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Folder ID: 30021220

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Dates: 12/02/1976 - 10/21/1977

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VPD · DIRECTOR,
DEVELOPMENT POLICY

Development Committee - Working Group on Capital
Markets Access 1977

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Development Committee - Working Group on Capital Markets Access - 1977 - Volume 0

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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 10/21/1977	Document Type Memorandum			
Correspondents / Participants To: Executive Directors, IMF From: Sir Richard King				
Subject / Title Next Meetings of the Working Groups				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>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.</p> <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date September 12, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
Withdrawn by Bertha F. Wilson	Date September 12, 2023			

ROUTING SLIP

DATE:

8/26

NAME

ROOM NO.

Mr. Karaosmanoglu

E1243

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APPROVAL

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COMMENT

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FOR ACTION

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RECOMMENDATION

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SIGNATURE

NOTE AND FILE

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REMARKS:

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(b) I have checked it out with
Ernie.*Rev
Accounts Cop.
Hasket*

FROM: Helen Hughes

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D428EXTENSION:
4111



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 8/5/1977	Document Type Memorandum			
Correspondents / Participants To: Sir Richard King From: Luis Escobar				
Subject / Title Private Foreign Direct Investment (PFDI)				
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.		
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Withdrawn by Bertha F. Wilson	Date September 12, 2023			



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 9/13/1977	Document Type Memorandum			
Correspondents / Participants To: Sir Richard King From: Luis Escobar				
Subject / Title Working Group on Access to Capital Markets, Information Document, DC/WG/CM/77-6, Partial Guarentees				
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.		
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 8/25/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, Information Document, DC/WG/CM/77-5				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, Information Document, DC/WG/CM/77-5				
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Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets				
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File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 8/1/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, Report to the Development Committee, DC/WG/CM/77-4				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 8/1/1977	Document Type Memorandum			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Development Finance and Policy, Report to the Development Committee, DC/WG/DF/77-6				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>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.</p> <table border="1"> <tr> <td>Withdrawn by Bertha F. Wilson</td> <td>Date September 12, 2023</td> </tr> </table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 7/11/1977	Document Type Memorandum			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Access to Capital Markets, Document Transmittal Note (DC/WG/CM/76-10, Sup. 2, International Investment Trust)				
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.		
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 6/30/1977	Document Type Memorandum			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Development Finance and Policy, Document Transmittal Note (DC/WG/CM/77-4, Volume of Official Development Assistance in 1976)				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>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.</p> <table border="1"> <tr> <td>Withdrawn by Bertha F. Wilson</td> <td>Date September 12, 2023</td> </tr> </table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
Withdrawn by Bertha F. Wilson	Date September 12, 2023			



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 7/25/1977	Document Type Agenda			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, Topics for Discussion, DC/WG/CM/77-3				
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.		
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 7/14/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets Information Document, Report of the Conference on International Economic Cooperation to Access Capital Markets.				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>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.</p> <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date September 12, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
Withdrawn by Bertha F. Wilson	Date September 12, 2023			

ROUTING SLIP

DATE

6/27/77

FROM THE REGIONAL VICE PRESIDENT

NAME

ROOM NO.

Mr. Karaosmanoglu

AP

File

Dev. Committee

"Access to Cap. Markets"

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FOR ACTION

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RECOMMENDATION

NOTE AND FILE

SIGNATURE

REMARKS

For your information.

FROM

E. Stern,

OFFICE MEMORANDUM

Mr. Ahmad
cc
Atilla

TO: Mr. M. M. Ahmad, Deputy Executive Secretary, DEC

FROM: Pedro-Pablo Kuczynski, Economic Adviser, IFC *PK*

SUBJECT: International Investment Trust

DATE: June 24, 1977

In reply to your question today, I can say the following:

IFC, since the last meeting of the Working Group on Access to Capital Markets, has held further discussions with some governments [Brazil, Korea and the United States] on the subject of the International Investment Trust. These discussions do not change significantly the position adopted by governments at the last Working Group meeting in the sense that they would not be willing to put up, from public sources, the seed capital which we in IFC consider technically essential for a venture such as the International Investment Trust to successfully begin operations, even on a small scale. The general attitude is that the IIT is an interesting and promising idea, but that, with other priorities facing them at present, governments are not interested in putting the kind of funds necessary to get the scheme started. As the IFC representative stated at the last Working Group meeting, in these circumstances, no further staff work on refining the proposal should be undertaken at this time.

