION IMPORT CREDITS.	FOX	MAJOR POLICY WORK
10/87	*PROG REPT ADJ. LEND-1WLDMP247	PROGRESS REPORT TO THE BOARD ON STRUCTURAL AND SECTORAL ADJUSTMENT LENDING	TIDRICK	MAJOR POLICY WORK
11/87	*MED TERM ADJUST-1WLDMP245	STUDIES OF EXPERIENCE WITH IMPLEMENTATION OF ADJUSTMENT PROGRAMS.	TIDRICK	MAJOR POLICY WORK
12/87	*EXPORT PROMOTION RP-1WLDRE602	RPO 674-10: ANALYSIS OF THE THEORY AND EXPERIENCE WITH SELECTED INSTRUMENTS OF EXPORT PROMOTION INCLUD	FITZGERALD	RESEARCH PROJECTS
06/88	*COST OF STAB. PROG.-1WLDRE543	THIS RESEARCH WILL EXPLORE WAYS TO MINIMIZE THE COSTS OF STABILIZATION AIMED AT BRINGING EXPENDITURE MORE IN	SELOWSKY	RESEARCH PROJECTS

DEPAR WATER SUPPLY AND URBAN DEVELOPMENT   MAJOR POLICY AND ASTER PRODUCT TASKS SCHEDULED F LETION IN FY88

COMP./SVP DATE	TASK	DESCRIPTION	TASK MGR	PROGRAM
09/87	*REVENUE COVENANTS-1WLDOR096	REVIEW OF DESIGN AND EFFECTIVENESS OF REVENUE COVENANTS FOR WATER SUPPLY AND SANITATION WITH RECOMMENDAT	D. JONES	GENERAL OPERATIONAL REVIE
06/88	*H'SG FINANCE MODELS-1WLDGA699	PRODUCTION OF SEVERAL TECHNICAL SUPPORT PAPERS ON: - INFLATION AND MORTGAGE INVESTMENTS	B. RENAUD	GUIDELINES

RECEIVED

87 JUN 15 AM 10: 12

POLICY COMMITTEE MEETING

Wednesday, June 17, 1987

2:30 - 4:30 p.m.

MH

AGENDA

This looks good. I have one or two questions but no disagreement. What does MP do? Will he be the Director?

1) Staff Retirement Plan

Memoranda of June 12, 1987 (E. Stern to Members, Policy Committee) and June 10, 1987 (M. Paijmans to B. Conable)

2) Internal and External Communications - Issues Paper of June 15, 1987

I will talk with you about this.

3) Proposed Policy Committee Agenda

4) Africa Debt - Requested Report to the Board

5) Miscellaneous

MHaug:im
June 15, 1987

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

RECEIVED

87 JUN 15 PM 4:28

DATE: June 15, 1987

TO: David Hopper SVP PPR, Willi Wapenhans SVPA

FROM: Frank Vogl, DIRIPA

EXTENSION: 72468

SUBJECT: Policy Committee & Communications

Attached is a draft of the planned paper for Wednesday's meeting of the Policy Committee.

I am sorry to rush you, but I would greatly appreciate having your comments either tonight or before 10.45 am in the morning so that I can get the paper in final by noon Tuesday.

The paper does not seek to be overly explicit or fully comprehensive. Rather it aims to serve as a basis for a strong discussion that, as the final paragraph suggests, can lead to the formulation of a concrete Communications Agenda.

To my mind the discussion needs to focus, in effect, on the three different elements noted in the third paragraph.

In the event that I am not available later today, please give your comments to Julian Grenfell on 78843.

CC: Mrs. M. Haug, Ms. Maguire
Mr. Stanton, Mr. Grenfell

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DRAFT

DATE: June 15, 1987

TO: The Policy Committee

FROM: Frank Vogl

EXTENSION: 72468

SUBJECT: Communications Agenda

1. Internal and external perceptions of Bank management need to be improved to take maximum advantage of the benefits of reorganization and secure maximum shareholder support for the institution. The Policy Committee is asked to consider approaches to improve these perceptions.

2. An important aim is to secure by the time of the annual meeting perceptions of the Bank's management that are positive and that are concentrated on the critical substantive issues : to get reorganization out of the public interest domain and get the focus of attention on the Bank's future agenda for action.

