Folder Title:	General Correspondence - Correspondence, O
Folder ID:	30012515
Series:	General correspondence
Dates:	07/01/1986 - 11/30/1987
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O - GENERAL CORRESPONDENCE

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/11/20 DUE DATE : 00/00/00
LOG NUMBER : 871120013 FROM : A. Shibusawa
SUBJECT : BRIEF FOR: Meeting with Dr. Saburo Okita on Monday, November 23 at 10:30 a.m.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS : Jenny - original for BBC's follow file.
cc: Marianne for information.

November 20, 1987

Mr. Conable:

Japan: Dr. Saburo Okita
November 23, 1987 at 10:30 a.m.

1. Dr. Saburo Okita will call on you at the aforementioned appointed time. It will be an informal courtesy call even though the meeting has been requested by the Ministry of Foreign Affairs through the Japanese Executive Director.

2. The main objective of Dr. Okita's visit to Washington, this time, is to participate in an international conference entitled "Resolving the Global Economic Crisis". This conference has been organized in a hurry by the Institute for International Economics following the event of October 19.

3. One of the subjects Dr. Okita may raise with you is the establishment of a new international development agency called the Global Infrastructure Fund (GIF)-Annex II. Dr. Okita represented Japan at the first international meeting of GIF which took place in Anchorage, Alaska in July 1986. Subsequently, he chaired a Steering Committee meeting which was held in Tokyo in March 1987. Dr. Okita is expected to simply brief you on the background and objective of GIF. He is not expected to seek your commitment to support the concept of GIF. On your part, you may wish to say that you will follow the development of GIF with interest. I might add that Mr. Eishiro Saito, Chairman of KEIDANREN, is expected to discuss the subject of GIF with Mr. C. William Verity, U.S. Secretary of Commerce, during his current visit to Tokyo. During this discussion, Mr. Saito may propose that the next Steering Committee meeting of GIF be held in Washington in early 1988.

4. You may wish to solicit Dr. Okita's support in creating a strong Japanese public opinion to urge political and government leaders of Japan to substantially increase the Japanese ODA. Despite the success of Japan in attaining the level of GNP only second to that of the U.S., accompanied by huge trade surpluses, the Japanese ODA of 0.28% of GNP in 1986 was the third lowest among the OECD countries. This compares with 1.2% for Norway, 1.0% for the Netherlands and 0.89% for Denmark. Given the fact that the Japanese defense budget barely exceeds 1% of GNP, the Japanese effort is far less than what is possible, despite the fairly sizable budget deficit of the Japanese government. The medium-term ODA target for Japan should be a minimum of 1% of GNP. You might add that you made the same observation to the first KEIDANREN mission which visited Washington last September. Dr. Okita is expected to be supportive of this proposal since he is a strong advocate of increasing the Japanese ODA. Your statement will strengthen Dr. Okita's effort to create a stronger public opinion in Japan.

5. Related to the above, you might impress on Dr. Okita the importance of Japan to follow a more growth-oriented policy so that Japan will be able to play a larger role in global development. Such a policy should include an action program, with a specific timetable, to accelerate the opening of the Japanese market by reducing non-tariff barriers including the elimination of quantitative restrictions on certain imports (e.g. beef, oranges, orange juice and processed cheese). It should also include the opening of the public sector civil works program to qualified international civil works contractors.

A.H. Shibusawa

cc: Messrs: Wapenhans
Qureshi
Hopper o/r

Annex I

Dr. Saburo Okita

1. Dr. Saburo Okita, who is a graduate of Tokyo University, began his career as an electric engineer and served for a number of years in the Communications Ministry. After World War II, he moved to the Economic Planning Agency and became its Director General. In this capacity he directed the famous 1960 National Income Doubling Plan.

2. He served as the President of the Overseas Economic Cooperation Fund (OECF), Chairman of the Japan Economic Research Center, and Special Advisor to the Chairman of the International Development Center of Japan.

3. At the international level, he has been a member of the United Nations Development Planning Committee, the World Bank's Commission on International Development (Pearson Commission) and the Trilateral Commission. He received the Ramon Magraysay Award for International Understanding in 1971. In 1979/1980 he served as the Minister of Foreign Affairs. Dr. Okita is the author of a number of books and articles in Japanese and in English.

4. Dr. Okita is 73 years of age. He is currently the Chairman of the Institute for Domestic and International Studies in Tokyo. He also serves as a Special Advisor to the Minister of Foreign Affairs.

A.H. Shibusawa
November 20, 1987

GLOBAL INFRASTRUCTURE FUND

1. The basic objective of the Global Infrastructure Fund (GIF), a multilateral institution which is being established under the initiative of Japan, is to arrange financing for huge infrastructure projects, mostly multinational in scope. Each of these projects is expected to cost $10 billion or more and is envisioned to take 10 to 20 years to complete. These super projects are also designed to provide a tranfer of technology to developing countries through on-the-job training during the long construction period. Such effects would be magnified by the sub-infrastructures the projects require: transportation, communications, housing and education.

2. The concept was originally proposed in 1976 by Mr. Masaki Nakajima, founder and currently senior adviser of the Mitsubishi Research Institute, which is a major think tank in Japan. Mr. Nakajima has since been striving to obtain the support of Japanese business leaders and senior Japanese politicians including Prime Minister Takeshita and a number of former Prime Ministers (e.g. Messrs. Nakasone and Fukuda). However, so far, the initiative within Japan, as well as within Europe and the USA, has been coming largely from business leaders and think tanks.

3. Since 1977 Mr. Nakajima has been travelling to all corners of the globe to discuss the GIF concept. He has spoken at such varied bodies as the Committee on Economic Cooperation at the German Parliament and the Center for Strategic and International Studies (CSIS) at Georgetown University. He also met with the late Indian Prime Minister Indira Gandhi. The concept was also discussed with then President Jimmy Carter by former Prime Minister Takeo Fukuda. Mr. Clausen was brought into the picture during his tenure as the President of the Bank. More recently, Mr. Nakajima and his colleagues met with Prime Minister Rajiv Gandhi in New Delhi in January 1987.

4. In July 1986, the first international meeting of the GIF was held in Anchorage, Alaska attended by 80 participants from 20 countries. The Japanese delegation was led by Dr. Saburo Okita, a former Minister of Foreign Affairs. The Anchorage meeting endorsed the concept of the GIF and created a Steering Committee whose main function would be to undertake a preparatory work for the establishment of the GIF.

5. The first Steering Committee meeting was held in Tokyo, Japan in March 1987 under the chairmanship of Dr. Saburo Okita and the sponsorship of KEIDANREN. Prime Minister Nakasone sent a congratulatory message supporting the concept of GIF while Mr. Eishiro Saito, Chairman of KEIDANREN, hosted a large reception during which he spoke for 40 minutes. The Bank was represented by Mr. A. Hisao Shibusawa.

6. This Steering Committee resulted in the establishment of a provisional Secretariat in Tokyo. Pending the formal incorporation of GIF, the Secretariat is staffed by officials of Mitsubishi Research Institute

(MRI) and Dr. Norio Yamomoto of MRI is in charge of a day-to-day business. The next Steering Committee meeting is to be held in early 1988 either in Tokyo or Washington. The main objective of the next meeting will be to discuss ways and means of incorporating the GIF as a multilateral development institution.

7. While preparatory work is under way for the formal establishment of GIF, sponsors have already identified some 12 possible projects to be implemented eventually with the participation of the GIF. They include the following projects:

The Himalayan Hydropower Project

8. The project would entail the construction of up to 11 large dams around the border of China and India on the Sanpo river on the upper reaches of the Brahmaputra river: this is considered to be the best hydropower dam site in the world. One of these dams would involve a tunnel of approximately 250 kms. in length with an enormous drop of 2,500 meters. The installed capacity will total 70,000 MW after full development. However, the individual dam and powerhouse installed capacity range between 1,400 MW and 48,000 MW. The major market for this project will be India. This project is considered to be among the cheapest source of energy for India. Just as an indication, a highly preliminary guesstimate suggests the power cost of about $1,250 per kw installed. This compares with over $2,000 per kw installed for a 60 MW project in the Himalayan region completed several years ago. By controlling the release of water from these dams it will also be possible to reduce floods in Bangladesh during the monsoon season.

9. The Electric Power Development Co. Ltd. of Japan (EPDC) has already done some desk work on this project. According to their representative, and on the basis of a very preliminary rough estimate, a pre-feasibility study could be undertaken in about three years at an approximate cost of $18 million. This would include investigations in hydrology, mapping and geology. EPDC feels that a total of 540 man/month will be required. This would include a project manager, surveyors, hydrologists, electrical engineers, geologists, civil engineers, environmental engineers, economists, and water resources engineers.

The African Central Lake Project

10. This immense multinational project will be designed to permit cultivation of 800,000 square miles of land, or more than five times greater than Japan's arable territory where 120 million people live, in the Congo and Chad regions of Central Africa. This objective will be accomplished by the construction of a dam on the Congo River, north of Brazzaville, thus creating a gigantic lake in what is now the Congo Basin, about 130 square miles. The new Congo Lake would be connected with spoke-like rivers and canal systems, becoming the axis of interior African transport. At the same time, the Congo's hydroelectric potential could be doubled.

11. The Congo Lake would be connected to Lake Chad, which is now nearly dried out at the center of enormous depression. The Chad depression is a mountain-enclosed basin 1,400 feet above sea level. By increasing the water flow, Lake Chad, now 800 feet above sea level at the depression's center, could be raised to the full altitude of a natural basin's ridge.

Thus, the Congo Lake would provide enough water to Lake Chad to give 4,000 miles of coastline.

The Qattara Depression

12. The basic objective of this project is twofold. First, it would generate hydropower using the sea-water which rushes into the massive depression, about 50 miles south of the Mediterranean Sea at the Western Desert of Egypt. Second, it would turn the desert into an agriculturally productive region through a vast evaporation process. This leads to increased regional rainfall, making feasible agriculture in nearby areas, in turn generating further plant-based evaporation process and greater rainfall.

13. The proposed project was studied in the early 1970s by a German team of experts who declared the project economically viable. The German study envisages the application of the nuclear explosive technology in the construction of the three canals. The excavation costs by this nuclear method are said to be one half of those using conventional excavation techniques.

The Kra Canal Project

14. This project would provide a passage for ocean going vessels through a Canal in the Kra area in the Malay Peninsula. The Canal will be 100 km in length, 200 meters in width and 33 meters in depth. The Canal will be designed to allow the passage of tankers of up to 500,000 tons.

15. The project has been studied since the 1960s by Thailand, Singapore, Japan, U.S. and some European countries. According to one estimate made in 1972, the construction cost would be about $5.7 billion.

The Second Panama Canal

16. There are several Second Panama Canal proposals. According to one of them proposed by the late Shigeo Nagano, the Canal will be built 15 kms west of the existing one. The Canal would be 98 kms in length and would link Puerto Camito on the Pacific coast with Ragarto on the Atlantic coast. The width of the Canal will be 400 meters while the depth will be 33 meters. It is estimated to take 10 years to construct the Canal at an estimated cost of $20 billion. Once completed, the new Canal will accommodate tankers of up to 500,000 tons in high tide and 300,000 tons in low tide. A pre-feasibility study costing up to $24 million is planned. The cost of the study will be shared equally among Japan, USA and Panama. The Panamanian share is likely to be financed by the Inter-American Development Bank (IDB). It is reported that the short listing process for consulting firms has started.

Proposed Program of the GIF

17. The sponsors propose funding which would permit an annual commitment of $25 billion for a period of 20 years for a total of $500 billion. The U.S., Germany, and Japan are to contribute $5 billion each initially and other industrial countries a total of $3 billion. Originally, OPEC countries were expected to contribute $5 billion, but this is no longer a possibility. With regard to Japan, both Dr. Okita and the writer consider

that the proposed amount is well within the ability of the Japanese private sector to contribute provided an appropriate mechanism is worked out to guarantee the private sector money. It is estimated that last year Japan invested about $65 billion abroad, mostly in the U.S. Treasury bills/bonds and real estate in the U.S. Finally, it should be noted that development activities of GIF could be initiated with a relatively small paid-in capital since any of the proposed investment projects would have to be preceded by a series of studies starting with pre-feasibility studies. For example, a pre-feasibility study for the proposed Himalayan Hydropower Project is estimated to cost $18 million.

A.H. Shibusawa
November 20, 1987

BBC - Chron

November 16, 1987

Dear Miss Nakano:

Thank you for your letter of October 20, 1987 concerning the World NGO Symposium which was recently held in Nagoya. I am pleased to learn that the World Bank's contribution was highly appreciated. Our delegation reported favorably on the outcome of the Symposium, in particular, on the success of the development education workshops held in a number of provincial cities.