cc: Messrs. Qureshi ✓
Stern
Gill
Weigel

PPKuczynski/rso



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File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 6/17/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, Information Document				
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.		
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File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 6/10/1977	Document Type Memorandum			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Access to Capital Markets, Document Transmittal Note (DC/WG/CM/76-9, Sup. 2, Promotion of Bond Issues: Outline of Possible Program)				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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JOINT BANK/FUND
DEVELOPMENT COMMITTEE

May 27, 1977

Mr. Stern:

Please find attached, for your clearance, draft paper on Partial Guarantees to be submitted to the members of the Working Group on Access to Capital Markets for the July meeting. If you have any comments, please call Mr. Ahmad no later than June 10 (I will be back in the office on June 27).

Attachment

Saludos

Luis Escobar

*Revised to Messrs. Hag/Jacob
for comment and information.*

May 31, '77

DRAFT
May 27, 1977

Working Group on Access to Capital Markets

PARTIAL GUARANTEES

The subject of multilateral guarantees for bond issues of developing countries has been under active consideration by the Working Group since its inception in 1975. Successive discussions of this topic by the Committee itself, based on the periodic reports of the Working Group, made it clear that governments were reluctant to create a new institution or to make substantial special capital subscriptions at this time for guarantee purposes. Accordingly, attention has shifted gradually from initial proposals contemplating the establishment of a new, specialized international institution for extending guarantees, to the possibility of activating the → guarantee authority that already exists in the World Bank and the regional banks.

A recurring theme in the discussions of guarantees to date has been that any program agreed for implementation should embody the promise of stimulating additional resource flows to developing countries, both in the sense of not lessening investors' interest in the securities of developing countries that already enjoyed access to markets, and of eliciting new resources for "threshold" countries without prior access to long-term markets. As a result of this orientation, attention has focussed still more narrowly on the possibility of the international and regional banks extending partial rather than full guarantees. In all of these institutions, a dollar of guarantees issued counts the same

against capital as a dollar of direct loans. Partial guarantees would therefore provide an element of additionality by supporting a larger than equivalent amount of external loan financing.

At its most recent meeting, held in Washington on April 27, 1977, the Committee had before it the results of the Working Group's further consideration of multilateral guarantees (document DC/77-1, section 2). In this review, the Working Group indicated substantial support for the view that an experimental beginning in the extension of guarantees should be made through the use by the World Bank and the regional banks of their existing guarantee authority, within their present capital structure, on the basis of requests for guarantees from interested member countries.

Various Members commented on the guarantee aspects of the Working Group's Report, and the Chairman summarized the sense of the meeting in the following terms:

- that the World Bank and regional banks should use their existing guarantee powers and should consider requests for guarantees, with the expectation that additionality would be realized;
- that in considering future capital increases of the lending institutions room should be kept for the institutions to engage in guarantee operations;
- that the Working Group should explore further the possibility of partial guarantees, which the Committee considered to be appropriate, and report to the Committee.

The views of the World Bank on use of its guarantee authority in general were summarized in an earlier Working Group paper, "Use of Multilateral Guarantees" (document DC/WG/CM/76-8). It may be noted that, as cited in that

paper, the Bank gave some encouragement to a preference for partial rather than full guarantees, principally on the ground that by imposing a degree of risk on private investors, the partial guarantee would force investors to consider carefully the creditworthiness and future prospects of borrowers, thus hastening the process of "educating the market." More recently, and in the light of the Committee's discussion in April, the World Bank is informally notifying several countries potentially suitable for guarantees regarding the recommendations of the Committee, and is now awaiting expressions of interest on the part of such countries.

With respect to possible follow-up action by the regional banks, the Inter-American Development Bank advised the Development Committee Secretariat that it was considering the results of the Committee's discussions as summarized by the Chairman, and would keep the Secretariat informed of any action the Bank might pursue. The Asian Bank, for its part, has expressed doubts about the expediency of itself engaging in guarantee operations, because of its capital situation and its relative newness in international capital markets.

The Secretariat has also had some contacts with the private financial community regarding partial guarantees. As noted in an earlier Secretariat document (DC/WG/CM/76-9, Sup. 1), practically all the private financial institutions consulted called attention to the utility of guarantees in promoting sales of developing countries' bonds. There was, however, a division of opinions regarding the feasibility of partial guarantees. While several private bankers would be prepared to examine various technical approaches and possibilities, most of them were not very optimistic about

the market's reception of partially guaranteed bonds. The versions of partial guarantees mentioned included:

- a. full guarantee of principal only during life of loan;
- b. full guarantee of interest only during life of loan;
- c. full guarantee of principal and interest during specific number of years of loan, either early or late;
- d. guarantee at a percentage--constant, rising or declining--of principal and interest during life of loan;
- e. moving period of coverage of full guarantee, i.e., guarantee beginning from, say, fifth year beyond current year during life of loan.