3. To achieve this objective it will be necessary to develop strategies (1) to secure staff commitment to the new organization in the next few months; (2) develop strategies in the public domain that underscore the benefits of reorganization and that shift attention to the Bank's creative and effective work on the priority development issues; (3) determine policies on the critical issues confronting the developing nations that can be woven together into a far-reaching and effective " agenda for action " speech by the President at the annual meeting.

4. Effective communications must be concentrated around substantive decisions and actions by the Bank's top management. While the President must play a visible leadership role with the Board, staff and external audiences, he should not be over-exposed in the months directly ahead - coordinated involvement by all Policy Committee members in moving forward in the areas noted in the previous paragraph is important.

5. Actions are now quite urgent, given the serious state of Bank staff morale, the continued questioning of reorganization by some members of the Board and a possibly worsening set of external perceptions as one bad newspaper article tends to influence reporters to write negative pieces of their own.

6. Internal and external perceptions feed on each other and cannot be neatly seperated. A major issue for Policy Committee consideration concerns the need for swift action to improve staff morale and to secure staff commitment for the reorganization. Committed people rallying around positive shared objectives and values will make the reorganization work. A first priority is to make it evident that management by clear vision, rather than by fear, exists and to convince staff of the long-term benefits that will result from reorganization. Members of the Policy Committee should consider appropriate ways to demonstrate to staff the coordinated team nature of top management approaches to reorganization, the ways in which line managers can be enthused to forcefully support the reorganization and work to secure staff commitment to it.

7. In this respect management needs to focus not only on overt ways in which it can secure commitment and strong understanding by staff to the goals of reorganization, but also appreciation by staff of the fact that the reorganization will be implemented well. In this latter regard it will be important for staff to have a sense, as swiftly as is possible, that the Bank has returned to " normalcy. " Articulation of procedures, approvals of new mission travel, focus on work programs, visible involvement by the President in key decisions on borrowing and lending, discussions on matters of development substance by senior managers with the President through a President's Council, or a Senior Management Council, or some such similar group ---- such are the elements that need to be considered by the Policy Committee as a strategy for returning the Bank to normalcy is considered.

8. Further, the reorganization reports talked about the new culture of the Bank with the implication that a critical factor here would be greater delegation of responsibility and authority. Implicit here is also the suggestion of enhanced two way flows of ideas and information between members of the staff at different levels, as well as increased exchanges of views and ideas on a more creative basis across Bank SVP, department and divisional lines. Policy Committee members might consider ways in which such elements of the new culture can be swiftly introduced -- it will be by such actions, not just by words, that staff support for the new reorganization will be secured (it would be false to assume that staff will become advocates of the reorganization once they have been selected for jobs - many are resentful about the whole selection-in process and will want to see that their anxieties of recent weeks have, at least, been unavoidable costs in a reorganization where the benefits clearly outweigh the costs).

9. On the external front the Policy Committee must, in the first instance, consider ideas for strengthening support from the Board for the implementation of the reorganization. Progress reports to the Board, joint PC member actions on this front, are some of the approaches that might be considered. Turning the Board's attention to the critical substantive development issues will also be an important element in this regard.

10. On the broader external front in the immediate weeks ahead it might be useful for PC members to individually reach out to talk to diverse Bank counterparts, from individual officials in some national capitals, to leading NGOs, influential academics and journalists, to describe the benefits that will accrue from reorganization. Presentations to such groups should be around a determined and coordinated timetable for the PC members so that each member of the PC knows who is speaking to whom on what subject in this concerted public information effort.

11. Some of these presentations can be in conjunction with official media events - such as briefings on forthcoming speeches (say the UNCTAD speech); presentations on the final FY'87 operational and financial results of the Bank; briefings on the annual report in September. A program of select interviews with individual journalists can also be developed.

12. Guidance will also be important to the Bank's managers, Resident Representatives and information officers, on key messages to give on the most topical issues now coming before the Bank from the public --- PC members may

have some concrete proposals on public messages on reorganization, IDA, GCI, commercial bank lending to developing nations, African debt and other highly topical issues ---- to focus discussion here it might be useful for PC members to look at what is said on these subjects in Mr. Conable's Hudson Institute speech and discuss whether these issues can be sharpened and expanded upon at this time.