I congratulate you and OISCA in expanding the important work of NGOs in the development task which we all share, and look forward to further strengthening of Bank/NGO cooperation.

Sincerely,

(Signed) Barber B. Conable

Miss Yoshiko Nakano
President
OISCA-International
6-12 Izumi 3 chome
Suginami-ku
Tokyo 168
Japan

cc: Messrs. Stanton, Hopper, Shakow, Steel, Carter and Beckmann
Mesdames Maguire, Martin, and Diggs

CBoucher/abj

03

WORLD BANK OTS SYSTEM
Office of the SVPPR

CORRESPONDANCE DATE : 87/10/20 DUE DATE : 87/11/16
LOG NUMBER : 871030011 FROM : YOSHIKO NAKANO
SUBJECT : L - THANKING BBC FOR HIS SUPPORT AND THAT OF OTHER STAFF IN THE WB GIVEN TO OISCA IN ORGANIZING THE WORLD NGO SYMPOSIUM
OFFICE ASSIGNED TO FOR ACTION : Mr. Alex Shakow

ACTION:

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COMMENTS : PLEASE PROVIDE COPY OF RESPONSE TO MR. HOPPER'S OFFICE

MH

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/10/20 DUE DATE : 00/00/00
LOG NUMBER : 871028017 FROM : Yoshiko Nakano
SUBJECT : Thanking BBC for his support and that of other staff in the WB given to OISCA in organizing the World NGO Symposium.
OFFICE ASSIGNED TO FOR ACTION : Mr. Hopper (D-1202)

ACTION:

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COMMENTS :

011

MISS YOSHIKO Y. NAKANO, Ph. D.
PRESIDENT

OISCA-International
6-12 Izumi 3-chome Suginami-ku Tokyo 168 Japan

ORGANIZATION FOR INDUSTRIAL SPIRITUAL AND
CULTURAL ADVANCEMENT
INTERNATIONAL

20 October 1987

Mr. Barber B. Conable
President
The World Bank
Washington, D.C. 20433
U.S.A.

Dear Mr. Conable:

I would like to thank you sincerely for the support you and your colleagues at the World Bank has given to OISCA this year again to organize the World NGO Symposium in Nagoya, central Japan, on the occasion of the first International Cooperation Day on October 6. Your delegation led by Mr. David J. Steel has contributed very much both at the symposium and at the development education workshops at various local communities. Including two senior staff of your Tokyo office, five Bank representatives have teamplayed to help us make this year's programs a success.

Your support has, indeed, generated a growing concern on the role of NGOs in development and poverty alleviation of such other multilateral agencies as the Asian Development Bank, ESCAP and the South Pacific Commission to name a few, and of some governments, including Japan, that used to have less concern on NGOs. We can now see much greater possibility for trilateral collaboration in the giant work of development, and are honestly grateful to you for the initiative you have taken for the World Bank to be a better friend of NGOs.

... 2/

Please convey my personal greetings to Mrs. Conable. And, please accept, Mr. Conable, my sincere wishes for every successful implementation of the World Bank operations for a better world.

Yours sincerely,

Yoshiko Y. Nakano

Yoshiko Y. Nakano

JLOS

*

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDANCE DATE : 87/10/20 DUE DATE : 00/00/00
LOG NUMBER : 871023012 FROM : Henry Owen
SUBJECT : Enclosing report on the World Bank issued by Salomon and recommends that BBC see it before their meeting on Nov. 17th.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

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COMMENTS : Jenny - original for BBC's follow file.

HENRY OWEN, INC.
1616 H STREET, N. W., SUITE 506
WASHINGTON, D. C. 20006
TELEPHONE (202) 783-7000
TELEX 248924 CIG

October 20, 1987

Mr. Barber Conable
President
World Bank
1818 H Street, NW
Washington, D.C. 20430

Dear Barber,

Before you lunch with John Gutfreund and me on November 17, you may wish to see the attached report on the World Bank recently issued by Salomon. It's good stuff, in drawing attention to the soundness of World Bank credit. The conclusion is particularly apt: "Our analysis concludes that the Bank will be able to adapt successfully to its role in a changing environment and that it continues to offer a high level of security".

Yours,

Henry

Henry Owen

Corporate Bond Research

Memorandum to Portfolio Managers

Salomon Brothers Inc

September 28, 1987

Michelle B. Miller
John F. H. Purcell
David T. Beers

The World Bank: An Investor's Perspective

Summary

During the past two years, the International Bank for Reconstruction and Development, commonly known as the World Bank, has entered a transitional period that is expected to continue for some time; aspects of this transition include increasing demands on the World Bank from member countries, a modification of its lending role and accompanying management changes. Concurrently, market perceptions of the World Bank have become more uncertain, as questions arise regarding the manner in which this transition affects credit safety. This market uncertainty brings to light the confusion surrounding the true basis for the World Bank's high degree of credit safety. This report clarifies the Bank's current situation and the many resources on which it can rely during this transitional period. **Our analysis concludes that the Bank will be able to adapt successfully to its role in a changing environment and that it continues to offer a high level of security.**

The report is divided into three sections: first, the character of the World Bank and the elements that set it apart from commercial banks; second, an analysis of how the policies and operations of the World Bank affect its credit safety, and third, the outlook for World Bank credit safety.

Introduction to the World Bank

The World Bank was established in 1945 for the purpose of promoting post-World War II reconstruction and economic development outside the industrialized world, and it has since become an integral part of the global economic and financial system. The Bank is owned by the Governments of 151 countries, of which 24 are major industrialized countries. The Bank's capital is subscribed by its member countries, and its lending operations are financed primarily from borrowings in the world capital markets. The United States, with 19.4% of the Bank's voting power, is by far its largest stockholder. The next largest are Japan (5.5%), West Germany (5.5%), France (5.3%), and the United Kingdom (5.3%). Stockholder countries can enlarge the Bank's capital base — and therefore its capacity to lend — by voting to increase their subscriptions to the Bank.[1]

[1] For a systematic explanation of the World Bank's structure and its continuing high level of credit safety, see *The Multilateral Development Banks: Overview and Credit Assessment*, Salomon Brothers Inc, forthcoming this autumn.

Question *How is the World Bank different from a commercial bank?*

Answer From the perspective of credit safety, it would be meaningless to analyze a multilateral development bank using commercial bank criteria because of the many differences between the two types of institutions.

The political and financial support of member countries. The World Bank enjoys explicit political and financial support from the world's most developed countries, largely because it is among the industrialized world's most important policy instruments in its relations with the developing world. Member countries, including the United States, Japan, Canada, and European Economic Community members, support the Bank financially by subscribing to its capital; these subscriptions are full faith and credit obligations of member countries. Such support is not accorded commercial banks in any country.

Dependence on capital markets. The World Bank has no depositors and relies on capital markets for almost all of its funding. The full faith and credit commitment of its stockholder countries, particularly industrialized countries, facilitates the Bank's access to capital markets. Member countries also support the World Bank by purchasing and holding World Bank securities issued at market-based rates (central banks hold 15%-20% of the Bank's outstanding liabilities).

100% coverage of loan portfolio by member countries' capital. The World Bank is much less leveraged than commercial banks because its capital-to-assets ratio is far more conservative than that of commercial banks. A typical U.S. commercial bank's capital-to-assets, or "gearing," ratio is about one to 18. The World Bank is limited by its statute to a one-to-one gearing ratio. This means that all World Bank loans disbursed and outstanding are backed by capital subscribed by member countries plus reserves and accumulated earnings.

Preferred creditor status. Borrower countries treat the Bank as a preferred creditor and accept its policy of no rescheduling because, unlike their attitude toward commercial banks, developing countries view the World Bank as a continuing source of development finance. Also in contrast to their relationship with commercial banks, borrower countries view the Bank as committed to their development goals and as a provider of important technical assistance and advice. Finally, much of the Bank's staff is made up of nationals of borrower countries who provide a link between borrower countries and the Bank itself.

Superior evaluation and portfolio monitoring. The World Bank's portfolio cannot be compared with that of a commercial bank. Conservative financial policies and practices that govern bank activities and the careful evaluation, implementation and monitoring of loans make a World Bank transaction far more likely to fund itself than a comparable transaction involving a commercial bank.

Superior liquidity. The World Bank holds considerably more liquidity than commercial banks. Liquidity currently amounts to $18.9 billion, or 50% of net cash requirements for the next three years (primarily debt repayments and loan disbursements). This exceeds even the Bank's high liquidity policy, which calls for the Bank to keep on hand 40%-45% of the next three years' borrowing requirements.

Stable funding base. The World Bank's funding strategy differs from that of commercial banks. Most funding is through medium- and long-term borrowing on all the world's capital markets, designed to match the Bank's medium- and long-term assets. The Bank has been able to borrow approximately $10 billion annually at very favorable terms because of its market sophistication, its superior credit safety and its broad and diverse funding base.

Transparency of portfolio and operations. Detailed public information is available regarding the Bank's operations and the status of its portfolio, making the World Bank much easier to analyze than commercial banks. The process of disclosing asset quality problems is mechanical, with specific actions required at each stage. These factors mean that the loan process and asset quality are well understood and strategic goals and internal developments readily assessed.

Question *What is the capital structure of the World Bank?*

Answer Subscribed capital comprises paid-in capital and callable capital. Paid-in capital is the portion of a country's subscribed capital that is paid to the Bank. The amount of a country's capital subscription beyond the paid-in portion is considered "callable" capital. Commercial bank balance sheets have no equivalent for callable capital. Callable capital is a full faith and credit commitment of a member country that may be called if the Bank is unable to repay its own borrowings. Callable capital may not be used to fund loans or pay administrative expenses. No calls on capital have ever been made by the World Bank (or by any other multilateral development bank) and none is likely. At June 30, 1987, the World Bank's subscribed capital stood at $85.2 billion, of which approximately 9% was paid in.

Question *What is the legal commitment to the World Bank on the part of its member countries?*

Answer The General Counsel of the U.S. Department of the Treasury has given an opinion to the effect that the entire callable portion of the U.S. subscription is an obligation backed by the full faith and credit of the United States. Other countries' callable capital subscriptions to the Bank enjoy comparable status under their laws. For example, the callable capital subscriptions of Germany and Japan are unconditional obligations that require no further legislative action to authorize payment if and when called.

Question *What characteristics do the World Bank and the U.S. Federal agencies share?*

Answer Debt obligations of the World Bank share many of the characteristics of U.S. Federal agency debt. The World Bank is exempt from Securities and Exchange Commission registration requirements, and its securities are eligible collateral for U.S. Treasury tax and loan accounts and for Federal Reserve Bank advances and discounts. They are issuable and payable through facilities of the Federal Reserve Bank and are a legal investment for national banks and as "commercial loans" for federally chartered savings and loans.

In addition, the World Bank enjoys a close relationship with the U.S. Government, as do the Federal agencies.

- The United States (with the United Kingdom) was one of the two principal sponsors of the World Bank when it was established along with the International Monetary Fund as part of the Bretton Woods system in 1944.
- The United States's participation in the World Bank was authorized by an Act of Congress.
- The World Bank is an instrument of its member Governments, including the U.S. Government.

• The Secretary of the Treasury sits on the Bank's board of governors, and the U.S. executive director is appointed by the President of the United States with the advice and consent of the Senate.

• The president of the Bank is by custom an American nominated by the President of the United States.

• Under the Bank's Articles of Agreement, the U.S. Government must approve all of the Bank's borrowings in U.S. markets or foreign borrowings denominated in U.S. dollars.

World Bank Policies and Operations: How They Affect Credit Safety

Question *To what extent are the World Bank's outstanding borrowings backed by reliable sources of capital?*

Answer The World Bank's outstanding borrowings ($79.4 billion at June 30, 1987) are more than fully backed by reliable sources of capital. Liquid assets ($18.9 billion), plus the callable capital of member countries that are also members of the Development Assistance Committee of the Organization for Economic Cooperation and Development ($47.5 billion) and the loans outstanding to investment-grade borrowing countries ($21.6 billion) total $88.0 billion, comfortably exceeding outstanding borrowings.

Question *Why does the World Bank enjoy preferred creditor status?*

Answer Borrowing countries have shown a remarkable ability and willingness to service World Bank debt, even when rescheduling their own commercial bank debt. In February 1987, for example, Brazil suspended interest payments on its commercial bank debt while continuing both interest and principal payments to the World Bank. In fact, about 55% of the World Bank's outstanding loans are to countries currently rescheduling commercial bank debt, yet late payments to the World Bank affect less than 5% of outstanding loans. These are some of the reasons why borrowing countries are able and willing to repay the World Bank:

• The World Bank does not, as a matter of policy, reschedule interest or principal payments on its loans or participate in debt rescheduling agreements.