While it is not within the scope of this brief reporting note to analyze these technical approaches to the partial guarantee concept, it should be evident from the foregoing list that a broad range of possibilities exists and awaits possible application. The international and regional lending institutions should have no difficulties in elaborating on one or another of these and tailoring it to the requirements of a concrete operation.

Conclusion

It would appear that the scope for partial guarantees can be assessed only in practice through specific borrowing operations carrying such guarantees. There has been substantial support in the Working Group for the view that the World Bank and the regional development banks should use their existing guarantee authority, within their present capital structure, and consider requests for guarantees from interested member countries. In

the context of such requests it would be appropriate for the World Bank to consider granting partial guarantees in order to provide additionality and cultivate market receptivity to such operations. The management of the World Bank is agreeable to this approach.

L
Sir Richard King, Executive Secretary,
Development Committee
Ernest Stern, VP, South Asia

May 2, 1977

Underwriting of Developing Country Bonds

You will recall at the last meeting of the Working Group on Access to Capital Markets, the World Bank was requested to put its views regarding the underwriting of developing country bonds in writing. Attached is a short note which you may, at your convenience, circulate to the members of the Working Group.

Attachment

cc w/att.: Messrs. Knapp
Broches
Cargill
Goodman
Karacasmoglu ✓

EStern/lc

File

Mr. Robert S. McNamara

April 19, 1977

Ernst Stern, VP, South Asia

Development Committee

1. Some months ago the Development Committee Working Group on Capital Markets inquired about a possible role for the Bank in underwriting LDC bonds. We responded orally. At the April meeting of the Group, we were asked to provide a brief note. This is attached. It has been cleared by Messrs. Broches, Goodman, and Rotberg. May I have your comments, if any, in the next few days so that I can forward this to the Secretariat.

2. It is our assessment that few, if any, requests for this service will be made and fewer will be pursued seriously. However, there would seem to be no reason why we should rule out such a service in advance.

Attachment

cc w/att.: Messrs. Knapp, Cargill

cc for information: Messrs. Broches, Goodman, Karasmanoglu

EStern/lb

attachment given
to Mr. K -
(check Prospects 1977
File)

ROUTING SLIP

DATE:

4/14/77

NAME

ROOM NO.

M. Karaosmanoglu

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COMMENT

PER YOUR REQUEST

FOR ACTION

PREPARE REPLY

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RECOMMENDATION

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REMARKS:

For your information -
to be discussed today
at Secretariat mtg.

FROM:

L. Stern

ROOM NO.:

EXTENSION:

DRAFT
LEscobar:luz
April 13, 1977

DC/WG/CM/76-9, Sup. 2

Working Group on Access to Capital Markets

PROMOTION OF BOND ISSUES:
OUTLINE OF A POSSIBLE PROGRAM

1. At its meeting on January 17-18, 1977 the Working Group considered the Secretariat's paper DC/WG/CM/76-9 on the "Promotion of the Bond Issues of Developing Countries: Primary and Secondary Markets". The paper outlined some suggestions to influence investor preferences favorably by promotion of greater familiarity with the creditworthiness of potential borrowers and, in order to facilitate the accomplishment of this objective, discussed the possibilities of establishing a financial mechanism.

The Working Group asked the Secretariat to consult with international organizations and with private market practitioners on the feasibility and effectiveness of approaches such as those described in the paper. The result of these consultations were reported to the Working Group in document DC/WG/CM/76-9, Sup. 1 and discussed by the Working Group at its meeting of March 17-18.

There was general agreement in the Working Group on the need of establishing a long-term, sustained, educational program aimed at investors and potential investors of developing countries' securities. The Working Group thought that for this "educational" effort to be successful, at this stage, it did not need the support of a financial mechanism as the one suggested in DC/WG/CM/76-9.

In reaching these conclusions the Working Group relied heavily on the opinion of the financial institutions in the private sector. Finally, the Working Group asked the Secretariat to further consult with the international and regional organizations and with financial institutions in the private sector on guidelines which might serve as a basis to develop a concrete promotional program and on how such a program could be implemented from an institutional and financial point of view. This paper deals with these questions.

