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| **Folder Title:** | General Correspondence - Memorandum to the President - 1981 – 1985 |
| **Folder ID:** | 30394929 |
| **Series:** | Correspondence with World Bank Presidents |
| **Dates:** | 06/17/1981 - 02/20/1985 |
| **Subfonds:** | Ernest Stern files |
| **Fonds:** | Records of Individual Staff Members |
| **ISAD Reference Code:** | WB IBRD/IDA STAFF-10-10 |
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GENERAL CORRESPONDENCE

MEMOS TO THE PRESIDENT

1981 - 1985

FORM NO. 75
(6-83)

THE WORLD BANK/IFC

| ROUTING SLIP | DATE: Feb. 25 |
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| NAME | ROOM NO. |
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| ~~Mr. Stern~~ | |
| Mr. Clausen | |
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| | APPROPRIATE DISPOSITION | | NOTE AND RETURN |
| | APPROVAL | | NOTE AND SEND ON |
| | CLEARANCE | | PER OUR CONVERSATION |
| | COMMENT | | PER YOUR REQUEST |
| | FOR ACTION | | PREPARE REPLY |
| X | INFORMATION | | RECOMMENDATION |
| | INITIAL | | SIGNATURE |
| | NOTE AND FILE | | URGENT |

REMARKS: Tom —
See attached p. 12.
Our talk with Jacques, thus far, hasn't had much impact — though the statement itself is not wrong, of course. ES

| FROM: F. Vibert | ROOM NO.: | EXTENSION: |
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FOR AGENDA



SM/85/61

February 20, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Developing Countries' External Indebtedness to Commercial Banks

Attached for consideration by the Executive Directors is a paper on developing countries' external indebtedness to commercial banks, which has been scheduled for discussion on Wednesday, March 20, 1985. A supplement containing background material will be issued shortly.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Watson (ext. 7350) or Mr. Kincaid (ext. 7356).

Att: (1)

Other Distribution:
Department Heads

A second development in some recent financial packages has been a preference on the part of banks to extend fresh funds in the form of (or convertible into) trade- or project-related loans, rather than purely financial credits to the government. Such loans enable banks to support the export activities of their customers and to some degree monitor more closely the use of these funds. However, in the context of covering an external financing gap, such lending cannot substitute fully for balance of payments lending.

Banks have also been expressing interest in greater involvement of the World Bank in assessing sectoral policies and in evaluating projects. The advantage of cofinancing with the World Bank lies in its potential to associate commercial bank lending with productive projects, rather than in providing protection of a legal nature against future rescheduling. The World Bank's sectoral expertise and techniques for project evaluation are viewed by banks as potentially making an important contribution to unlocking future bank lending.

## IV. Developing Countries' Future Access to Capital Markets

### 1. Factors influencing countries' creditworthiness

The key factor that will influence future access to commercial bank financing and other private capital flows is the economic policies of developing countries. Progress toward a viable external payments position will be a prerequisite for improving these countries' creditworthiness. Continued implementation of adjustment policies will be crucial to consolidate the gains already achieved and will need to be matched by vigorous efforts to remove domestic constraints to real growth. Policies to increase the flexibility of developing countries' economies will play an important role in fostering greater spontaneous bank lending and in improving the composition of private capital flows by increasing the share of direct investment. Effective adjustment policies should also restore confidence, inducing a return of flight capital.

Appropriate policies in major industrial countries, by their impact on world trade and financial market conditions, can exert a major influence on the resolution of developing countries' external payments difficulties. Sound fiscal policies in industrial countries would contribute to lowering real interest rates, which would reduce developing countries' debt service burden, while rolling back protectionism in industrial countries would permit developing countries to earn the necessary foreign exchange to service their external obligations. Policies in industrial countries that foster greater efficiency and structural flexibility would help restrain pressures for protectionism and permit greater economic growth.

In a companion paper, "World Economic Outlook: Medium-Term Scenarios," the staff has analyzed the macroeconomic policies that would facilitate resolution of present debt-servicing difficulties. In which is already underway. This ratio could return to the level prevailing before the sharp increase in lending to non-oil developing countries during 1979-82, provided that bank capital continues to increase somewhat more rapidly than nominal income growth and that increases in bank lending are modest, coinciding with the desire of many such countries, especially major borrowers, to restrain the growth in their bank indebtedness.