• There are strong disincentives to late payments (described later).

• Project loans are disbursed over several years. Debtor countries avoid rescheduling because "money in the pipeline" (loans committed but not yet disbursed) means that resources flowing to many of the Bank's borrowers exceed debt service payments due to the Bank.

• The amount of debt owed to the World Bank is small relative to most countries' total foreign debt.

• The low volatility of the Bank's lending rate means that its loans carry terms that are more attractive than the available alternatives. The Bank charges interest at a variable rate that is adjusted every six months to maintain a level of approximately ½ of 1% annually above the weighted average cost to the Bank of its recent outstanding borrowings. Because of the favorable rates at which it borrows, the World Bank offers most developing countries a more attractive source of financing than can be obtained elsewhere.

• In addition to providing capital, the World Bank provides technical assistance, advice and trained personnel in connection with loans. In many countries, there is a close relationship between the Bank's technical and advisory staff, who make frequent visits to the borrowing country and the country's economic leaders. Thus, any loss of World Bank financing would entail significant nonfinancial costs for a country.

- The cooperative and multilateral nature of the World Bank means that member countries exert pressure on each other to repay the Bank in a timely fashion.

- The World Bank's role as a catalyst for commercial bank lending to developing countries (for example, through guarantees and co-financing) means that borrowing countries must maintain good relations with the World Bank or risk losing sources of private finance. This has become increasingly important as commercial bank flows to the developing world have decreased.

Question *How does a World Bank loan to a developing country differ from a commercial bank loan to a developing country?*

Answer

- The World Bank is primarily a project lender, although about 20%-25% of the Bank's present and projected commitments are in the form of policy adjustment lending (see below). This means that loans (and repayments) are tied to specific projects. Although commercial banks also lend for projects, the World Bank's loan analysis and monitoring process is far more detailed and comprehensive than that of a commercial bank. First, the World Bank identifies potentially successful projects in cooperation with the member country receiving the loan, focusing on projects that are compatible with the country's development plans. Once a project is deemed appropriate and economically viable, it is incorporated into a tentative multiyear lending program for the country. The Bank staff then does cost-benefit analysis to determine more precisely a project's technical, financial, institutional, and economic benefits. Only when this analysis has been finished does the actual implementation of a project begin. This background appraisal takes, on average, more than two years to complete. The process of identifying and appraising a project, and of approving and disbursing a project loan, often extends from seven to ten years.

- The World Bank disburses loan proceeds only against an application accompanied by documentation or receipts showing that the goods or services comply with contractual specifications; Bank staff visit the recipient country to supervise work on the project and review its progress.

- An important difference between World Bank and commercial bank loans is the role of World Bank personnel. The Bank has a large and well-trained staff of development economists, agricultural experts, engineers, and other technical staff capable of carrying out substantive studies of proposed projects. Many of these experts spend long periods of time in the borrower country.

- As would be expected from the description of the loan commitment process, World Bank loans are disbursed over a longer period than commercial bank loans (disbursement ranges from 6-9 years for project loans and 2-4 years for policy adjustment loans, whereas commercial bank loans are often disbursed all at once or within a single year).

- The World Bank has access to information that a commercial bank does not. Because of its multilateral structure, its a political nature and its acknowledged stature, the Bank is often able to obtain information from a country to which a commercial bank might not have access. This information is used in the loan analysis and monitoring process, and it serves as a tool to strengthen further the Bank's portfolio.

Question *Will the World Bank be called upon to fill the void left by cutbacks in commercial bank lending to developing countries? Does the World Bank plan to expand the use of its guarantee authority to aid commercial banks?*

Answer The World Bank has stated repeatedly that it has no intention of assuming other institutions' financial risks on their behalf, and the U.S. Treasury Department has supported them in this regard. Any large-scale use of World Bank guarantees to support commercial bank lending in developing countries is thus highly unlikely. The World Bank has used its guarantee powers on a small scale and in special cases, and it will continue to do so when it will help improve existing market terms for its borrowers by, for example, extending maturities or bringing new entities to the market. Guarantees are included in calculations of the one-to-one gearing ratio when callable and are disclosed in the notes to the financial statements. One of the World Bank's goals is to collaborate with other sources of capital in its lending program, but the World Bank and its developed country members are well aware that the Bank's high credit standing would be damaged if it were to assume other institutions' financial risks on their behalf.

Question *How is policy adjustment lending different from project lending?*

Answer In recent years, the Bank has become increasingly involved in policy adjustment lending, that is, loans made to help a country overcome longer-term economic imbalances or institutional deficiencies. Policy adjustment loans — both structural (macroeconomic) and sector specific — are conditional upon the adoption of specific policy reforms by the recipient Government. The direction of these policy reforms is determined by the country's policymakers in conjunction with World Bank staff. Prior to the conclusion of any loan agreement, the Bank's staff evaluates the borrower's ability to service its debt and continually monitors the country's compliance with the policy conditions established.

The differences between policy and project lending are less striking than their similarities. Policy adjustment loans disburse faster than project loans, but are still tranched, typically over a two- to four-year period. Policy adjustment loans often cannot be disbursed against suppliers' invoices as project loans are, and tranches are disbursed only after preestablished policy conditions have been met. Like project loans, policy adjustment loans are for specific purposes and are carefully analyzed and monitored.

Question *Do the policy adjustment loans comprise a weaker part of the World Bank's portfolio?*

Answer No. The increase in policy adjustment lending is part of a growing recognition that a country's development, past a certain stage, cannot be addressed simply by financing projects. In many cases, particularly in the so-called newly industrializing countries of Asia and Latin America, the economies have become quite complex. Further economic development must rest on a more sophisticated macroeconomic and sectoral approach rather than on a project-oriented one. Policy adjustment lending should be viewed as credit enhancement, instead of a riskier part of the Bank's portfolio, aiming to improve borrowers' economies and encourage a more flexible and market-oriented approach in borrower countries. In the medium-term, policy adjustment programs make countries better able to service their external obligations.

This concern is a holdover from the late 1970s and early 1980s, when loans from commercial banks to Latin American countries, for example, were often labeled as macroeconomic adjustment lending. In most cases, however, this lending was not carefully monitored, nor was it based on any previous analysis of the country's development needs. Finally, such lending was not intended to achieve particular macroeconomic or sectoral goals. The World Bank, on the other hand, regularly carries out careful monitoring as part of its loan analysis and disbursement processes, for both sectoral and project loans.

Policy adjustment lending constitutes a segment of the World Bank's portfolio equivalent in terms of credit safety to the project lending segment. The overall portfolio — both project and policy lending — benefits from the attributes of the World Bank discussed throughout this report: preferred creditor status, political support among both developing and industrialized countries, a continuous process of high-quality loan analysis and monitoring, and a policy of no rescheduling.

The Outlook for Credit Safety

Question *What is the current status of the World Bank's portfolio?*

Answer At August 31, 1987, loans made to or guaranteed by seven members of the Bank (Guyana, Liberia, Nicaragua, Peru, Sierra Leone, Syria, and Zambia) were in nonaccrual status. The aggregate principal balance outstanding on these loans was $2.4 billion, or 3% of total World Bank loans outstanding, of which $163 million was overdue. Overdue interest and other charges in respect to these loans totaled $182 million, of which $76 million had been excluded from net income through June 30, 1987.

The World Bank has set aside $85.3 million in loan loss provisions against its loans to or guaranteed by Nicaragua, although it does not expect to take a loss on these loans. In addition, at August 31, 1987, principal installments of $1.7 million and interest and other charges of $834,000 on loans other than those in nonaccrual status were overdue by more than three months. Loans outstanding to these countries plus those to countries in nonaccrual status represent less than 5% of the World Bank's total loans outstanding.

Question *What are the Bank's policies for dealing with late payments?*

Answer The World Bank has a series of strictly enforced policies for responding to late payments from borrower countries. The implementation of these policies is an important factor in keeping late payments to a minimum. They include the following actions:

- All loan disbursements to a country are stopped if a repayment is more than 75 days late.
- The amount of repayments more than 90 days late is disclosed, providing an early warning system on loans that are approaching the 180-day nonaccrual deadline.
- All loans to a country from which any single payment is more than 180 days late are placed in nonaccrual status, unless the Bank's management determines that the overdue amount will be collected in the immediate future.
- The Bank decides whether or not to provision for a loan loss, and the amount of that provision, after a two-year delay in payments.
- Note that the Bank has never taken a loss on a loan.

Question *Does Brazil's moratorium on interest payments affect the portfolio of the World Bank?*

Answer No. Brazil's moratorium specifically excludes the World Bank, and payments to the World Bank from Brazil are currently on schedule. Loans to Brazil account for 10.6% of the World Bank's portfolio.

Question *Have commercial bank policies toward provisioning for possible loan losses changed World Bank policies?*

Answer No. Although about 55% of the World Bank's portfolio is to countries currently rescheduling commercial bank debt, the Bank allows no rescheduling of loans, and its loans in nonaccrual status amount to just 3% of its portfolio.

Question *What set of circumstances would generate a call on capital?*

Answer Before the Bank would need to consider a call on capital, it would have to face an imbalance in its cash flow serious and enduring enough to exhaust $18.9 billion of liquid assets. The Bank's Articles of Agreement stipulate that capital may be called only for the purpose of debt service and, therefore, all other sources of funds must be used before a call could take place. Sources of funds are loan service payments, borrowings, management of the Bank's liquidity position, and capital subscriptions. Applications of funds include loan disbursements, debt service payments and administrative expenses.

It is difficult to generate a realistic scenario under which the Bank would need to call capital. Even an unrealistic scenario, though, offers some comfort: If every borrowing country were to default simultaneously and the Bank was unable to borrow any funds on any terms, it would still have enough cash to run its operations — including salaries, disbursements and debt service — for well over a year. By then, the Bank would have suspended disbursements; therefore, the length of time necessary to produce a call would be considerably longer. At that point, a call on capital would become necessary, absent a special contribution from member countries.

These scenarios are improbable because the World Bank is an institution that exists at the behest of the world's most developed countries, and one that performs an explicit and important function on their behalf. One would have to imagine a breakdown of the international economic and financial system to envision the kind of scenario in which industrialized member Governments do not act to support the World Bank before it must pursue formal procedures such as a call on capital.

Question *What would the procedure be in the United States in the event of a call on capital?*

Answer In the event of calls on capital of up to $7.7 billion, no action by the U.S. Congress would be required. If more funds were needed, the U.S. Congress would have to appropriate the remaining $8.2 billion of the $15.9 billion total subscribed capital that it has already authorized but not yet covered with appropriations. This capital is a full faith and credit commitment of the United States.

Question *How close is the World Bank to its lending limit under the one-to-one gearing ratio?*

Answer At August 31, 1987, direct loans, participations in loans and guarantees outstanding amounted to 82.7% of subscribed capital, reserves and surplus. The World Bank's callable capital subscriptions are denominated in U.S. dollars, and its assets are in a variety of currencies. Because of this, the depreciation of the U.S. dollar has caused the Bank to approach its lending limit under the one-to-one gearing ratio faster than expected. Currency fluctuations, however, affect only the gearing ratio (the Bank's ability to continue to expand lending activities without a capital increase). Because the Bank does not carry open foreign exchange positions, currency fluctuations have no material affect on earnings or on the Bank's ability to service its debt. As noted above, the Bank carefully matches liabilities and assets with respect to currency, interest rates and maturity.

Question *When will a capital increase be needed if the World Bank is to continue to expand its activities at its current rate?*

Answer By 1990. The possibility of continued depreciation of the dollar could make a capital increase necessary sooner rather than later.

Question *What are the prospects for a capital increase?*

Answer The prospects for a capital increase are uncertain, although the Bank's management is optimistic about obtaining additional funding. The Bank's members have agreed on the desirability of a capital increase and are now in the process of negotiating details and timing. The Bank hopes that member countries will agree to the amount of an increase by the end of 1987 and that the process of legislative approval in member countries will then begin. The process should be completed in 1988, as the Bank would like to begin receiving new subscriptions in 1989. It is not certain whether the U.S. Congress will support a capital increase, although the efforts of World Bank President Barber Conable (a former United States Representative) should help, as should the support of the Reagan Administration.

Question *What will happen if a capital increase is rejected?*

Answer If Congress proves unwilling to authorize additional capital, it is possible that there will be no capital increase. In this case, the Bank will continue to lend at approximately its current rate without increasing its level of lending. The Bank calculates that its "sustainable lending level" — the level at which it can continue to lend without an increase in capital — is about $14 billion a year. This is an approximate, long-range target, hardly an exact calculation. The important point, however, is that the World Bank will continue its activities at about its current pace whether it receives a capital increase or not. The risk associated with no capital increase is not a cessation of Bank activities; rather, it raises concern about a diminishing level of importance accorded the Bank by its member countries over the intermediate term.