2. Following the resolution of the Working Group, mentioned in the previous paragraphs, the Secretariat has consulted with senior staff members of the IMF, World Bank, IFC, IDB, Asian Development Bank and African Development Bank and with several institutions in the private sector both in Europe and New York.

3. There was general agreement, among the institutions consulted, that a promotion program could have a favorable impact in facilitating bond issues and placements by developing countries and that it would also facilitate co-financing arrangements as well as general access to the private financial markets. The program should concentrate on a small number of "threshold" countries hopefully with the idea of showing results in the not-too-distant future. It was emphasized that this needed to be a sustained effort whose results would only become evident in the long run.

The private sector attached great importance to a closer collaboration with the countries and with the international organizations especially in the field of exchange of information; information provided by international orga-

nizations and their endorsement of a country's economic management command much respect in the market. Private sector spokesmen, therefore, felt that international organizations should inform potential investors about their appraisals of the countries' economic situation and prospects; this should be done not only in connection with the possibility of an upcoming bond issue but also as a general background on countries interested in gaining or improving access to the market.

It was also mentioned that the promotional techniques to be used should, in practice, be adapted to characteristics of the different markets and potential investors: United States and other foreign markets including some OPEC countries and the Euro-market.

As in the discussions of the Working Group, the view among the private institutions consulted was that the promotional activities, addressed to "education" of the investors, should go pari passu with the technical assistance activities, addressed to preparation of the "threshold" countries to gain and/or expand access to the market. In this manner, "promotion" and "technical assistance" were considered to be, so to speak, the two sides of the same coin. This view led to the opinion that the same institutions taking responsibility for the technical assistance activities should assume primary responsibility in helping countries in their promotional efforts.

4. For this reason, most people interviewed thought that IFC, which had already been asked by the Committee to expand its technical assistance activities in the field of access to capital markets, should take primary responsibility as well for the promotion program. This possibility has been discussed with the management of IFC who stated IFC's position in the following terms...

5. Another institutional arrangement explored by the Secretariat was for the regional development banks to assume the primary responsibility for carrying out such a program. Their reactions were as follows: the IDB management thought that ...

The management of the Asian Development Bank indicated that ...

The management of the African Development Bank said that ...

6. It is very difficult--and risky--to make estimates about costs of a promotion program; they will depend basically on the magnitude of the promotional campaign that a particular country would be prepared to launch, characteristics of the market, sectors to be reached in that market ("target" groups), "record" of the country in that market so that costs would vary from country to country and from issue to issue implying, probably, higher costs at the beginning of the campaign when a country is trying to gain initial access. However, if an international and/or regional organization were to assume responsibility in order to assist countries in their promotional efforts and coordinate these operations one could immediately identify some fixed costs corresponding to the personnel required to run this operation. It can be assumed that this staff costs would correspond to, say, two professional man-year; this cost plus direct office expenses, communications, travel and general overhead would constitute fixed costs and would be borne, presumably, by the development agencies involved.

It is assumed that costs beyond these fixed overheads would be borne by the interested potential borrower (country). Such further costs would presumably vary from country to country, from issue to issue and from market

to market. It is probably reasonable to estimate that these costs to the borrower would fall between a minimum of 1/4 of 1 per cent and a full 1 per cent of the issue value, or between \$125,000 and \$500,000 on an issue of \$50 million (over and above normal underwriting and placement fees).

Conclusion and Recommendation

"Technical assistance" and "promotion" should be considered as two phases of, basically, the same activity, the purpose of which is to help a "threshold" country in the process of getting ready to sell its bonds in the foreign and international capital markets. To make the effort successful, a close working relationship should be developed among the interested country, the private sector and the international and/or regional organization involved. The Development Committee has already recommended that IFC expands its activities in the technical assistance field. It appears logical that the Development Committee recommends that IFC also expand its promotional activities. The Development Committee could also suggest to the regional development banks that they seriously consider providing technical assistance to interested countries to organize themselves for gaining access to the bond market and for developing a promotional program designed to accomplish such a goal.

The Working Group on Access to Capital Markets suggests that the Development Committee considers the adoption of the following recommendation:

...

The next pages contain a summary outline of a possible promotion program.