For non-U.S. banks, developments in the U.S. dollar exchange rate, and the pace of currency diversification, will have an important impact on the speed at which their exposure relative to capital is reduced. The real depreciation of the U.S. dollar assumed in the WEO of 5 percent per annum from 1986 to 1990 would increase the capital asset ratio for non-U.S. dollar-based banks by about 15 percent, based on existing currency composition of lending. Although currency diversification by restructuring countries will limit the impact of the depreciation in the U.S. dollar, banks' exposure to non-oil developing countries relative to capital would nevertheless be diminished to some degree.

Once banks have reduced exposures relative to capital, especially for major borrowers, and developing countries have reduced their debt ratios, there are a number of reasons to expect significant spontaneous lending to be available. While banks may now view lending to developing countries as more risky than they judged in the 1970s, domestic lending has proved at least as risky in terms of realized losses. By pursuing successful adjustment policies, developing countries can improve their creditworthiness, lowering the risk on existing and new loans.

Banks' desire to reduce their risk-adjusted exposure relative to capital will influence the form of lending to developing countries. Banks have indicated a desire to increase significantly the share of trade finance and project-related loans in total lending to developing countries, because banks perceive such loans to have lower risk than general medium- and long-term loans. Greater emphasis on trade- and project-related loans means that bank lending will be more closely associated with developments in imports. As countries continue to move away from the import compression phase of their adjustment efforts, the scope for bank lending will thus increase. Such lending will no doubt serve as a cornerstone for the return to a more normal debtor-creditor relationship for these countries. Over time, greater medium-term lending is expected, although not on the scale of earlier years. As bank lending for projects resumes, the World Bank can play a valuable role through its appraisal of projects and sector policies, and in helping to attract bank financing to productive endeavors, both through cofinancing and through general collaboration with commercial banks.

Banks also desire a greater synergy between their foreign and domestic lending operations. Consequently, banks' lending to developing countries will tend to support the export activities of their customers in industrial countries. Related business with these customers is

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

A.W. CLAUSEN
President

February 15, 1985

Dear Joe and Charly:

Many thanks for your note and kind comments about my remarks at the luncheon. Thanks also for the summary of the proceedings. It is interesting reading indeed.

I, too, am pleased with the support of your objectives as expressed by the members and with the practical suggestions they offered. The Committee faces a difficult challenge in building widespread support for the multilateral institutions but you have gotten it off to an excellent start. I'm confident that your efforts will yield positive and lasting results.

I look forward to maintaining close contact with you as your work progresses.

Warm regards.

Sincerely,

Mr. Henry H. Fowler
Mr. Charls E. Walker
Co-Chairmen
The Bretton Woods Committee
1616 H Street, N. W.
Suite 400
Washington, D. C. 20006

BC: Messrs. Stern, Qureshi, Stanton, Vogl

R1

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THE BRETTON WOODS COMMITTEE
1616 H STREET, N.W., SUITE 400
WASHINGTON, D.C. 20006
TELEPHONE (202) 842-3711
TELEX 248924 CIG

February 11, 1985

The Honorable A. W. Clausen
President
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Tom:

On behalf of all those associated with the Committee we greatly appreciate your coming and speaking at our luncheon, particularly given the demands of your schedule. Your remarks were perfect to the occasion and provided the right platform on which we built our afternoon discussions.

We were gratified by the amount of support members offered for the Committee's goals and by the number of suggestions on how we should achieve them. We would welcome any further thoughts you want to share along this line. You might be interested in the summary of the proceedings which is enclosed.

Obviously we want to stay in close touch with you and others at the Bank as we proceed. Thank you again for coming.

With warm regards.

Sincerely yours,

"Joe"
Henry H. Fowler
Co-Chairman

Charly
Charls E. Walker
Co-Chairman

MINUTES
BRETTON WOODS COMMITTEE
INAUGURAL MEETING

Morning Session

Co-Chairmen Henry Fowler and Charls E. Walker opened the meeting of the Bretton Woods Committee with a discussion of the current need for the Committee and the concept of the organization as envisioned by the founding group.

Background of the Committee

Joe Fowler told the Committee there exists a climate of indifference to, and, in some cases, outright hostility toward the International Monetary Fund, the World Bank, and the regional development banks. While the need for support and guidance from these institutions on the part of the borrowing countries has increased, donor countries' willingness to "foot the bill" has decreased.

Chief among the donor countries is the United States where opposition to increase commitments to or participation in the IMF and the World Bank has greatly increased in recent years.