13. Finally, it is important that the annual meeting be an event that firmly turns things around, that leaves a deep and strong perception that the Bank's leadership on the crucial issues is clear and firm. In this regard the PC might discuss as soon as possible the diverse elements of the President's annual meeting speech in conjunction with discussion of the substance of proposals that the President might make to the Development Committee.

14. The goal of this first paper on Communications is to raise issues for Policy Committee consideration and so launch a process that can address the immediate issues of negative perceptions of Bank management internally and externally and prepare for moving out front on the issues in a bold manner at the annual meeting. It is our hope that the PC discussion will yield an array of concrete proposals that can be put together into a coordinated timetable for actions that can amount to a Communications Agenda to be recommended to the President at next week's Policy Committee meeting.

June 10 MEETING

Policy Committee Meeting

Wednesday, June 10, 1987

11:30 a.m. - 1:00 p.m.

AGENDA

1) GCI

   a) Memorandum of 9 Executive Directors, dated June 1, 1987.

   b) Committee of the Whole (June 10).

   Not attached

2) Final Draft of FY88 Budget. — Not Attached

3) Miscellaneous

   a) Mr. Shihata's memo of June 8, on "Unauthorized Distribution of Bank Classified Documents".

   b) Policy Committee Agenda.

Attachment
Memo: "Unauthorized Distribution of Bank Classified Documents"

MHaug:im

Record Removal Notice

The World Bank Group **Archives** & Records Management

File Title	Barcode No.
President's Council Records - Meeting records 02	1784349

Document Date	Document Type	
June 8, 1987	Memorandum	

Correspondents / Participants
From: Ibrahim F. I. Shihata
To: Barber B. Conable

Subject / Title
Unauthorized Distribution of Bank Classified Documents

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.

Withdrawn by	Date
Ann May	March 12, 2018

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: June 12, 1987
NAME	ROOM NO.
Copy to: MR. HOPPER	
MR. STANTON	
MR. WAPENHANS	
✓MRS. HAUG	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

I am attaching some notes which may be useful for the meeting in Mr. Hopper's office on communication at 10 am this morning.

FROM:	ROOM NO.:	EXTENSION:
FRANK VOGL	E.827	72468

Notes for Friday, June 12, meeting on communications for D. Hopper, W. Stanton, W. Wapenhans and M. Haug from Frank Vogl

It is my understanding that the purpose of this meeting is to follow-up an initial meeting held a few days ago with Mr. Conable on the general subject of communications. This meeting should refine thinking on the matter with the view to producing a brief paper for discussion at next Wednesday's Policy Committee meeting. The following are some topics for discussion :-

1. Proposition :

Internal staff views and external public perceptions of the Bank feed off each other and cannot be viewed in isolation - a Bank communications strategy must recognize this and pay close attention to both internal and external communications.

2. Internal Communications Situation :

Staff morale is very low. Reasons for this include - anxiety over job selection; a wide sense that fairness and merit are not key factors in determining job selection; a wide sense of estrangement by staff vis-a-vis the President and then senior managers; cynical views about the virtues of the reorganization; frustration that all communications on reorganization are written and just one way i.e. top down; annoyance and anger and frustration over the bad press that the Bank has been getting; concern that the Bank seems so preoccupied with itself that it is not doing its real work; worries about the Bank ability to lead in the critical areas of development.

3. Internal Communications Response :

Senior management must become visible to staff, it must start to communicate directly with staff and listen to staff; there must be a sense conveyed to staff of top management cohesion and uniform strong managerial support for the reorganization; there must be a genuine sense among top managers, conveyed to staff subtly, that the reorganization will lead to a more effective, stronger Bank that will enjoy greater shareholder support; the selection process must be seen to be fair and it must be fast; the senior managers must speak out on the key issues of concern; the President must be seen to be very active on Bank issues.

4. Internal Communications Strategies :

If there is agreement in general on the above then the means of implementing, who does what, and the timing of actions need to be determined, as do the tools that are to be used.