DEVELOPING COUNTRIES' BOND ISSUES

Summary Outline of a Possible Promotion Program

Financial markets

1. Examples of ground to be covered

- Educational effort aimed at institutional investors and banks and other intermediaries to familiarize them with potential lending opportunities to selected developing countries, information on external debt capacity and its interpretation.
- Information to financial press and other media.
- Representations to governments of capital exporting countries in regard to restrictions and other regulatory impediments affecting developing countries' access.
- Identification of specific lending opportunities, including those relating to possible co-financing with the development agencies.

2. Techniques

General and specific written and oral presentations; "road shows" for international investors in the capital exporting countries; seminars; trips (visits) to the country by potential lenders, major investors and underwriters; publications (pamphlets and the like).

Borrowing countries

- Technical assistance to insure creation or strengthening of internal governmental structures for implementing effective approaches to markets.
- Educational effort aimed at selected country borrowers to familiarize them with scope and requirements of the various international financial markets in regard to developing countries' credits.

Consultations with appropriate authorities of interested countries on organizational matters and borrowing potential; training programs for designated operational personnel; temporary assignment to international organizations and private financial institutions.

3. Coordination

Coordination and liaison with international lending agencies to take advantage of economic reporting and analysis available from such agencies and to integrate market access efforts with their lending activities.

4. Financial centers covered

Will depend on borrower but initial priority is likely to be given to Euro-markets (principally US\$ and DM), the U.S. market and OPEC sources. Subsequently, Japan and other national markets could be explored.

5. Recipients

- Intermediaries: investment banks and dealers; underwriting and market-making institutions; other banks interested in bond placements.
- Investors: life and other insurance companies, pension and other investment funds, saving banks, bank trust departments, OPEC institutions.
- Financial press and other media.

In selected developing ("threshold") countries:

- Financial authorities.
- Managements of borrowing institutions and enterprises.
- Operational personnel.

6. Program implementation

Initially, primary responsibility with international bodies such as IFC and/or regional banks; objective would be transition to full responsibility on part of borrowing country with international body in supporting role; close collaboration will be sought with underwriter(s) involved.

7. Time frame

Program to be evaluated after an initial period of five years.

8. Cost

To be budgeted in consultation with the institutions participating in the program. Fixed overhead costs (small international staff, office expenses, travel, etc.) to be borne by international body; further promotional costs to be borne by potential borrower.

ROUTING SLIP	DATE 5/6
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FROM THE OFFICE OF THE
REGIONAL VICE PRESIDENT

NAME	ROOM NO.
Mr. Karaspiroglu	E 1243
File	
Dev. Com.	

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

REMARKS

cc - Mag Hughes

FROM

L. Stern

OFFICE MEMORANDUM

TO: Mr. A. Broches, VPG
Mr. R. J. Goodman, Director, Financial Policy
FROM: Ernest Stern, VP, South Asia
SUBJECT: LDC Bonds - Underwriting

DATE: April 5, 1977

Attached is a draft note on the Bank's potential role in underwriting LDC bond issues, based on our discussion last week. Would you please review it, including with any specially interested parties like Mr. Rotberg, and let me have your comments and/or proposed revisions by April 13, if at all possible.

✓ cc: Mr. Karaosmanoglu, DPS
(w/attachment)

DRAFT
EStern:mr
4/5/77

At a recent meeting of the Working Group on Access to Capital Markets, the question was raised as to how the Bank might assist in the underwriting of developing country bonds. There are several aspects to this question which are discussed briefly below.

Under the Articles of Agreement, the Bank would be able to underwrite bond issues in the sense that the Bank would make a loan to a country on a contingent basis. The loan would be charged against the country's lending program. If the bonds were fully sold, the loan would in fact not be activated and the lending program would not be affected. To the extent that the bonds would not be sold, and the underwriting responsibility would have to be exercised, only that portion of the loan needed to purchase the unsold bonds would be activated and charged against the country's lending program. All provisions of the Articles relating to Bank lending would be applicable to such a transaction - that is, the Bank would have to appraise the project for which the bonds are to be used as if a regular loan were to be made. Similarly, the condition regarding program lending would be applicable to general purpose bonds - i.e., that they could only be made in special circumstances. It is possible that the introduction of a country to the bond market might satisfy this requirement; the definition of special circumstances need not be limited to acute structural balance of payments difficulties.

The cost to the issuer of the bonds would be higher than the cost of an equivalent amount of Bank lending since the bonds which would be issued would have to be issued at prevailing market rates. No testing of the market could take place at less than prevailing market terms.