Question *Will the World Bank change its one-to-one gearing ratio?*

Answer Although this question has been raised from time to time by investors and outside commentators, the World Bank has repeatedly opposed such a change. This is largely because of a recognition within and outside of the Bank that its ability to mediate effectively between international capital markets and developing countries depends on market perceptions of the Bank. The Bank has sold $70 billion of bonds on the basis of a one-to-one gearing ratio, and it understands the negative impact that a change in the gearing ratio would have on those outstanding bonds as well as on future borrowing. Also, a change in the gearing ratio would require a change in the Bank's Articles of Agreement and a vote of the Bank's executive directors. The United States has the ability to veto changes in the Articles of Agreement and would thus have to approve a change in the gearing ratio. This is highly unlikely, as the Treasury Department recognizes the importance of the present policy to members of the U.S. investment community, who are major holders of World Bank bonds.

Question *How is the World Bank's borrowing plan determined?*

Answer The World Bank's borrowing plan is driven by its desire to have funding available to meet all projected cash requirements over the next three years and to meet its liquidity objectives. At present, liquidity actually stands at about 50% of the next three years' net cash requirements. The Bank prefunds well in advance to minimize its vulnerability to market changes. Over the past two years its liquidity has increased as the Bank capitalized on what it perceived to be market opportunities and a low interest rate environment. This means that the Bank could continue with its current lending plans for one to two years (depending on the value of the U.S. dollar) without coming to the international capital markets.

Question *What is the strategic intention of the recent organization plan?*

Answer Mr. Conable, the Bank's president, announced a reorganization plan in October 1986 to make the Bank a more efficient lending institution. Specifically, the World Bank should be more responsive to borrower needs, increase the accountability of line managers, maximize the delegation of responsibility, simplify and decentralize the Bank's decisionmaking process, and reduce the staff size. The actual reorganization has met with much discussion and the results are still unclear, although a preliminary evaluation is due on October 31, 1987. The plan has affected the operations and research/policy divisions most dramatically, while the financing operations have remained virtually unchanged.

Conclusion

We evaluate the World Bank as the top quality supranational credit in the world, ranking it only below the world's largest and strongest industrialized countries in terms of credit safety. As we have outlined, the Bank's high degree of creditworthiness derives from several sources: its dependence on capital markets sets it apart from sovereign governments and public sector organizations and ensures a high degree of financial discipline in its operations. At the same time, the Bank enjoys the strong political backing of its member countries and attendant benefits.

Question *Why do Moody's Investors Service and Standard & Poor's rate the World Bank Aaa/AAA?*

Answer Moody's Investors Service and Standard & Poor's have rated World Bank debt Aaa/AAA since 1957 and 1959, respectively. The reasons include many of those factors discussed, such as strong membership support for the institution and its goals, conservative statutory limits on lending, the high quality loan portfolio, a flexible and diversified borrowing policy, and consistently strong financial performance. The rating agencies cite the following specific factors:

- **The support of industrialized member countries.** Triple A-rated member countries hold 52.3% of share capital, of which the United States has the largest share.

- **Preferred credit status.** Developing country members treat the World Bank as a preferred creditor, knowing that any payment delay or default would sever all new lending and risk negative ramifications in the private financial sector.

- **Statutory limits and financial ratios.** The total amount of outstanding loans and guarantees must not exceed the sum of subscribed capital, reserves and surplus, giving the Bank an ultraconservative one-to-one "gearing ratio."

- **Portfolio strength and flexibility.** The World Bank allows no rescheduling and has experienced no loan losses and only minimal payment delays. Loans are made only for economically viable projects either guaranteed by or made directly to member states. The Bank's portfolio is diversified among 90 countries and exposure to any one country is limited to about 10% of the Bank's total portfolio. (After Brazil, the Bank's other largest borrowers are Mexico, Indonesia, Korea, and Colombia.)

- **Conservative financial policies and strong financial performance.** The Bank's conservative liquidity policy assures flexibility in borrowing decisions. It has a huge asset base, six times larger than that of the next largest multilateral development bank. Its borrowing is diversified by currency, country, source, and maturity to ensure maximum flexibility, and its profit performance has been consistently strong.

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THE WORLD BANK
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BARBER B. CONABLE
President

October 2, 1987

Dear Madame President:

I am very pleased to hear that OISCA International is holding its Second World NGO Symposium, this time in Nagoya, Japan between October 6-8. I understand that it is one of the principal events being held on the occasion of the first International Cooperation Day on October 6, which was established recently by the Government of Japan as a direct outcome of the first World NGO Symposium held in Tokyo last year. It is also a major event in International Cooperation Week, which is being supported by the Economic Cooperation Campaign Council consisting of 33 public and private agencies and organizations.

The World NGO Symposium, as well as the other related events, are important reflections of Japan's growing and major contributions to world development. This is evidenced in numerous ways, many of which I expect you will be disucssing with the participants at the Symposium. The Symposium is also an excellent opportunity to exchange views and experiences; to hear Japanese views on development and on the role of NGOs in the development process on the one hand, and to hear the views and experiences of the various foreign and international organization delegations on the other. I am sure the outcome will be productive discussions which point out to all of us new possibilities and new opportunities for purposeful collaboration in the great work of development.

Mrs. Conable joins with me in sending best wishes for the success of the Symposium.

Sincerely,

(Signed) Barber B. Conable

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COMMENTARY

The Asian Wall Street Journal Weekly November 10, 1986

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Japan's Trade Surplus Can Help Developing Nations

By SABURO OKITA

Japan has a choice between political expediency on trade or farsighted economic actions worthy of its new status as supplier of capital to the world.

The U.S. and other Western trading partners demand that we reduce our huge current-account and savings surpluses by opening markets to more imports and boosting domestic demand. Meanwhile, Japan's Asian neighbors desperately need financial help for their ambitious development programs.

Boosting domestic demand is an urgent priority, if only to combat the domestic recession induced by the strong yen. But it will not wipe out Japan's gigantic current-account surplus of $[illegible] billion, which is expected to rise this year to as much as $80 billion. (~~$86 billion~~) 1985 50

($86 billion in 1986)

Japan's export-oriented economy can't be readily converted to one powered by domestic demand. Forcing such a change would only put a damper on domestic growth and industrial activity, and increase unemployment.

Few Opportunities

While expanding domestic demand may have an effect in the long run, it is unrealistic to expect any radical change in Japan's industrial structure. Meanwhile, for lack of promising opportunities within Japan, businesses are putting billions of dollars into overseas investments. In 1984 Japan's long-term capital outflow was about $85 billion, while capital inflow came to $20 billion—a net export of $65 billion. (and $132 billion in 1986)

In the late 19th century, capital generated by Great Britain's savings surplus went to the U.S. and Canada, contributing to world-wide development. After World War II, the U.S. took over Britain's role, using its surplus savings and foreign reserves to finance the Marshall Plan.

Taking a Turn

Today it is Japan's turn. Now that we have become the leading creditor country, surely it makes more sense for Western trade partners to encourage Japan to use its surplus capital to stimulate the world economy rather than insist that this money be absorbed somehow by the domestic economy.

The developing countries do not begrudge Japan its surplus. On the contrary, they welcome it; they need Japanese capital to help finance their own development.

Much needs to be done in China, Southeast Asia and India, but there is no money to do it with. In China, for example, power outages are frequent because of inadequate generating capacity and substandard port facilities delay cargo. Roads and railways are still primitive.

Peking needs about $8 billion a year to achieve the 7.5% expansion it has targeted while India needs about $3.6 billion annually in foreign capital to fuel the 5% growth it is looking for. Similarly, Indonesia needs $2.5 billion a year. Even if the needs of Pakistan, the Philippines and other Asian nations were added, the total needed for development would be less than $20 billion a year.

Building Markets

Since Japan is already exporting at least $65 billion in surplus money annually, it could finance all of Asia's five-year-plans with less than one-third of its capital outflow.

In the long run, using its economic might to help the developing countries improve their infrastructure would benefit Japan, too. This assistance would power faster growth, and generate higher income and increased purchasing power. That means new markets for Japanese business.

Trying to resolve trade friction with the U.S. and Europe on a bilateral basis is a dead-end approach. On the other hand, stimulating the growth of the world economy by aiding the developing countries would indirectly help the West and would directly help recipients.

Saburo Okita was formerly minister of foreign affairs. This article was translated from the magazine Jitsugyo no Nippon by the Asia Foundation.

file Dr. Okita

December 19, 1986

Dear Henry:

Thank you for your letter of December 2 and your suggestion for a possible World Bank role in assisting developing countries with large outstanding debts to convert some of their debt into equity.

We share your view that conversion offers considerable promise as a partial answer to the debt problem faced by the highly indebted countries. In addition to the obvious benefits of extinguishing external debt by converting it into equity, a successful program for converting external debt into domestic instruments also can help accelerate the beneficial results of sound macroeconomic policies designed to achieve economic adjustment. Thus, as public confidence grows in a country's economic and financial management, conversion can serve as a suitable vehicle to attract new foreign investment and deter capital flight.

I have asked my staff to look carefully at your suggestion for a program of matched lending with specific equity conversion schemes. Although I am not certain as to the merits of a general program along these lines, certainly the concept of targeted support to equity investment taking place as a result of debt conversions is a good one. We are exploring a variety of ideas about roles for the Bank Group in this area and very much welcome your helpful suggestion.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

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FINANCIAL TIMES
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Japan to spend $9bn of surplus on foreign aid

BY IAN RODGER IN TOKYO

JAPAN has responded to critics of its aid programme by attempting to direct some of its huge current account surpluses towards the economies of the developing countries.

Last week, the Japanese Government disclosed the final part of a package of around $9bn of assistance for the leading aid agencies. Some $1.8bn in additional loans is to be advanced to the World Bank over the next three years.

Some aid officials went so far as to encourage comparisons between the package and the post-war Marshall Plan through which the US helped to finance the recovery of European economies.

One aid official pointed out that - at least in nominal terms - there was not much difference in the amounts involved. The Marshall Plan amounted to the equivalent of $12bn. To implement the plan, the aid official said, the US Government had only to redirect the income it was already receiving and had been spending previously on its military effort.

Japanese officials on the other hand, have constantly been pointing out that while the country might have a huge surplus, it is all in the private sector. The Government itself is chronically short of revenue and aid officials have had to fight hard for their increases and new programmes in a year when there is to be no overall increase in government spending.

The final element of the new package would seem to be an attempt to harness the private sector surpluses to the aid effort. Accordingly, last week the Government announced that Japan would provide the World Bank with an additional Y300bn ($1.8bn) in loans over the next three years. The idea is to enable the Bank to increase its lending to the potentially strong developing countries in the hope of stimulating their economies.

Far from comparing the new measures with the Marshall Plan some Japanese officials have likened this new initiative to the Opec Special Fund or so-called Third Window. This was set up by the oil producing countries in 1976 when the world was clamouring for the recycling of their surpluses.

Again though there are important differences as the money for the Opec fund came from governments, whereas 90 per cent of the money from the Japan special fund will come from the private sector. The Opec fund loans were made for only a 0.5 per cent annual commitment charge.

The Japanese funds, it is hoped, will be raised by the Japanese Government authorising the World Bank to increase its borrowing in the Tokyo capital markets, now limited to Y300bn a year, by Y300bn over the next three years.

The Government recognises that the World Bank has to make its loans on a commercial basis and thus they may not be attractive to some already debt ridden developing countries.

To sweeten the offer, the Japanese Government is making grants to the World Bank of Y30bn spread over the next three years.

Continued on Page 12

World economic indicators, Page 2

Japan to spend $9bn of surplus on aid deals

Continued from Page 1

It says grant money could be used by countries to buy technical assistance for the formulation of projects that would then qualify for World Bank loans. Japanese officials thus suggest that the grants would amount to an interest rate subsidy on the overall project.

The other main components in Japan's increased aid effort are new standby loans of SDR 3bn ($3.6bn) for the International Monetary Fund for a period of four years and a subscription of $2.6bn in new capital for the International Development Association (IDA).

The IMF needed additional finance because of the increasing call on its resources in the past year to help countries overcome their balance of payments problems.

The IDA, the World Bank's office for allocating grants to the poorest of the developing countries, set its so-called "eighth replenishment" of capital this year at $12.4bn compared with 9bn three years ago. Japan has agreed to increase its contribution by 53 per cent from $1.7bn to 2.6bn.

Last April, Japan also committed an additional $1.3bn to the Asian Development Bank's soft loan fund.