This opposition has manifested itself most strikingly in the Congress, where authorizing and appropriating legislation for the international financial institutions has become very difficult to enact, and where the margins of passage have diminished. We see now, according to Fowler, a Congress lacking, for the most part, any real understanding of the workings of the Fund or the development banks, and little appreciation of the benefits which accrue to the United States.

For the first time there has been organized opposition to U.S. participation in these institutions in the form of Howard Ruff's "Free the Eagle" organization, which lobbied heavily and successfully during the last IMF quota increase legislation in 1983 and during the congressional campaign this past November.

The Need for a Constitutency Group

Walker and Fowler emphasized the need for a constituency group to explain and represent the institutions before the U.S. public, Congress, Executive Branch and private sector.

The purpose for organizing the Bretton Woods Committee is to fill this role of a citizens' constituency group. It was agreed that the Committee would operate as a public education, tax-exempt (tax-deductible), organization. A broad-based, bipartisan membership of exporters, financial institutions, labor unions, multinational corporations and individual citizens of about 200 will be sought.

In Walker's words, the Committee does not intend to become, "a rubber stamp or apologists for the international financial institutions." Neither will the Committee be primarily a lobbying organization. Instead, it will concentrate its efforts on public education at the local level, educating and activating local citizens, community leaders and the media. In this way, knowledge of and support for the Fund and the Bank can be communicated to Members of Congress from their Districts. An educated and active constituency for these institutions must be viewed as a more effective and far-reaching approach than centering efforts on lobbying for particular pieces of legislation.

Committee Structure

The Committee has applied for 501(c)(3) tax status, reflecting the educational nature of its planned activities, and permitting tax-deductible contributions. All indications are that the request will be granted. The Committee has received a total of $165,000, to date, in contributions and pledges from foundations, corporations and private individuals. The Committee envisions beginning its annual fundraising cycle in the Fall.

Charls Walker indicated that the Committee's tax status would not totally preclude the Commitee from lobbying; and, that lobbying will more than likely be warranted in particular circumstances. Jim Orr detailed the operational implications of 501(c)(3) status which dictates that an organization so considered devote "no substantial" portion of its time and resources to lobbying. Generally up to 5% to 10% of the total activities devoted to lobbying is considered permissible.

Henry Owen continued the discussion of the procedural matters involved in the Committee's creation. There are currently 136 members of the Committee, who also serve concurrently as Directors of the Corporation, formed under the District of Columbia's Non-Profit Corporation Act. The Committee does not wish to go beyond a total membership of 200, and any additional members will be added because they increase the effectiveness of the organization and not simply because they desire to join.

Members' Comments

The morning session of the meeting closed with Charls Walker's solicitation of the comments of the Committee's members who have also served or are currently serving in either the Senate or the House of Represntatives.

Former Members of Congress, Lud Ashley, John Culver, Henry Reuss, Jerry Patterson, Tom Rees and Joe Barr offered enthusiastic support for the Committee's objectives and expressed regrets that such an effort had not existed when they attempted to defend the institutions from within government. Lud Ashley said that with the bulk of attention focused on winning relection, both Houses of Congress attempt to avoid consideration of "difficult" legislative matters -- development institution and foreign aid legislation chief among them. The only way this can be countered, Rep. Ashley said, it to "go out to those votes the Members of Congress are concerned about."

Robert McNamara underscored the necessity of educating and, in come cases, correcting the mistaken conceptions of the American public and their elected officials.

In a suggestion combining the Committee's educational thrust with proposed methods to accomplish its mission, Fred Bergsten put forth the idea of a "primer" on the issues surrounding U.S. participation in the international financial institutions. Mr. Bergsten's suggestion was supported by many Committee members.

Robert Strauss spoke about his experience securing passage of the Trade Act, and the difficulty in explaining "self-interest" as an argument in favor of supporting, in this case, the international financial institutions. He emphasized the difficulty of the Committee's struggle to enlarge the base of support for the Bank and Fund. In his view, each member must take the Committee's case to his or her local communities.

In response to Walker's request for a view from organized labor, Owen Bieber stated that labor is not likely to be very vocal in its support for the Committee's mission.