5. External Communications Situation :

The public perceptions of the Bank, at least in a number of key Part I countries (these perceptions may spread wider) as depicted in the media are not good. Reorganization's virtues have not been well understood and there has been attention on implementation problems. The Bank's President is not seen as a strong and effective leader - as a manager and as a thinker on development issues. There is some evident frustration that the Bank is not being more explicit on what needs to be done in the debt crisis. There is some sense in some quarters that the Bank is running out of capital and not recognizing the full seriousness of this. There are some concerns that the Bank is not doing enough to ensure full IDA funding. There are some worries that some key countries may soon start defaulting to the Bank. There is a sense that despite reorganization the top management of the Bank has still not won the strong confidence of the Board and thus shareholders. The negative reports are feeding on each other and unless this is halted a sense of crisis could develop soon.

6. External Communications Response :

The Bank's management needs to look at all of these issues as matters of real substance, not as simply public relations problems. Management must recognize there is some truth, some foundation, in some of the critical reports. The response must be well thought through on the critical issues, from debt crisis to Bank/IDA resources, to the real benefits that will become evident from reorganization. Top management must also provide a clear signal to the public that, at a time of increasingly more depressed global economic prospects, the Bank is coming to grips with new ideas and new approaches with a great sense of urgency.

7. External Communications Strategies :

There is a need for a swift set of actions to at least halt the negativism and stabilise the situation. There is a need for a clear plan stretching over quite a few months, involving the President and other key managers that confronts the key substantive issues, that determines an orchestrated set of ways (speeches, articles, seminar discussions, interviews, meetings with key officials etc) for turning around the negativism, revealing the new ideas, the plans for the Bank's future and underlining the leadership of the institution and its President.

Science Paper

Basic institutional goal

- merging
- building program

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 15, 1987

TO Files

FROM Marianne Haug, Secretary to the Policy Committee

EXTENSION 73585

SUBJECT Mr. Shihata's memo of June 8, 1987 on Unauthorized Distribution of Bank Classified Documents

Following the Policy Committee Meeting of Wednesday, June 10, 1987, Mr. Conable requested Messrs. Wapenhans and Shihata to follow up on the case of Unauthorized Distribution of Bank Documents detailed in Mr. Shihata's memo of June 8, 1987 and conduct an investigation with a view to taking disciplinary action as appropriate. Mr. Conable does not support criminal prosecution by U.S. authorities in this case and at this point and time.

cc: Policy Committee Members

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
President's Council Records - Meeting records 02	1784349

Document Date	Document Type
June 8, 1987	Memorandum

Correspondents / Participants
From: Ibrahim F. I. Shihata
To: Barber B. Conable

Subject / Title
Unauthorized Distribution of Bank Classified Documents

Exception(s)
Attorney-Client Privilege

Additional Comments

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Withdrawn by	Date
Ann May	March 12, 2018

114 77

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

MHaug:mr

May 27, 1987

POLICY COMMITTEE MEETING

May 27, 1987 - 4:00 p.m.

(15 minutes only)

1) Consistency across the Bank when filling 27/28 Director positions or 25/27 Division Chief positions.

VP Africa and VP Personnel adopted rule: "Newly appointed Directors will remain at present level until performance justifies higher level" (one year ???)

Can we adopt this approach uniformly to:

- ensure fairness
- minimize costly mistakes
- limit grade creep

2) I am concerned about increase in higher level positions:

- SVPADM will monitor
- See attached communication to you

P 1852

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 15, 1987

TO: Mrs. Marianne Haug, EXC

FROM: Gerard T. Rice, SEC GR

EXTENSION: 74571

SUBJECT: Clearance of Board Documents - Borrowing Papers

Please be advised that, in our processing of Board documents on borrowings, we shall be acting in accordance with the arrangements indicated in the attached note from Mr. Stern to Mr. Vergin.

cc: Messrs. Burmester, Choi

copy to Ley,
Shiata
Linda
file FC BB

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

ERNEST STERN
Senior Vice President
Finance

June 12, 1987

Mr. Vergin

Heinz:

Just to confirm, what I mentioned the other day re clearance of Board documents on borrowings, to make sure there is no confusion. Board documents asking for Board decisions should be prepared for the President's signature per current practice. They should be sent to my office in two copies. Unless they involve something out of the ordinary, I have arranged with the President that I will authorize Board distribution. This will be done by sending one copy to Secretary's indicating authorization for distribution. This parallels our procedure on the loan side. If anything requires the President's attention, I will discuss it with him; in any event I will send him a copy for information.