While it is premature to decide on the details of commissions and like matters, it seems probable that the Bank would have to charge for the cost associated with its appraisal. The staff time now expended on appraisals is defrayed by interest payments on outstanding loans. In a successful underwriting, no loan would be outstanding and thus, there would be no payment for the considerable staff expenses involved. If the operation were to be only a minor one, this would not pose a serious problem, but if this activity were to grow to a significant scope, it could not be done free of charge. However, any such charges are not likely to exceed the differences between the Bank's lending rate and the market rate for LDC bonds.

The Bank has no expertise in the marketing of bonds, including bonds from the developing countries. The Bank would, therefore, only be able to participate in an underwriting in association with other reputable underwriters and would have to rely on them for the marketing aspect. The role of the Bank would have to be limited to sharing in the underwriting responsibility and in the provision of its appraisal. This relationship raises the question as to whether Bank participation would make a substantial difference. If underwriters are prepared to float an issue, they presumably will have made the decision that the issue is creditworthy and saleable. If they reach a contrary conclusion, the Bank would not be able to proceed independently. Nonetheless, it is conceivable that there are some countries at the margin where the willingness of the Bank to participate in the underwriting may positively affect the judgment of the commercial underwriters.

Another approach to the same problem is the practice, which has been described previously, of Bank co-financing with a bond issue. This had been done in the early days of the Bank and might be considered again. In this case, Bank participation would be in the form of a project loan. The Bank appraisal

would be available to the private underwriters as a basis for judgment and they could refer to the Bank loan in the prospectus. Such cofinancing might provide all the benefits of association with the Bank and involve none of the additional costs of having the Bank underwrite a portion of the bond issue instead of making a loan.

A recent example of Bank parallel financing with a bond issue was the case of Malaysia power development where a Bank loan and a substantial bond issue provide the bulk of the external capital required.

The above comments relate to the legal, technical and financial aspects of Bank participation of underwriting of LDC bonds. We have not consulted with the financial community to obtain their judgment as to whether such participation would facilitate the placement of bonds. Should any borrower express an interest in this approach, we would be prepared to consider it.

OFFICE MEMORANDUM

TO: Files

DATE: March 24, 1977

FROM: P. R. Jacob, EPR

SUBJECT: Development Committee Working Group
on Capital Markets, Session - March 17-18, 1977

1. The Working Group met in Washington on March 17 and 18, 1977 to discuss the following subjects:

- (i) promotion of LDC bond issues;
- (ii) improvements in the reporting system on International Financial Stocks and Flows;
- (iii) the International Investment Trust proposal;

and to prepare its Interim Report to the Development Committee. There was a surprisingly large attendance at the meeting which stood in contrast to the rather meager substantive content of the discussion in which mostly familiar arguments were traded across the table. A copy of the eventually agreed report to the Development Committee is attached.

2. In essence, the Working Group is now left with no real live issue. The closest thing to a mandate for future work by the Secretariat is the request of the Working Group to consult with the multilateral financial institutions and the private sector regarding the preparation of proposals for a promotional program for LDC bond issues, and to report back on this to the Group.

3. The International Investment Trust proposal was somehow kept alive, despite essentially negative response couched in cautious words of general interest, by requesting the Secretariat to explore how this matter 'might be taken further'. On the guarantee issue the reference to World Bank's and Regional Banks' use of existing guarantee authority in case of requests from interested member countries for such assistance was retained in the Working Group recommendations irrespective of the low probability that such interest might actually materialize.

4. The Secretariat is mandated to keep the Working Group periodically informed on progress in improving information flows, and on the implementation of the earlier Development Committee recommendations on Regulations and Practices. It was further suggested that the Working

Group might find it useful to look into the subject of LDC Export Credit Financing; it was recognized, however, that this subject was already under study by UNCTAD and that IFC had just prepared a paper. No definite decision was therefore taken with respect to possible future involvement of the Working Group in this area.