While all this is impressive, it is unlikely to silence Japan's aid critics. Foreign governments are particularly irritated by the large proportion of Japanese aid spending that is tied, that is, the recipient is obliged to use it to buy only Japanese goods and services.

This policy serves to increase Japan's already very high trade surplus and, at a time when the yen is very strong, it means that the recipient countries are probably paying uncompetitive prices for aid-financed goods.

This week, the Finance Ministry was at pains to point out that the new Japan special fund and the aid programmes with international institutions were completely untied.

Translated from *Nihon Keizai Shinbun* , July 2, 1986

Using its Surpluses to Advantage: A Proposal for Enhancing Japanese and World Security

by Saburo Okita
Chairman, Institute for Domestic and
International Policy Studies, and
President, International University of Japan

Summary: Given (i) the imperative that Japan find ways to utilize its high savings rate and massive trade surplus effectively for Japanese and world economic development and (ii) the fact that a serious effort by the United States to reduce its fiscal and trade deficits would have a deflationary impact on the world economy, the author proposes that Japan use its surplus one third each for stimulating domestic demand, providing development capital for the developing countries, and supplying capital to the United States and the other industrialized countries.

International Fund Proposed

Harvard professor Ezra Vogel, well-known author of *Japan As No. One*, has an article in the spring 1986 *Foreign Affairs* entitled "Pax Nipponica?" in which he argues that higher exchange rates and Japanese efforts to stimulate domestic demand alone cannot suffice to correct the trade imbalance between Japan and the United States. The causes of this trade disequilibrium go far deeper, he asserts, as indicated by the fact that Japan turns out about 50% more electrical engineers every year than the United States does.

The respected British financial magazine *The Banker* pointed out in an article entitled "Japanese Banking's Global Challenge" in its April 1986 issue that Japanese banks hold 25% of the world international banking assets, well in excess of the United States' 18%.

The World Institute for Development Economics Research (WIDER), established under the auspices of the United Nations University with a $30 million grant from the government of Finland and headquartered in Helsinki, has been particularly interested in international monetary, financial, and trade issues as one major area of its research.

Recently, this research has resulted in a special report by WIDER Director Lal Jayawardena, WIDER Advisor on International Economic Issues and IMF (International Monetary Fund) Executive Director Arjun Sengupta, and myself as chairman of the WIDER governing board on how the Japanese surpluses can best be used for world economic developments.

Released in Tokyo on April 18, 1986, this report points out the need for the international community to find methods to sustain higher growth in Japan to offset the decline in the United States growth momentum and counter any tendency toward world deflation and argues that there is thus a need for Japan to stimulate domestic demand and to maintain its export growth.

In effect, with the United States immobilized by massive fiscal and trade deficits, it is impossible to expect the United States to act as the mover for world economic growth. Yet Japanese growth is strongly linked to export growth, and it would be difficult for Japan to maintain its growth with domestic demand alone. Likewise, there are limits to what can be done domestically to absorb the capital generated by Japanese saving 20% of disposable income.

The problem for the world economy lies in the fact that the bulk of Japan's excess savings are going to the United States. If at least some of this capital could be directed to contributing to growth in the developing countries, such a shift would both facilitate more effective use of Japan's industrial capacity and contribute to world economic development.

Yet in expanding financing to the developing countries, there is a need for long-term, low-interest capital. Generating this kind of capital requires an adroit mix of private savings, governmental funding, and tax revenues. There is also a need for some guarantees or perhaps insurance to lessen the risk of exporting capital to the developing countries.

Given all of these considerations, the WIDER report proposes that the government of Japan establish a fund by contributing 0.1% of Japanese GNP and invite other countries to join the fund with similar contributions. If this is done, it should be possible for the fund to act as a catalyst mobilizing many times its own capitalization for the developing countries.

Helping Asia in the Long-term Perspective

This report has had considerable impact overseas. American Express Chairman James D. Robinson, III, for example, recently wrote to me that he was impressed with the report and agreed with its arguments. In his letter, he also mentioned that he too is exploring the issue of how to deal with Japan's trade and financial imbalances by addressing third world development and has proposed what he called a global security initiative (GSI).

This GSI is essentially a proposal for utilizing Japan's surplus savings in the realization that security cannot be understood only in military terms and that there can be no guaranteed global security in the absence of efforts to promote economic growth in the developing countries. While the United States devotes 6.5% of its GNP to the combination of defense and assistance, the comparable figure for Japan is only 1.5%. Thus the GSI proposes that Japan spend the difference contributing to global security in the economic sector and suggests that this can best be achieved by directing as much of the Japanese capital outflow as possible to the developing countries.

Another letter was received from MIT (Massachusetts Institute of Technology) professor Paul A. Samuelson, who wrote that the report deals with vital issues, raises important questions, and proposes noble solutions.

The Report of the Advisory Group on Economic Structural Adjustment for International Harmony (the Maekawa Report) has stated that Japan's continuing current account disequilibrium creates a crisis situation both for Japanese economic management and for harmonious world economic growth and proposed a number of steps to reduce this Japanese trade surplus, including import expansion through further market opening, efforts to stimulate domestic demand in both consumption and investment, expanded direct overseas investment and assistance, industrial restructuring, and exchange rate corrections.

Yet it is important to note that Japan would still be left with a very considerable current account surplus even if all of the Maekawa Report's recommendations were implemented — and that this surplus is essential to growth in the developing countries and world economic managment.

For some time after the end of the Second World War, the United States supplied the capital the world needed to develop. Yet the United States is now the world's largest debtor country, having turned into an economic black hole sucking in savings from Japan, Europe, and elsewhere. Seeing Japan's massive foreign reserves and excess savings, the people of the developing countries understandably hope that this capital can be used to promote their development. It is essential that Japan find some way to meet the opposing requirements of reducing its surplus vis-a-vis the United States and Europe and finding some way to contribute effectively to the develolping countries' economic growth.

In 1979 when I was President of the Overseas Economic Cooperation Fund , I had the pleasure of working with Dr Kunio Takase in drawing up a plan for doubling rice production in Asia. Great advances have been achieved in Asian rice production in the ten years since this plan was drawn up, and it looks like it will be possible to achieve the plan's target of roughly doubling Asian rice production in 15 years. Building upon this success, I would now like to suggest that the countries concerned cooperate to draw up a plan to double Asian income in the last decade and a half of this century.

China's Seventh Five-year Plan (1986-90) calls for average per-annum GNP growth of 7.5% but is expected to require $40 billion in foreign exchange for attainment. Likewise, India's Seventh Five-year Plan (also 1986-90) calls for 5% average per-annum GNP growth and will require $18 billion in foreign exchange for attainment. It is estimated that the total annual foreign exchange requirements of China, India, and the other Asian countries are less than $20 billion a year. Yet since Japan's net long-term capital outflow was $65 billion last year, it would not be impossible for Japan alone to supply all of the foreign exchange capital that Asia needs for its development.

Most of the capital outflow from Japan goes to the United States to purchase Treasury bonds, real estate, and other assets. This may make sense in the short term, but there is some question whether or not it is the best way these resources can be used to promote the global distribution of resources or even if it is in Japan's own long-term interests.

Of course, there are those who say that Japan should distance itself from Asia and try to be as close as possible to the United States. While this resembles the "out of Asia, into Europe" policy advocated by Yukichi Fukuzawa in the late 19th century, it must be remembered that Fukuzawa was writing at a time when Japan needed to modernize and escape from poverty. Adhering to a policy of "out of Asia, into America" is a very questionable policy politically now that Japan has become a modern industrial power and can be hardly be called a wise choice for Japan's economic future.

Rather, it is far more in Japan's long-term interests to promote Asian economic development in the expectation that this will ultimately expand the market for Japanese goods. Happily, the recent changes in the exchange rates are pushing relations between Japan and the other countries of Asia in this direction.

A Greater Role in Relief for the Debtor Countries

It is possible that all countries will see their exports to the United States decline if the United States makes a serious effort to reduce its fiscal and trade deficits. For the debt-burdened developing countries, slower exports will make them less able to meet their debt obligations. Likewise, the decline in oil prices is further exacerbating the oil-producing developing countries' current account balances. There may well be a second debt crisis soon. If there is, surplus-running Japan will have to play a major role in any relief efforts.

Speaking at the Fortieth Annual Meetings of the International Monetary Fund and the World Bank last fall, U.S. Treasury Secretary James Baker warned that it is imperative that World Bank and IMF functions be strengthened and that private financial institutions arrange for $20 billion in additional financing to the debtor countries over the next three years. While these are both constructive proposals, it will be difficult to raise that kind of additional financing from private-sector financial institutions without some kind of policy incentives.

Recognizing this, Secretary Baker has recently suggested that it might be possible to accept repayment for some of these claims in public corporation equity or stock in state-owned companies, and former World Bank Vice President Masaya Hattori has suggested the establishment of an International Solidarity Bank replacing hard short-term, high-interest commercial loans with easier long-term, low-interest loans. The implementation of the Hattori plan would be complementary to the initiatives under the Baker plan.

Japan's excess savings and current account surplus must be used for furthering the important goals of avoiding international economic disruption and putting the world economy on the path to sustained growth. While there are strong international calls for Japan to stimulate domestic demand, this domestic demand stimulation is just as important as a domestic policy to enable Japan to weather the disinflation and recession induced by the yen's exchange appreciation. Thus I am proposing that these Japanese surpluses be allocated approximately one-third each for the three purposes of stimulating domestic demand, promoting economic growth in the developing and debtor countries, and supplying capital to the United States and the other industrialized countries. Just as the smart personal investor diversifies his assets for greater financial security, so can Japan employ diversification to protect its national interests and, at the same time, discharge the international responsibilities commensurate with its economic strength.

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PRESS INFORMATION

JAPAN URGED TO LEAD IN TACKLING INTERNATIONAL ECONOMIC PROBLEMS

25 November 1986

Tokyo, Japan

TELEX: J25442 UNATUNIV CABLE: UNATUNIV TOKYO

A Study Group of the World Institute for Development Economics Research (WIDER), the United Nations University's research and training centre in Helsinki, Finland, has issued the following report as a follow-up to the report "The Potential of the Japanese Surplus for World Economic Development" issued last April.

* * *

Japan should play a major role in the international initiatives required now to deal with growing threats to the world economy. The Japanese authorities have already recognized that the country's external surplus gives it a special responsibility for adopting policies to help the international community overcome these dangers. But further action should be taken.

This action needs to be directed to tackling three outstanding issues:

1) First, the risk of further damaging exchange-rate swings, particularly between the dollar and the yen;
2) Secondly, the danger of an aggravation of debt-servicing difficulties;
3) Third, a sharp slowdown in the economic recovery of the industrialized countries this year, and the possibility of sustained deflationary pressure over the longer term.

In each of these fields, the Japanese authorities have recently taken welcome policy actions, or participated in joint actions in co-operation with others:

- in the first, Japan and the United States declared their intention of moderating further swings in the yen-dollar exchange rate;
- in the second, Finance Minister Kiichi Miyazawa stated at his speech to the annual meeting of the IMF and World Bank in September that Japan was willing to make a special subscription to the IMF of SDR 3.0 billion ($3.6 billion) and discussions are also proceeding on a special contribution to the World Bank;
- thirdly, Japan has taken further action to boost domestic demand.

But the difficulties involved in raising Japan's domestic demand sufficiently to absorb all its savings internally, and the associated changes required in its industrial structure, have also become more evident. The growth of unemployment in Japan is one sign of this. Even if further action to boost domestic demand were taken, it is unlikely that Japan's excess savings can be fully absorbed domestically.

All these problems could be greatly alleviated by appropriate use of the Japanese current account surplus for world economic development. This surplus is now viewed in a negative light - because it is associated with Japan's export drives and the problems caused in other industrial countries by Japan's super-competitiveness. Instead, the potential of the surplus for world economic development should be emphasized. Although Japan is in the best position to take the initiative, the principle that surpluses should be put to work for development applies also to other surplus countries, notably Germany.

Most of the capital outflow from Japan at present goes to the United States to purchase Treasury bonds, real estate, and other assets. If part of this money could be funneled to the developing countries, it would make a major contribution to development in Asia and elsewhere and ultimately to world economic growth.

A WIDER special report on "The Potential of the Japanese Surplus for World Economic Development" proposed last April that the Government of Japan establish a fund by contributing 0.1 per cent of Japanese GNP and invite other countries to join the fund with similar contributions. If this is done, it should be possible for the fund to act as a catalyst mobilizing private savings many times its own capitalization for the developing countries.