Papers providing non-routine information for the Board will, again following current practice and format, be prepared for my signature.

If there are any categories not covered by the above, let me know and we can decide how to handle them.

Ernie

June 12, 1987

Ms. Haug

Marianne -

With reference to the Policy Committee agenda:

(a) Annex 3 - The only time the Committee can review adjustment loans and be of relevance is at the IM stage. By the time the Green Cover is done, the basic features and much of the detail has been agreed. Any "decisions" by the Committee at that stage, which are at variance with the text, would severely disrupt the process.

(b) Papers from Finance: You have the schedule for the GCI papers. The "late July" paper you refer to in Annex 4 has already gone to the Board. In addition, we plan to develop a paper for utilizing allocated but unsubscribed shares. The date will depend on the consultation process.

You can also add the following papers:

- Allocation of Net Income:

  PC Review - Late June
  Board - July 28, 1987

- Foreign Currency Management:

  PC Review - Late November
  Board Date - Late December/early January

- Review of Liquidity Policy:

  PC Review - Late October
  Board Date - Late November

ES

Ernest Stern

JUNE 8 MEETING

SPECIAL ACTION PROGRAM FOR DEBT-DISTRESSED COUNTRIES IN AFRICA

The section on increased World Bank concessional flows needs to be changed in three respects:

1) The shift for allocation in favor of these countries from $900 million to $1.1 billion annually assumes that donor contributions to IDA8 are fixed in terms of US dollars. In fact, donor contributions have mostly been fixed in terms of local currencies. As a result the current dollar value of donor pledges has gone up from $12.4 billion to $13.8 billion--more than enough to accommodate the increase recommended for debt-distressed countries in Africa. Therefore, at the moment no reprogramming of planned allocations would be necessary.

2) The current projections for the IBRD net income distribution does not assume a continuing transfer of $100 million per year to IDA. Our recommendation is that this transfer is pre-empted, certainly for FY88, by the IBRD's need for reserves. However, the loss of this transfer will be offset in part by higher levels of IDA income than earlier projected.

3) I would strongly urge that no mention be made of the use of IDA reflows at this stage. There are several reasons for this. IDA8 is already in enough jeopardy on Capitol Hill because of the general budgetary situation and the recent proposal to expand the SAF. If a full US authorization could be obtained for IDA8 and if appropriations were to lag it may be possible to tap the reflows to keep up the commitment level. That should have higher priority since it will benefit these countries in Africa as well as others. In any event, a public discussion of reflows before the US authorization and initial appropriations have been secured is asking for trouble. In addition, the reflows do not become available until 1990 and the US has expressed the views that we should not initiate commitments until reflows in excess of IDA's deficits have become available. There will be enough aspects of our proposal which the US will not readily accept that it is unwise to add another. Finally, there may be other more efficient uses of reflows which we should not pre-empt at this time.

More generally, I believe that the proposal to mobilize an additional $1.5 billion has implications for concessional aid budgets other than IDA8 and the SAF. The paper implies otherwise and this may be seen as misleading. A more minor point is that we believe the increase for IDA disbursements projected is probably on the high side, by about $100 million.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 25, 1987

TO: Policy Committee Members

FROM: Barber B. Conable, President

EXT: 72001

SUBJECT: Staff Retirement Plan

1. Based on the June 17th Policy Committee discussion and Mr. Stern's memorandum of June 12th on the Staff Retirement Plan, I agreed that the SVPFN initiate immediately negotiations to contract out the management of the pension investment function. The terms of that contract must be consistent with standard industry practices, including termination provisions linked, inter alia, to performance.

2. I want to be informed regularly on the progress of this effort before the negotiated draft contract is submitted for consideration to the Policy Committee and for approval to the Pension Finance Committee.

3. We have received resignations from three members of the Pension Finance Committee -- the retiree, one outside member and one member representing the Staff Association. I wish to nominate three new members, prior to the submission of the draft contract to the Pension Finance Committee. It would be desirable for the outside member to have some institutional investment experience.