5. The next meeting of the Working Group is scheduled for July 25-26, 1977, in Washington.

Attachment

cc: Messrs. Stern
Karaosmanoglu ✓
Haq
Chernick
Saxe
Burki



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 3/22/1977	Document Type Report			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Access to Capital Markets, Interim Report from the Development Committee DC/77-1				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date September 12, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
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See Distribution

March 23, 1977

Ernest Stern, VP, South Asia

Development Committee Working Group on Capital Market Access

Attached for your information is the report of the Working Group on Capital Markets to the Development Committee. You will note that the original enthusiasm for the Multilateral Guarantee Fund has vanished and that all that is left is a suggestion that the World Bank and the Regional Banks consider requests for guarantees from interested member countries. Similarly, the original proposal of the Secretariat for an underwriting and promotional fund for LDC bond issues has boiled down to a suggestion for an educational program. The nature of this is still unclear and the Secretariat is to undertake further consultation. It had been suggested that among the multilateral institutions, the IFC might be the most suitable to provide whatever assistance may turn out to be necessary. On the International Investment Trust, the paper which had been prepared by the IFC raised the appropriate basic issues. The members of the Working Group were unable to give answers to these issues, which involve (a) who is to provide the financing, and (b) whether countries are prepared to make the necessary changes in their tax laws to permit such an investment trust to function. Further consultation with member countries will take place.

The only other point of interest is that the Executive Secretary suggested that the Group might consider the question of export credit financing. There was limited enthusiasm for this, but as a first step, the Secretariat will collect the previous studies on this subject, which are numerous, and be in touch with UNCTAD, which is also conducting a study on this subject. The IFC paper, which is under preparation, may also provide a suitable input.

Attachment

Distribution:

Messrs. Knapp
Cargill
Chenery
Karaosmanoglu ✓
Murick

EStern/lis



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 3/22/1977	Document Type Report			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Access to Capital Markets, Interim Report from the Development Committee DC/77-1				
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 3/17/1977	Document Type Memorandum			
Correspondents / Participants A. Broches, General Counsel R. A. Goodman, Director Financial Policy Ernest Stern, VP, South Asia				
Subject / Title Bond Issues				
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.		
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PROVISIONAL

March 16, 1977

Working Group on Access to Capital Markets
Washington, D.C.

March 17-18, 1977

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3. Germany	Mr. Dietmar Thorand Federal Ministry of Finance Bonn	
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Chief, International
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Mr. Juan Rojas B.
Institute of Foreign Trade
Caracas, Venezuela

7. Philippines

Mr. W.A.E. Green
Executive Director
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Mr. Robert Kirk
Technical Assistant to
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8. Tunisia

Mr. Bessekhoud Mohamed
Central Bank of Algeria
Algiers, Algeria

Mr. Ouenniche Abdelmalek
Central Bank of Morocco
Rabat, Morocco

* * * * *

World Bank

Mr. Ernest Stern
Regional Vice President
South Asia

IFC

Mr. Pedro-Pablo Kuczynski
Economic Advisor

IMF

Mr. Ernest Sturc
Director
Exchange and Trade Relations Department

Mr. Donald Palmer
Deputy Director
Exchange and Trade Relations Department

Mr. Richard C. Williams
Chief
Exchange Rate Practices Division
Exchange and Trade Relations Department

Mr. Manuel Guitián
Acting Chief
External Finance Division
Exchange and Trade Relations Department

Mr. Arie Bouter
Assistant Director
Balance of Payments Division
Research Department

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Counsellor
Washington, D.C.
2. Economic Commission for Latin America
Mr. David Pollock
Director, Washington Office
Washington, D.C.
3. Inter-American Development Bank
Mr. Pedro Irañeta
Deputy Financial Manager-
Treasurer
Washington, D.C.
4. Organisation for Economic Cooperation and
Development/Development Assistance Committee
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Head, Capital Markets
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Financial and Fiscal Affairs
Directorate
Paris
5. Switzerland
Mr. Peter Hadorn
Third Secretary
Embassy of Switzerland
Washington, D.C.
6. United Nations
Mr. Barry Herman
Economic Affairs Officer
Financial Resources
Development Branch
New York
7. United Nations Conference on Trade
and Development
Mr. Michael Tobin
New York

Development Committee
Secretariat

Sir Richard King
Executive Secretary

Mr. M.M. Ahmad
Deputy Executive Secretary

Mr. Luis Escobar
Deputy Executive Secretary

Mr. E. Jay Finkel
Assistant Executive Secretary

Mr. M.R. Shroff
Assistant Executive Secretary

Mr. John Adams, Consultant



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 3/7/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, Transmittal Note				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date September 12, 2023</td></tr></table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
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OFFICE MEMORANDUM

File
D.C.