Subsequent to this report's publication, World Bank President Barber B. Conable indicated in an August 1 interview with Nihon Keizai Shimbun that he was very hopeful that Japan's massive trade surplus could be mobilized for development assistance and proposed the establishment of a special lending facility capitalized by Japan.

In these and other ways, it is expected that it should be possible to devise policies enabling Japanese savings and Japan's trade surplus to be used for stimulating economic growth in the Asia-Pacific region and the world at large.

For example, China's Seventh Five-year Plan (1986-90) calling for average per annum GNP growth of 7.5 per cent is expected to require $40 billion in foreign exchange for attainment. Likewise, India's Seventh Five-year Plan (also 1986-90) calling for 5 per cent average per annum GNP growth will need $18 billion in foreign exchange. Indonesian development is expected to cost $2.5 billion in foreign exchange every year. All told, it is estimated that the Asian countries' total foreign exchange requirements are somewhat under $20 billion a year. Since Japan's net long-term capital outflow was $65 billion last year, it would not be impossible for Japan alone to supply all of the foreign exchange capital required. Japan should also make a significant contribution to easing the debt burden generally.

Various mechanisms are available and could be utilized to bring about such a re-direction of the flow of Japanese capital Market-based mechanisms should be employed to the fullest possible extent. They need to be supplemented by an enlargement of the lending capacity of official institutions, notably the IMF and World Bank. For low-income countries, Japan should expand its official development assistance in the form of "soft" loans and grants through the multi-lateral institutions, as well as on a regional basis and bilaterally.

The World Bank should re-consider the case for the establishment of a Third Window, between "soft" IDA loans and normal IBRD lending. The World Bank should tap the large pool of Japanese savings and provide the security to Japanese investors offered by such an official institution. This could in turn require an enlargement of the present capital base of the World Bank.

By the adoption of such policies, Japan could in its own long-term interest greatly alleviate the debt problem and at the same time help ensure a co-operative outcome to present tensions in the world economy.

* * *

The Study Group members:

Saburo Okita, Chairman of the Board, WIDER

Lal Jayawardena, Director, WIDER

Abdlatif Y. Al-Hamad, Chairman, Arab Fund for Economic and Social Development, Former Minister of Finance, Kuwait

Bernard Chidzero, Minister of Finance, Economic Planning and Development, Zimbabwe; Chairman, Joint Development Committee of the IMF and World Bank

Pentti Kouri, Professor of International Economics, New York University; Advisory Director, First Boston International

NOTE TO EDITORS

WIDER is the economics research centre of the United Nations University. It has been established with the support of the Government of Finland.

The Chairman, Dr. Saburo Okita, is former Foreign Minister of Japan. The Director, Dr. Lal Jayawardena, is former Secretary to the Ministry of Finance and Planning and Ambassador, Sri Lanka. He served as a Deputy on the Committee of Twenty on the Reform of the International Monetary System (The Jeremy Morse Committee).

* * *

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THE POTENTIAL OF THE JAPANESE SURPLUS FOR

WORLD ECONOMIC DEVELOPMENT

Report of a Study Group of the World Institute for Development Economics Research (WIDER), Helsinki, Finland of the United Nations University (UNU), Tokyo, Japan*

Members

1. Dr. Saburo Okita, Chairman of the Board, WIDER; Chairman, Institute for Domestic and International Policy Studies; and President, International University of Japan

2. Dr. Lal Jayawardena, Director, WIDER

3. Dr. Arjun K. Sengupta, Member, WIDER Advisory Group on International Economic Issues and Executive Director, International Monetary Fund (IMF) representing Bhutan, Bangladesh, India and Sri Lanka

18 April 1986
Tokyo, Japan

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* The members of the Study Group have participated in its work in their personal capacities.

A Seven-Point Plan for Realizing the Potential of the Japanese Surplus for World Economic Development

Executive Summary

1. The international community should find methods to sustain higher growth in Japan in order to offset the decline in the growth momentum of the U. S. and counter any tendency towards world deflation.

2. While a part of the required policies would involve stepping up Japanese investment geared to her domestic market, there are real difficulties in absorbing domestically a rate of savings as high as 27 per cent of GNP.

3. For Japan's growth momentum to be sustained, therefore, there is a need for her to continue to rely to a substantial extent on export-led growth and to maintain a significant current account surplus in her balance of payments, in order to enable her to continue to "export" her excess savings abroad.

4. Japan's large current account surplus and her finding a large export market was primarily due to her comparative advantage in her export sectors, but she was also helped by the vast U.S. budget, and consequently, trade deficit.

5. Any reduction in the U.S. budget and trade deficit would tend to shrink, in the absence of offsetting policies, the external market for Japan, and reduce her economic growth and hence growth in the world economy. One such offsetting policy measure would be to enhance the import capacity of developing countries. This can be accomplished by re-directing the Japanese surplus to finance the deficits of the developing countries. This means that excess Japanese savings which cannot be absorbed domestically or in the U. S. can find a home in financing productive capital formation in the developing countries.

6. There is a need, therefore, for evolving mechanisms for financial intermediation of Japan's surplus towards this end.

7. Once this principle is accepted, the specific financial instruments and mechanisms can be worked out. They range from the notion of a Japanese Marshall Plan for the developing countries as has been recently proposed, to mechanisms for promoting Japanese investment in developing countries and increased lending by the Japanese international banks. Since the intermediation mechanisms have to enable private Japanese savings to find an outlet in developing countries, there may be a need for the Japanese government to promote this process either by subsidising the interest rate on loans to developing countries or by

providing some collateral to Japanese private savings institutions to make investment in developing countries attractive. The considerable reduction in recent years in Japan's fiscal deficit in relation to GNP and in her interest rates should permit this to happen with relative ease in the coming years. In this context, the Japanese government could take the initiative of contributing one-tenth of one per cent (0.1 per cent) of her GNP to set up an international fund, while simultaneously inviting other industrial countries to join the fund by making a similar contribution. The fund would permit concessions and incentives of the sort mentioned above which would mobilize private capital flows to developing countries that are a substantial multiple of the resources available from the fund.

The Potential of the Japanese Surplus for World Economic Development

1. The successes and failures of the developed market economies - their periods of boom and recession - are largely accounted for by the kinds of market conditions they face. Japan has been a consistent success story in recent decades because she could seek out a large international market to utilize her productive potential. It is the expanding export market that has fuelled a GNP growth rate in Japan that has consistently been at double the average rate of growth of key industrial countries in recent years; over the period 1980-85, Japan grew at 4.3 per cent while the average growth of industrial countries was only 2.2 per cent. The world economy slowed down in 1985 mainly because the U.S. growth rate lost its momentum with a decline of her growth rate from 6.6 per cent in 1984 to only 2.3 per cent in 1985. Had the Japanese economy not grown, even in 1985 at 4.2 per cent, the world economy would have slackened further.

2. The medium term scenarios of the OECD and IMF project a continuing slow growth of the world economy because the U.S. is not expected to grow beyond 3 per cent as she begins to correct her fiscal deficit. The projections of world economic growth would have been larger if they allowed for a continuing Japanese growth at 4 to 5 per cent. Instead,

Japan is projected to grow at a little over 3 per cent during the years 1986-87. A high rate of growth of Japan is necessary for a high rate of growth of the world economy. The international community should find methods to sustain higher growth in Japan in order to offset the decline in the growth momentum of the U.S. Since export growth has been the main source of Japanese growth, this implies sustaining the momentum of high export growth in Japan. Even if this appears temporarily as a market loss for some countries like the U.S., in the long run, a growing world economy would allow for expansion of their markets. This would be the more so, if Japanese export growth is attended by a recycling of her export surplus to finance the import-surplus of the developing countries for products from industrial countries.

3. The high export growth of Japan has led to an increasing current account surplus as imports did not grow at the same pace. Although there may be good arguments for increasing Japanese imports, they do not call for an appreciation of the Yen, as these imports are mainly determined by structural factors and not very responsive to price changes. The exchange rate of the Yen should be guided mainly by the consideration of maintaining a high rate of growth in exports, while the problem of sustaining the current account surplus should be dealt with by appropriate financial mechanisms.

4. The current account balance of payments for 1985 of the major actors in the world economy shows that the key deficits are in the United States (US$120 billion) and in the developing countries (US$45 billion), which together, add up to US$165 billion. The surpluses are

mainly those of Japan (US$50 billion) and Germany (US$15 billion). In fact, Japan has run a substantial current account surplus in recent years and this is expected to grow even larger in the next two years, particularly as a result of the decline in oil prices. A large part of the world's surpluses now go to financing the very large U.S. deficit, while the developing countries' deficit, excluding official transfers, is less than half the level of approximately US$100 billion that they reached in the early '80s and reflects the severe cutbacks in import capacity and economic activity since then. To compensate for the recessionary effects of the expected reduction in the U.S. budget deficit, it is necessary to sustain growth in other parts of the world economy. One measure to offset these recessionary effects would be to enhance import capacity in developing countries which can be accomplished by re-directing the Japanese surplus away from the U.S. to finance the deficits of the developing countries.

5. Undoubtedly, surpluses and deficits are to a large extent reflections of the relative strengths in international competitiveness among nations. Japan has outperformed its trade competitors, and this has sharply brought into focus the almost paradoxically interdependent aspects of the international payments system. Japan's large current account surplus and her finding a large export market could not have materialized without the vast U.S. budget and consequently, trade deficit which largely sustained Japan's export market. Obversely, without structurally large Japanese domestic savings attracted to the United States through higher U.S. interest rates, and until a year ago by an appreciating dollar, the large budget and trade deficits of the

U.S. simply could not have been sustained. These conditions have been changing in the last few months. Any reduction in the U.S. budget (and trade) deficit would tend to shrink the external market for Japan without appropriate counteracting policies and, if that happens, the lower level of economic activity in Japan would have its chain reaction in depressing world trade and growth further. The present international financial system, closely linked to U.S. national policy, has no way of dealing with such negative chain reactions unless Japan and Germany take some initiative in these matters. In its absence, the world economy will continue to be exceptionally recession prone.

6. An inward-looking Japanese policy, as is currently counselled by many, would rely increasingly on its domestic market. The transition from a successful regime of export-led growth to a domestic market-oriented growth regime is beset with so many difficulties that inward looking policies are likely to doom Japan to a future of lower growth and higher unemployment. Although it is necessary and desirable to raise domestic investment and expenditure on housing and other public goods, it is very difficult to imagine that a highly industrialized economy like Japan would be able to absorb all its 27 per cent rate of private savings in relation to GNP by increasing the rate of domestic investment and reducing the current account surplus. In a very real sense, the current account surplus in Japan is structural, reflecting the high rate of private savings that cannot be absorbed by domestic investment. The Japanese surplus on current account has increased from 2.1 per cent of GNP in 1983 to 3 per cent in 1984 and to 3.6 per cent in 1985. Even if domestic consumption is stimulated by special incentives,

it is unlikely that the private rate of savings would come down significantly in the medium term as Japanese savings behaviour is determined largely by long-term demographic and sociological factors. Similarly, it is unlikely that, with all the stimulus to domestic investment activity, the savings/investment gap can be reduced drastically, and the current account surplus, as a percentage of GNP, can be brought lower than 2.5 per cent to 3 per cent in the next few years, without bringing down the Japanese rate of economic growth.

7. The other option open to Japan is to build on the strength of its international position (Japan accounts for one-tenth of the world's GDP) and to take an initiative in co-ordinating international economic policies for the mutual benefit of nations engaged in world trade which other surplus countries, notably Germany, could be encouraged to join. The purpose would be to maintain the export growth and hence the GNP growth of Japan as a stimulus to the growth of the world economy, and adopt measures to allow the current account surplus of Japan to finance the deficits of other growing economies. This can be initiated through evolving mechanisms for financial intermediation of the Japanese surplus. As mentioned before, when the American deficit decreases and creates deflationary pressures in the world market, Japan could partly counter this pressure by diverting its surplus through financial intermediation to the developing countries. This would increase the latter's international purchasing power, and in turn would expand the external market of Japan and other industrial countries.

8. Conditions are now favourable for Japan to take this initiative in two different ways. First, the Japanese banking system has been developing its international capabilities through the last decade and a half at a rapid rate. Since 1981, Japan has accumulated current payments surpluses exceeding US$160 billion, of which less than $10 billion has been added to Japanese reserves while the rest has been increasingly recycled through Japanese banks and securities firms. Today, Japan owns the largest share of 25 per cent of the total of international banking assets. Japan has now displaced American banks into second place with the latter accounting for 18 per cent. So, financial infrastructural facilities are sufficiently developed in Japan to facilitate the diversion of surplus savings to the developing world. A necessary condition, however, for starting new lending by the international banks would be to solve the problems of outstanding debt of the developing countries through measures such as the extension of maturities and lowering of interest rates. An example of such a measure is the Hattori Plan to establish an International Solidarity Bank, replacing hard commercial loans by loans on more reasonable terms, and this principle can be extended also to other cases. The implementation of the Hattori Plan would be complementary to the initiatives under the Baker Plan.