Barber B. Conable

cc: Mr. Stanton

PC

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 22, 1987

TO: Policy Committee Members

FROM: Barber Conable

EXTENSION: 72001

SUBJECT: Communications

1. I appreciated the frank discussion about our external and internal communications strategy during the Policy Committee last week.

2. I plan to meet this Wednesday at 2:30 with the Delegate Assembly of the Staff Association, and expect you to brief me in advance on any support you or your managers need from me.

3. I expect more direct support on external communication, particularly from the Senior Vice Presidents, in the immediate few weeks. The Senior Management, including myself, represents the institutional memory and is the decision-making body. We must be seen more visibly as such, by insiders and outsiders alike. I count on your full support.

4. Attached is a short note prepared by Frank Vogl, which contains some specific requests and other general suggestions. I encourage you to pursue other appropriate initiatives, as well.

Barber Conable

Attachment

cc: Mr. Stanton

MHaug:im

OFFICE MEMORANDUM

TO: BARBER CONABLE, President

FROM: Frank Vogl, IPADR

June 19, 1987 Ext: 72468

Subject: Interviews

1. A variety of publications have requested interviews with you. A number of reporters want to do articles based on your first year in office, while others are preparing major features for magazines that will be published at the time of the annual meeting.

2. Those in this latter category are:-

Anthony Rowley, Business Editor of the Far Eastern Economic Review, who will be flying here next week from Hong Kong to do a larger series of interviews with Bank/IFC staff for a special report for the annual meeting. You are already scheduled to see Rowley. The Review is read throughout Asia and is probably the single most influential publication across the region, including Japan.

Johnathen Friedland, reporter for the Institutional Investor saw Bill Stanton and some of the CMP consultants and, as Bill noted the other day he is doing a 4,000 word piece on reorganization and your first year in office. Bill tells me that he has already arranged for Friedland to see you.

Peter Koenig, a reporter for Euromoney (which in terms of the international financial and banking audiences is today much more influential than Institutional Investor) will be here towards the end of the month to do a series of interviews for a major piece for the annual meeting report. I do suggest that you squeeze him into your tight schedule.

Mr. Chodery, Editor and director of Asian Finance will be here in late July to prepare a major series of article for an international edition of his publication for the annual meeting. I suggest that you see him at that time.

3. The Paris office arranged with your office for a leading reporter from Le Monde to come and see you in early July and I believe a date has been fixed. This is for an article for immediate publication and it will range across the variety of development and Bank issues we now confront.

Bill Tavetski of Business Week has requested an interview on your first anniversary here. I consider this to be an influential publication and would hope that somehow time could be found to meet his request.

We have additional interview requests, all for exclusives, from Mindy Fetterman of USA Today (formerly with the Rochester Times-Union and claims to know you), who want to do a piece for the MONEY section of the paper. David Turner of the Buffalo News, the Gannet News Service and Knight-Ridder newspapers. I also expect a request from the Christian Science Monitor.

I would turn all of these down at this time, simply because of pressures on your time , but I would like to suggest that you do interviews with these reporters and possibly others in the early part of September as we start to build interest for the annual meeting.

4. Walt Mossberg has taken over the international economic brief from Art Pine at the Wall Street Journal. He asked to see you before the Venice Summit, but we said you were too busy. I think the best approach would be if we invited him to lunch with you and me following your trip to Africa.

5. We are now preparing an article for your signature for the annual meeting issue of " Leaders " magazine. We'll get other requests soon.

6. We will be preparing detailed proposals for each of the above mentioned reporters to see Messrs. Hopper, Stern and Qureshi for interviews to talk about current issues, noting reorganization, but really striving to get the reporters to focus on our current and prospective development work.

7. Mr. Stern has already been discussing plans for a financial results press conference in New York in mid-July.

8. I would like to see small lunches for groups of journalists seperately with Mr. Stern and Mr. Qureshi in coming weeks on the key operations and finance issues and I will be making proposals directly to them.