TO: Memorandum for the Record

DATE: March 3, 1977

FROM: Mahbub ul Haq, Director, PF&PR *gwh*

SUBJECT: DPS Discussion with the Development Committee Secretariat

1. A meeting was held on January 25 between the Development Committee secretariat (Messrs. King, Ahmad and Escobar) and the DPS senior management (Messrs. Chenery, Avramovic, Haq and Mrs. Hughes) to discuss areas of mutual interest.
2. Mr. Chenery briefed the Development Committee secretariat about the DPS policy work program for CY77 and mentioned some of the papers which may be ready during the course of the year. Among these were:
 - a position paper on external debt which would attempt to systematize the information on the growth and structure of debt of the developing countries (expected to be ready by March);
 - a number of papers on trade in commodities and manufactured products, particularly on the implications of liberalization of present trade barriers (by mid-year);
 - some studies on basic needs strategies, both in a country context and global estimates (by end-year).
3. Sir Richard King expressed the view that some of these papers would be of great interest to the Development Committee. Mr. Chenery suggested that a copy of the policy work program of the DPS could be passed on to the Development Committee secretariat for their background information. (This was done subsequently). As to the question of what papers could be presented to the Development Committee, it was for the Development Committee to decide its agenda and to make a specific request to the Bank management for the relevant assistance. As in the past, the Bank would then either develop the papers in consultation with the secretariat or assist the secretariat in the preparation of its paper. Papers submitted by the Bank to the Development Committee must be considered by the Board; the processing of staff papers will be decided on a case-by-case basis.

cc: Those present
Mr. Stern
Mr. Karaosmanoglu ✓



Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 3/3/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Working Group on Access to Capital Markets, International Investment Trust, DC/WG/CM/76-10, Sup. 1				
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.		
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 3/2/1977	Document Type Memorandum			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Access to Capital Markets, Document Transmittal Note, (DC/WG/CM/76-9, Sup. 1, Promotion of Bond Issues: Consultations with International Organizations with Private Institutions)				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 2/15/1977	Document Type Memorandum			
Correspondents / Participants From: The Executive Secretary				
Subject / Title Working Group on Access to Capital Markets, Improvements in Reporting Systems on International Financial Stocks and Flows				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 2/1/1977	Document Type Memorandum			
Correspondents / Participants To: Members of the Working Group on Access to Capital Markets From: Sir Richard King, Executive Secretary				
Subject / Title Meeting of March 17 - 18, 1977				
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.		
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Record Removal Notice

File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 1/24/1977	Document Type Memorandum			
Correspondents / Participants				
Subject / Title Transmittal Note				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
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File Title Development Committee - Working Group on Capital Markets Access - 1977 - Volume 01		Barcode No. 30021220		
Document Date 12/2/1976	Document Type Memorandum			
Correspondents / Participants To: Members Working Group on Access to Capital Markets From: M. M. Ahmad				
Subject / Title Meeting of January 17 - 18, 1977				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>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.</p> <table border="1"> <tr> <td>Withdrawn by Bertha F. Wilson</td> <td>Date September 12, 2023</td> </tr> </table>	Withdrawn by Bertha F. Wilson	Date September 12, 2023
Withdrawn by Bertha F. Wilson	Date September 12, 2023			

Mr. Robert S. McNamara

January 19, 1977

File
put with files

Ernest Stern, VP, South Asia

Development Committee Working Group on Capital Markets

1. The Working Group on Capital Markets of the Development Committee met on January 17 and 18. A copy of the agenda is attached.
2. In brief, no progress was made and the discussions were far from scintillating. None of the countries were prepared to contribute to the multilateral guarantee fund, and a number of LDCs are not really interested. Language in the report may serve to keep it for future reference, but it will not be pursued. The only conclusion of the discussion on guarantees was a reiteration that the Bank should consider full or partial guarantees when its capital is increased. To this the French, Dutch and Japanese added that we should also consider application for guarantees from any interested countries even within the framework of presently available resources.
3. The discussion of the investment trust was as negative. It is clear that this U.S. idea will not make a significant difference to the resource transfers to the developing countries. There is little enthusiasm for the necessary contributions and most developing countries expressed doubts about its utility. The IFG suggested that further work might be desirable and the Secretariat kept the matter alive.
4. The reception accorded to the paper on secondary markets suggested that this subject fruitfully could be dropped. Whether the Secretariat will take the hint better on this subject than they have on others remains to be seen.
5. A further meeting of this working group is scheduled for the second half of March to discuss the paper on debt information systems being prepared by the Fund and the Bank and to prepare a draft report to the Development Committee.

Attachment

cc: Messrs. Cargill
Chenery
Karacosmanoglu ✓
Haq

EStern/lc