9. Secondly, mechanisms can be created to channel Japanese capital directly to developing countries, with the support of the Japanese government, by mobilizing Japanese private savings for portfolio and equity investment in these countries. If the principle is accepted, the specific nature of the financial instruments and intermediation mechanisms can be worked out. From the broad and humane philosophy of

the proposal for a Japanese Marshall Plan for the developing countries, to the specifics of the financial instruments required for diverting the Japanese surplus to the Third World, there exists a wide spectrum of options and combinations to be elaborated. Looking at the nature of Japanese capital outflows and foreign investment, it would appear that the main motivating force is capital security, and not so much the market rate of return. Any recycling mechanism which has the guarantee of an international institution such as the IMF or the World Bank, or the major industrial countries, would at least partly meet the requirement.

10. The international institutions and the developing countries have to play a major role in providing guarantees as well as ensuring fair returns on the investment of the Japanese surplus. But it may also be necessary for the Japanese government to play an active part in this process of recycling either in the form of subsidising the interest rates or giving special incentives for investment income earned in developing countries or in providing some collateral to Japanese private savings institutions to make investment in these countries attractive. The fiscal implication of such a role of the Japanese government may not be substantial. It may be noted that the fiscal deficit as a percentage of GNP in Japan has been brought down considerably in recent years. With such a high rate of private savings as in Japan, the fiscal deficit of the public sector has very little crowding out effect and some subsidisation by the government of private equity or portfolio investment in developing countries may play a catalytic role in mobilizing resources with a very large impact on the developing

countries and the world economy. In this context, a beginning can be made by creating an international fund for promoting private capital flows from the developed to the developing countries. This should cover all kinds of private capital, including direct and portfolio investment as well as bank lending, and should be used directly or indirectly through the governments of the countries concerned, for providing interest subsidies, concessional treatment of investment income and other possible incentives. A number of feasible schemes can be worked out which would make the mobilization of actual capital flows to developing countries a substantial multiple of the resources available from this fund. What is required, however, is the political will of the industrial countries who should agree to provide additional funds for this purpose over and above their official development assistance and contributions to multilateral institutions. The Japanese government could take the initiative of contributing one-tenth of one per cent (0.1 per cent) of her GNP to set up such an international fund, while simultaneously inviting other industrial countries to join the fund by making a similar contribution.

FORM NO. 89
(2–83)

THE WORLD BANK File

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OFFICE OF THE PRESIDENT

Name	Room No.
Martijn Paijmans	

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	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Mr Conable has approved this appointment of Mr. Riley on your recommendation. Would you tell Mr. Riley that he wants to see him after the annual Meeting. Personally – I think it is a fine appointment. I know him well.

From

Bill.

Record Removal Notice

File Title General Correspondence - Correspondence, O	**Barcode No.** 30012515
Document Date 05 December, 1986	**Document Type** Memorandum with attachments

Correspondents / Participants
To: Barber B. Conable, President
From: Martin J. W. M. Paijmans

Subject / Title
Appointment of Ombudsman

Exception(s)
Personal Information

Additional Comments

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Correspondents / Participants

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Vincent Riley

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Withdrawn by	Date
Sherrine M. Thompson	March 09, 2018

Archives 01 (March 2017)

July 28, 1986

Dear Mr. Baena Soares:

Thank you for your kind letter of congratulations and best wishes on my becoming President of the World Bank.

As you indicate, the mission here will be a delicate one. I will do my best to carry it out successfully, and I welcome your support.

Sincerely,

(Signed) Barber B. Conable

Mr. Joao Clemente Baena Soares
The Secretary-General
Organization of American States
17th Street and Constitution Avenue, N.W.
Washington D.C. 20006

VJR:sk

Mr. Botafogo
Mr. Riley / Mr. Burki
for BCC signature

884

ORGANIZATION OF AMERICAN STATES

WASHINGTON, D. C.

THE SECRETARY GENERAL

July 7, 1986

Dear Mr. Conable:

On the occasion of your designation as President of The World Bank, I have the pleasure of extending to you, on behalf of the General Secretariat of the Organization of American States and of myself, warmest congratulations and best wishes of success in the delicate mission you have just assumed.

Wishing you again greatest success in your efforts, I take this opportunity to remain,

sincerely,

J C Baena Soares

Joao Clemente Baena Soares

Mr. Barber B. Conable
President
The World Bank
Washington, D.C.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

185

DATE: July 25, 1986

TO: Mr. Barber B. Conable

FROM: Martijn J.W.M. Paijmans

EXTENSION: 76428

SUBJECT: Ombudsman's Annual Report

1. The Ombudsman has submitted his FY86 report, which I attach for your perusal should you wish to do so. Although the experience of this office is still relatively recent, there is a certain value in the trend development that can be noticed. I attach the full report with all annexes, but Tables 7 - 11 give a good appreciation of the evaluation over time.

2. As general observations:

i. most cases brought before the Ombudsman (about 60%) are in the category of Career and Performance management; this signals the continued need to work on managerial selection and training, on proper weighting of managerial performance and on the quality of the central Personnel Management services in that respect;

ii. the single most important role of the Ombudsman is in "listening and counseling," taking more or less 40% of his time; and

iii. on the basis of nationalities seeking his counsel, the distribution roughly runs parallel to that of the total nationality distribution in the Bank and IFC, with the notable exception of U.S. nationals who consistenty represent one-third of all cases while they account for well under 30% of the total population.

3. The proportions among the various types of issues brought before the Ombudsman have been fairly stable over the years. However, the total number of cases in which his services are being sought is changing, and that number has increased strongly during FY86 to about 200, compared to about 150 in 1984 and 1985.

4. In his report section "Issues for Management Attention," the Ombudsman presents his analysis of the situation, which I believe to be basically correct. There are undeniably greater pressures on the staff for a number of reasons, some of which are unavoidable at this stage of the Institutions' evolution, with budgetary pressures

having become more stringent and also because more problems are surfaced and systematically addressed, which had been left alone previously. There is, nevertheless, reason for concern and the need for action has to be recognized.

5. Such action must focus on the way we deal with the Managers. Many new tools have been introduced (expectations from Managers are clearly defined, Management training, succession planning, selection and evaluation), but the full use of these tools is the issue. The Ombudsman correctly identifies the need for holding the Managers, from the very top on down, responsible for their handling of people. Our concept and guidelines are clear now, and all necessary systems exist; what has to happen--as has been said before--is that starting with the senior-most managers, our principles have to be adhered to by all . Also, the Personnel Department must become more assertive--changes made in its Senior Management have set the scene for that. Such a stronger role will not always be appreciated, as functional output demands are generally still seen as outranking proper staff "handling." It takes time, resolution and holding the course to achieve the change in the culture of the Institutions, required to come to the full recognition of the value of our human resources, and the full use of their potential. These issues are known and the human resource departments will keep pushing in this direction.

6. It is likely that the Ombudsman, who does have direct access to the President, may ask for a brief meeting as he usually does once a year to lighlight his conclusions. In the light of the importance that is attached to the proper functioning of our grievance system, I recommend that such request be granted. The Ombudsman (Mr. Hendry) will retire before the end of 1986.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

DATE July 21, 1986.

TO Mr. Martin J.W.M. Paijmans, VPA

FROM J. B. Hendry, OMB

EXTENSION 7-5472

SUBJECT OMB Annual Report for FY 86 (July 1, 1985 - June 30, 1986)

The attached Tables 1 - 5 give the FY 86 annual data for those aspects of OMB activity which have been covered in the Quarterly Reports sent to you regularly. As in previous Annual Reports, Table 1 shows the Quarter-by-Quarter activity of OMB in terms of problems involved, but the other Tables (2 - 5) show only the annual totals. With the completion of FY 86, the experience of three consecutive years can be compared, and data for these years are shown in Tables 6 - 11. These comparisons focus on new cases for the most part because this brings out patterns, if any, in terms of people who come to OMB and the kinds of problems they bring.

This is my last Annual Report as Ombudsman. I am mindful that the nature of the position brings me in contact only with the negative and unsavory facets of the Bank; people do not bring stories of successes, job satisfaction or superb managerial performance. I am also aware that at a certain age one is more inclined to think favorably about the way things were in the past than they are in the present, and this imparts an identifiable bias to ones outlook. Nevertheless, the appeal of the Ombudsman's role is that he is expected to speak his mind as freely and forcefully as he believes appropriate, and this I want to do in this final report. If what follows seems unduly critical it could be partly due to the factors cited above, but it is also the position at which I have arrived after nearly three years in this post.

Levels of Activity -- The past year does seem to have generated a significantly larger number of new cases than any previous year. The 206 new cases in FY 86 were 46 percent more than in FY 85 and 31 percent more than in FY 84; the Quarterly figures (Table 6) show that FY 86 was consistently higher in all Quarters than previous years. There are several possible reasons for this, all of them speculative to some degree. Nevertheless, I believe this increase is due largely to a disturbing trend for the Bank, i.e., the established procedures and processes for resolving problems are not working as well as they should. Part of the reason they are not working seems related to the current environment in the Bank. The Bank is changing in style, tone and culture, becoming an institution different from what it has been and what staff have known; the problems of development have grown and become more complex, and there are greater expectations held for the Bank by friends and detractors alike; the levelling of staff growth triggers anxieties about career prospects, and the insecurities associated with perceived limits to promotion drive managers and aspiring managers to "produce" at any cost. In this kind of charged and fluid atmosphere it is easier to be tough than fair, to get rid of problems rather than try to resolve them, to be curt and abusive rather than civil, to be defensive rather than understanding and open. Staff come to the OMB because they feel there is nowhere else to turn with a problem. If this is occuring to an increasing degree, as the data suggest, part of the explanation must reflect a growing unwillingness in the Bank to resolve problems equitably and openly, as well as an indifference to the factors which create the problems in the first place.

This interpretation is consistent with the findings of the latest Attitude Survey. The lowest marks in the Survey have been given for the handling of the human resources of the Bank. Areas where the scores are low and/or declining include such things as the lack of trust and confidence between staff and Management, the lack of effectiveness in resolving staff members' grievances, the limited opportunities to broaden experience through internal reassignment, poor upward communication, the low priority Management gives to staff satisfaction, and the limited influence staff feel they have on personnel decisions.

Category of Problem -- Table 7 shows that problems subsumed under the heading of Career and Performance Management continue to be the single largest category, e.g., about three-fifths of all new cases. This includes a large variety of career-related problems of the sort which arise when a staff member becomes aware that his prospects have become clouded or his job is potentially at risk; the two largest items in this category are Performance Planning and Review and Reassignment. The former is largely an outcome of the evaluation process; the latter reflects a perceived need to transfer internally to improve a staff member's situation. Job Grading, which is up somewhat from previous years, has not been an important problem for OMB however, probably because a separate Review Process exists. It clearly is not a factor in explaining the increased number of new cases.

OMB Role in Cases Closed -- The cases closed during a FY are classified according to the role OMB played in dealing with them. The figures shown in Table 8 do not indicate any obvious changes over the three year period covered. Listening and counseling remain the most frequent functions of OMB in dealing with staff problems, although interaction of some kind with upper level managers such as department directors and vice-presidents takes place in about one-quarter of all cases.

Nationality Distribution of New Cases -- The only apparent change in the pattern of the nationality distribution of new cases is that in FY 86 a larger proportion of new cases were Asian nationals (Table 9). This is due primarily to the visit which I made in the First Quarter of FY 86 to Resident Missions in Asia. In relative terms, nationals of Part I countries other than the U.S. were fewer, although in actual numbers they were about the same as before. U.S. nationals comprise about one-third of all new cases, as they have in the two previous years.

Grade Level Distribution of New Cases -- The distribution of new cases by grade level shows continuation of a distinction which appeared last year, namely, the proportion of Level 16 - 20 staff is less than in the first two years, and very much below the Bank-wide proportion for that group. I do not have any obvious explanation for this, other than to speculate that this group may be more pre-occupied with Job Grading appeals than the others. If that were the case, they would be using the special appeal procedures which apply rather than coming to OMB.

Distribution of New Cases by Sex -- The distribution of new cases as between males (49 percent) and females (51 percent) has remained, remarkably, unchanged for three years (Table 11).

To sum up this comparison, aside from the increased volume of new cases and a possible change in the distribution of new cases by grade level, there is a high degree of stability in the figures from one year to the next. For the most part, there is also a reasonable relation between the sample of staff coming to OMB and the Bank population at large.