9. The focus of our attention from now to July I will be on stimulating interest in the media on the World Development Report (release date July I). Then we'll turn the media interest towards your UNCTAD speech, but we'll need the text a week in advance if we are to make the most of this opportunity. Then we'll continue in July with the focus on the FY'87 operations and finance results.

10. I would also like to start moving out in July to deal directly with the British and German press who have been particularly negative on reorganization and I'll give you more detailed plans on this in due course.

CC: Mr. Stanton, Ms. Haug, Ms. Maguire

POLICY COMMITTEE MEETING

Wednesday, June 17, 1987

2:30 - 4:30 p.m.

strategy agreed:
Q: leaving; 9 months
St: limited way
formula 2-3 years
talk to us, but
we all: Investment market, will take longer

AGENDA

1) Staff Retirement Plan

Memoranda of June 12, 1987 (E. Stern to Members, Policy Committee) and June 10, 1987 (M. Paijmans to B. Conable)

2) Internal and External Communications - Issues Paper of June 15, 1987

3) Proposed Policy Committee Agenda

4) Africa Debt - Requested Report to the Board

5) Miscellaneous

MHaug:im
June 15, 1987

Record Removal Notice

The World Bank Group **Archives** & Records Management

File Title	Barcode No.
President's Council Records - Meeting records 02	1784349

Document Date	Document Type
June 12, 1987	Memorandum

Correspondents / Participants
From: Ernest Stern, SVPFI
To: Members, Policy Committee

Subject / Title
Staff Retirement Plan

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.

Withdrawn by	Date
Ann May	March 12, 2018

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE June 16, 1987

TO : Members of the Policy Committee

THRU : J. William Stanton, Counsellor to the President JWS

FROM : Frank Vogl, IPADR FV

EXTENSION : 72468

SUBJECT : Communications Issues

The purpose of this brief note is to stimulate discussion that can lead to action on critical communications issues. This paper does not attempt to represent a comprehensive plan, but the views of Policy Committee members are sought on each of the points raised here so that a plan can be developed in the near future.

Attachment

FV:rgw

cc: Ms Haug

P-1867

1. Issue:

The Bank's management has recently had a bad press and staff morale is low. The continuation of such trends will impede the Bank's progress in its critical missions. The response must involve decisions on matters of substance, but there is also a need for an effective and well coordinated communications strategy involving all of the Policy Committee members.

2. Objective:

The basic aim of such a communication strategy needs to be, in effect, to strengthen confidence in management by the staff, the shareholders and the public and to strengthen perceptions among these audiences of the Bank's sense of purpose and its focus on the critical development challenges that now exist.

3. Recommendations in Summary:

(a) That recommendations be made to the President by the Policy Committee on the key themes, policy decisions and, possibly, major new initiatives, that should be announced by him at the Annual Meeting. And that a work plan and timetable for developing the speech be swiftly agreed upon.

(b) That there be discussion on the key messages on critical issues - from IDA and African debt, to GCI and the Baker Plan - to determine whether in the period leading to the Annual Meeting the Bank should go beyond the statements made in the President's Hudson Institute speech in responding to external audiences when they seek answers to questions on these issues in their efforts to determine the Bank's leadership roles and skills.

(c) That a timetable be developed for particular actions by Policy Committee members - from press interviews and conferences to meetings with key officials in capitals and the Board - to demonstrate the benefits of the reorganization, turn around the negativism on this subject and underline that the Bank is moving forward on the issues.

(d) That senior managers develop a set of messages and an action plan for dealing directly with the issue of low staff morale to restore, as fast as possible, a sense of enthusiasm on the part of staff for the institution, its management and its goals, leading to action on FY'88 work plans.

4. The Annual Meeting:

Turning around some of the negative perceptions will take time and it will be difficult. It will best be achieved with substantive arguments on the critical issues that confront the Bank. It will take time to shape and finalize these, but expectations will be high from the staff, the shareholders and the media, that the President will use the Annual Meeting as an opportunity to outline his agenda for action and demonstrate how more resources for the new institution, the Bank's new organization and its strong management team, can combine to still more effectively and creatively attack the major development problems. Expectations will be very high for such an address. In addition to developing the key arguments the Policy Committee may also want to discuss whether there is an opportunity or a need to announce some sort of special initiative at that time.

5. Publicity on Issues:

The President and the Bank's top managers have not been highly visible on the issues in public in recent times. The President has not, for example, made a major speech before a key audience on the debt issue - an issue that remains the most dominant subject of external enquiries to the Bank from the media, politicians, academics and bankers. Other senior managers have also played low key roles in this area. Before changing this course, however, the Policy Committee should provide direction on the key messages that the institution ought to publicly deliver at this time on this issue. The latest set of statements on issues concerned with debt and the Bank were contained in Mr. Conable's Hudson Institute speech. Should the Bank be more precise and outspoken on African debt, on the need for a GCI, on the impact of new actions on Third World debt by commercial banks, on the Baker Plan, in the next couple of months? The advantages of going further on these issues are considerable in terms of demonstrating concern on the key issues and leadership and so reversing some of the current negative comment. On the other hand there is a danger of going too far without more substantive analysis of the issues and, in so doing, upstage to a degree the Annual Meeting address.

6. President's Visibility:

There is a need for senior management to become more visible publicly in discussing key Bank issues. The President should not be over-exposed, although he should give more one-on-one mdeia interviews with key reporters and move ahead with his present schedule of speeches - notably his UNCTAD speech and possibly other appearances in the next couple of months.

7. Opportunities for Senior Managers:

Meanwhile, the end of the fiscal year provides opportunities for senior managers to go public in discussing the achievements of the Bank in terms of operations and finance in FY'87 through a series of interviews and press conferences in July, should this be seen as desirable. And to follow this up with briefings in September on the Annual Report and on what is in prospect for the Development Committee and Annual Meeting.

8. Reorganization Benefits:

It would be useful to seek to take advantage of all media and public speaking opportunities to underline the longer-term benefits of the reorganization and it might be useful if on this subject, as on some of the substantive issues noted above, some guidance was given to the Bank's managers on the key messages that we want to see widespread.

9. Timetable:

It would be useful if the Policy Committee members could determine a timetable for their individual public statements and appearances for the next couple of months that could be well coordinated and which could be supported to secure maximum visibility by External Affairs.

10. Internal Communications:

External perceptions are influenced by internal staff views, just as the opposite is the case. The Policy Committee members should consider actions that they could take jointly and that they could inspire their senior subordinates to take to deal with the serious problem of low staff morale. Again, a coordinated timetable of actions would be helpful here and External Affairs could provide some support. In this regard one factor of importance is conveying to staff a sense of strong cohesion among the top management in support of the reorganization.

The President has directly addressed all of the Bank's new managers and while there are some other actions that he might take vis-a-vis the staff at large, it might well be appropriate now for other senior managers to move out on his initiatives to consolidate commitment to the reorganization.

11.<u>Vice Presidents Roles</u>:

Here the Policy Committee may wish to differentiate between staff groups. Vice Presidents assuredly want to be part of this process and can be helpful, not just now, but in the future in securing cohesion across the Bank and strong support. Communications between the President and the Vice Presidents - through a President's Council, or a Senior Management Council, or, simply, through the Senior Vice Presidents - is a matter worth deliberating in this context. So too, is the matter of how Policy Committee decisions are communicated and the degree to which senior staff have the means to have an input into the policy formulation process now that such committees as the Operations Policy Committee or the Personnel and Adminstsration Committee have been disbanded.

12.<u>Focus on Work Ahead</u>:

Perhaps the single most effective means of reviving staff morale over time is going to be a sense of a return to normalcy - a focus again on immediate tasks ahead, on missions, on fashioning and implementing work programs, on discussion about country needs and sectoral priorities. The speed with which this effective atmosphere is restored can depend to a degree on the signals provided by top managers to staff.

13.<u>Conclusion</u>:

This paper has sought to initiate discussion that can lead to an action plan on a communication strategy. Effective communciations must be concentrated around substantive decisions and actions by the Bank's top management. While the President must play a leadership, visible, role in internal and external communications, the burden of communications must be widely shared among senior managers. The determination of actions is urgent given the low state of staff morale and the negative perceptions that abound in some quarters. Work over the next couple of weeks on each of the four areas noted in paragraph 4 of this paper can lead to the development and implementation of an effective communications strategy.

JUNE 5 MEETING