Issues for Management Attention

In the two previous reports I have cited certain issues which were particularly important in the context of the cases which come to OMB. As the figures once again show, the major problem areas have changed very little over time, and the issues associated with them are also the same. This section will therefore be largely a repeat of points raised before, and does not elaborate on them in much detail. I have changed the order in which they are listed, however, indicating a shift in the relative priorities as I see them.

Accountability of Managers -- The office of OMB affords a rare opportunity to observe some of the physical and psychic impact from the poor management of human resources. As noted above, the atmosphere in the Bank seems harsher and less civil than it once was. This is not true for all units, obviously, but it is prevalent enough to cause concern. The Bank has issued a policy statement which says that harassment will not be tolerated, but perceived harassment is present in about one-third of the cases coming to OMB. It occurs at all levels -- senior managers to subordinates, higher level staff to support staff, administrative secretaries to the staff they supervise.

Not only is there a human cost to all this, but there is an institutional cost as well. This takes the form of time lost in sick leave, productivity loss due to preoccupation with job-related problems, demotivated performance, reduced initiative, escalating amounts of management time to deal with problems which go from minor to serious for lack of early and constructive attention, and the added costs of recruiting and training replacements for staff who were terminated rather than salvaged.

The situation is not likely to change for the better unless managers, from the top down, expect subordinates at all levels to meet their responsibilities for handling staff matters as fully as they expect them to meet their operational responsibilities. No one believes an institution as large and diverse as the Bank can avoid problems or eliminate conflict, but one can hope the day will come when people will no longer be considered "good managers" simply because they deliver their programs, and even though they waste staff resources in the process.

Reassignment -- Reassignment within the Bank is a fact of life and an important part of Bank policy. Much of it takes place continually, smoothly and voluntarily. For a few, however, reassignment can be a demoralizing, demotivating and very lengthy experience. People winding up in this unenviable situation are not necessarily poor performers, although some certainly are. Many are there because of reorganization, changing job criteria, return from a resident assignment abroad, difficulties with managers/supervisors which are more personal than competence-related, or they have a genuine interest in shifting career streams. I have been particularly struck in recent months by the number of people who are in the latter stages of a Bank career and being asked to find a new position. Most of these have held managerial or senior staff positions, and with good records of long service in the Bank. Changing preferences/expectations relating to people in these positions, in particular an apparent priority for promoting younger people into slots being vacated, makes reassignment at the same level almost impossible; demotion thus becomes the only available alternative. Leaving aside those cases where there is a demonstrable performance problem, however poorly documented in the past, there ought to be some way to find interesting and productive assignments for loyal, mature and very experienced senior staff -- assignments which allow the Bank to draw upon that hard-won experience and the staff to complete careers with dignity and self-respect.

To repeat what has been said before, the subject of reassignment deserves thoughtful study because, in my opinion, present policies and mechanisms are not working in the interest of either the Bank or the staff. This problem can only grow in scope and seriousness, given the anticipated shift in the Bank's priorities and skill mix and reassignment agonies this will entail.

Evaluation of Performance -- After Reassignment, problems associated with the evaluation of performance (Performance Planning and Review) rank second in number of new cases among sub-categories shown in Table 1. The importance of this problem area is further indicated in the latest Attitude Survey where there was low satisfaction with matters such as the helpfulness of the last Performance Review (Item 112), the degree of participation in, and information about, career decisions (Items 109 a and b), the objectivity of personnel decisions (Item 108), and the extent managers help staff with their careers (Item 111). The introduction of the PPR process may ultimately change some of these attitudes, but there is clearly quite a way to go in this respect. Instead of regarding the PPR as a forward-looking, constructive exercise in building performance strengths, many staff continue to regard it as a threatening occasion where rewards and punishments are handed out on personalized and arbitrary grounds.

Because of its importance to staff morale and productivity, the evaluation process ought to receive continuing and careful monitoring to enforce its positive impact and to minimize the punitive and counter-productive aspects. As noted in last year's report, the sensitivity and care with which a manager/supervisor carries out his part of the evaluation process should be an important criterion in determining his advancement or retention in a supervisory role.

The above is not an exhaustive list of problems, but their persistence over time and their relative importance among the new cases coming to OMB each year lend them an urgency above the others. For this reason they have been emphasized in this Report, but many side issues flow from them and I would welcome an opportunity to discuss these with you as well. Given my perspective both as OMB and as someone who is ending his career in the Bank, I also want to share with you some of my thoughts about directions the Bank seems to be taking in human resource matters.

Attachs.

JBHendry:of

Summary Table

Number of Staff Consulting the Office of the Ombudsman
by Type of Problem, FY 86 (July 1985 - June 1986)

Category	Active Cases as of June 30,1985. No.	%	New Cases July 1,1985-June 30,1986. No.	%	Cases Closed No.	%	Balance Forward June 30,1986. No.	%
Vacancy Management	2	4	18	9	20	10	-	-
Career & Perf. Mgt.	43	78	120	58	115	58	48	79
Separation Management	5	9	16	8	19	9	2	3
Job Grading	2	4	23	11	20	10	5	8
Benefits Administration	3	5	21	10	22	11	2	3
Not Classified	-	-	8	4	4	2	4	7
Total	55	100	206	100	200	100	61	100

July 14, 1986.

Table 1

Number of Staff Consulting the Office of Ombudsman, by Type of Problem and FY Quarter
FY 86 (July 1985 - June 1986)

Category	Active Cases as of June 30, 1985	First Quarter			Second Quarter			Third Quarter			Fourth Quarter		
		New Cases	Cases Closed	Balance Forward	New Cases	Cases Closed	Balance Forward	New Cases	Cases Closed	Balance Forward	New Cases	Cases Closed	Balance Forward
cancy Management													
Selection	-	-	-	-	-	-	-	1	-	1	-	1	-
Salary Calculation	-	-	-	-	1	1	-	2	2	-	1	1	-
Appointment	2	3	1	4	2	2	4	3	5	2	2	4	-
Bank Temporary Prog.	-	1	1	-	-	-	-	-	-	-	2	2	-
reer & Perf. Mgt.													
Probation	2	3	2	3	-	1	2	1	-	3	2	5	-
Perf. Planning & Rev.	11	5	2	14	6	7	13	9	9	13	10	9	14
Job Design & Pos. Grade	2	1	-	3	1	1	3	1	-	4	1	3	2
Rewards	3	6	4	5	2	5	2	1	-	3	1	2	2
Reassignment	13	6	9	10	7	5	12	9	5	16	16	11	21
Promotion	2	1	2	1	-	1	-	4	1	3	-	3	-
Career Development	9	4	5	8	4	4	8	4	3	9	6	8	7
Disciplinary Matters	1	3	3	1	3	2	2	2	-	4	1	3	2
Demotion	-	-	-	-	-	-	-	-	-	-	-	-	-
eparation Management													
Voluntary Separation	4	1	3	2	3	3	2	1	2	1	4	3	2
Involuntary Separation	1	-	-	1	4	3	2	-	1	1	3	4	-
ob Grading													
Grading	2	9	2	9	6	7	8	4	4	8	4	7	5
enefits Administration													
Staff Benefits	3	5	3	5	3	5	3	4	4	3	3	5	1
Financial Assistance	-	-	-	-	-	-	-	-	-	-	-	-	-
Visas	-	-	-	-	2	1	1	2	3	-	1	1	-
Insurance	-	-	-	-	-	-	-	1	-	1	-	-	1
ot Classified	-	-	-	-	-	-	-	5	3	2	3	1	4
Total	55	48	37	66	44	48	62	54	42	74	60	73	61

uly 14, 1986.

Table 2

Main Function of the Ombudsman in Cases Closed,
FY 86 (July 1985 - June 1986)

Function	No. of Cases	Percent
I - Listening and Counseling	82	41
II - Mediation/Conciliation at or below level of first-line supervision 1/	66	33
III - Mediation/Conciliation above first-line supervision	50	25
IV - Recommendation 2/	2	1
Total	200	100

1/ This includes working with PMD, COM and MED staff

2/ This refers to written recommendations to concerned parties, as opposed to the more informal mediation and conciliation activities included elsewhere.

July 14, 1986.

Table 3

Number of Staff Consulting the Office of Ombudsman, by Nationality, FY 86 (July 1985 - June 1986)

Nationality	Active Cases as of June 30,1985.		New Cases July 1, 1985 - June 30,1986.		Cases Closed July 1, 1985 - June 30,1986.		Balance Forward June 30,1986.	
	No.	%	No.	%	No.	%	No.	%
Part I								
U.S.	16		72		65		23	
U.K.	2		14		12		4	
Japan	1		-		1		-	
France	6		6		11		1	
Germany	-		9		8		1	
Other	12		21		28		5	
Sub-Total	37	67	122	59	125	62	34	56
Part II								
Africa	8		8		13		3	
Asia	5		49		41		13	
Europe	-		3		2		1	
Western Hem.	5		24		19		10	
Sub Total	18	33	84	41	75	38	27	44
Total	55	100	206	100	200	100	61	100

July 14, 1986.

Table 4

Number of Staff Consulting the Office of Ombudsman, by Grade Level, FY 86 (July 1985 - June 1986)

Level	Active Cases as of June 30,1985.		New Cases July 1, 1985 - June 30,1986.		Cases Closed July 1, 1985 - June 30,1986.		Balance Forward June 30,1986	
	No.	%	No.	%	No.	%	No.	%
11-15	16	29	83	40	77	39	22	36
16-20	4	7	15	7	14	7	5	8
21-29	35	64	108	53	109	54	34	56
Total	55	100	206	100	200	100	61	100

July 14, 1986.

Table 5

Number of Staff Consulting the Office of Ombudsman, by Sex, FY 86 (July 1985 - June 1986)

Sex	Active Cases as of June 30,1985.		New Cases July 1, 1985 - June 30,1986.		Cases Closed July 1, 1985 - June 30,1986.		Balance Forward June 30,1986.	
	No.	%	No.	%	No.	%	No.	%
Male	30	55	100	49	102	51	28	46
Female	25	45	106	51	98	49	33	54
Total	55	100	206	100	200	100	61	100

July 14, 1986.

Table 6

Number of New Cases Consulting
Office of Ombudsman, by Quarter, FY 84-86

Quarter	FY 84 (Number)	FY 85 (Number)	FY 86 (Number)
1st Quarter	37	30	48
2nd Quarter	35	34	44
3rd Quarter	40	30	54
4th Quarter	45	47	60
Total	157	141	206

July 14, 1986.

Table 7

OMB: Percentage of New Cases, by Category of Problem, FY 84-86

Category	FY 84 (Percent)	FY 85 (Percent)	FY 86 (Percent)
Vacancy Management	4	9	9
Career & Perf. Mgt.	60	62	58
Separation Management	18	10	8
Job Grading	1	2	11
Benefits Admin.	17 1/	17 1/	14 1/
Total	100	100	100

1/ Includes "Not Classified"

July 14, 1986.

Table 8

Percentage of Cases, by Main Function of OMB,

FY 84-86

Function	FY 84 (Percent)	FY 85 (Percent)	FY 86 (Percent)
I. Listening and Counseling	45	36	41
II. Mediation/Conciliation at or below level of first-ling supervisor	38	40	33
III. Mediation/Conciliation above first-line supervisor	17 1/	24	26 2/
Total	100	100	100

1/ Includes one formal written report.

2/ Includes two formal written reports.

July 14, 1986.

Table 9

OMB: Percentage of New Cases, by Nationality,
FY 84-86

Nationality	FY 84 (Percent)	FY 85 (Percent)	FY 86 (Percent)	Bank-wide (Percent)
Part I				
U.S.	34	32	35	27
U.K.	12	7	7	8
Japan	1	-	-	-
France	4	7	3	9
Germany	2	4	4	2
Other	15	18	10	11
Sub-Total	68	68	59	53
Part II				
Africa	6	7	4	8
Asia	11	14	24	25
Europe	1	1	1	2
Western Hem.	14	10	12	12
Sub-Total	32	32	41	47
Total	100	100	100	100

July 14, 1986.

Table 10

OMB: Percentage of New Cases, by Grade Level

FY 84-86

Grade Level	FY 84 (Percent)	FY 85 (Percent)	FY 86 (Percent)	Bank-wide (Percent)
11-15	31	39	40	35
16-20	18	11	7	18
21-29	51	50	53	47
Total	100	100	100	100

July 14, 1986.

Table 11

OMB: Percentage of New Cases, by Sex,
FY 84-86

Sex	FY 84 (Percent)	FY 85 (Percent)	FY 86 (Percent)	Bank-wide (Percent)
Male	49	49	49	54
Female	51	51	51	46
Total	100	100	100	100

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