## Adoption of Resolutions

At the close of the morning session, three resolutions were proposed and approved as follows: as a quorum was present,

1) a motion made and seconded to approve the by-laws of the Committee;

2) a motion made and seconded to approve the appointment of the following individuals to the Executive Committee:

Henry Owen, (Chairman), Joseph W. Barr, Owen Bieber, Thornton F. Bradshaw, Warren Christopher, George J. Clark, William T. Coleman, Jr., Richard W. Cooper, Lloyd N. Cutler, Henry H. Fowler, (ex officio), Edward R. Fried, John H. Gutfreund, Peter T. Jones, Peter B. Kenen, Marc F. Leland, Bruce K. MacLaury, Ruben F. Mettler, James C. Orr, (ex officio), William Pearce, Myer Rashish, Robert V. Roosa, Anthony Solomon, Robert Strauss, Charls E. Walker, (ex officio), Anne Wexler, John C. Whitehead, T. A. Wilson, James D. Wolfensohn

3) a motion made and seconded to empower the Executive Committee to select and approve a permanent treasurer for the Committee.

## Luncheon Session

The luncheon session of the inaugural meeting of the Bretton Woods Committee was addressed by Jacques deLarosiere, Managing Director of the International Monetary Fund; A.W. (Tom) Clausen, President of the World Bank; and Paul Volcker, Chairman of the Board of Governors of the Federal Reserve System.

### Remarks of Mr. DeLarosiere

Jacques deLarosiere presented a brief outline of current world economic conditions. In his view, there is room for optimism but it does not justify inaction. To preserve the momentum of improvement in the international economy, he urged the maintenance of strong American leadership within the Bretton Woods institutions and termed the Committee's formation as "timely and crucial" in preserving this leadership role.

Mr. deLarosiere said the U.S. was leading the resumption of growth without inflation in the industrial world, with its 6% real GNP growth in 1984. Japan is in a similar position, but the performance of the European economies has been less than satisfactory.

There is basis for hope in viewing the international debt situation, with the developing world in a better position now than just two years ago. The collective decrease in the current account deficit of the non-oil LDCs has gone from an unfinanceable $108 billion in 1982 down to $35 billion in 1984. This is, in deLarosiere's words, the "fastest and most spectacular balance of payments adjustment we've ever observed" and is attributable to a combination of domestic adjustment and outside assistance.

DeLarosiere enumerated for the Committee the Fund's three principal functions -- adjustment, financing and surveillance. The Fund currently has thirty-one adjustment programs in effect. It has negotiated a total of sixty-two such programs since the onset of the debt crisis in 1982. Adjustment programs cannot be put in place without balance of payments financing, of which the Fund has extended $22 billlion to the developing countries in the last two years. It is in its role as a "financier of the system" where the Fund acts as a catalyst, playing an active role in attracting additional, necessary financing for the LDCs.

Finally, the Fund's surveillance function over economic policies of Member countries must be increased.

Looking ahead to the next ten years, deLarosiere saw the debt burden as manageable, if currently favorable conditions in the world economy are maintained and or accelerated. Adjustment must continue in the debtor countries. Non-inflationary growth must be maintained in the industrialized countries and an open trading regime must be preserved. There is a real need for more balance of payments financing, as the role of commercial banks diminishes. The Fund will continue to play a catalytic role, but direct investment must be promoted, and increased official development assistance through the World Bank is a necessity.

In response to a question from Henry Owen, deLarosiere urged the Committee to correct some of the misconceptions about the Fund's role and mission. The Fund is not "anti-growth", "intent on slashing demand", or "austerity-bent". DeLarosiere asked that the Committee explain to its targeted audiences that the IMF is, instead, a growth-oriented, employment and job-oriented, "supply-side, if you will", organization.

Fred Bergsten inquired about the public's perception of the Fund as, principally, an "aid" instituion, due to the fact that all its current programs are centered in developing countries. What role can the Fund argue it is taking vis-a-vis the industrialized countries? DeLarosiere acknowledged the problem and stated it to be one of the areas to which the Fund must give its attention. Fund interaction with the industrialized countries is, deLarosiere said, one area where the Fund's surveillance role comes into play and should, arguably be increased.

Larry Fox queried deLarosiere as to the current floating exchange rate system and the perceived harm it is wreaking on the U.S. economy. DeLarosiere responded, saying a fixed system of exchange rates is too rigid, given the differing "inflationary situations" facing the world's economies. We need, he said, to move toward individual economic policies that are more conducive to "viable exchange rates" and more flexibility in the system.

<u>Remarks of Mr. Clausen</u>

Mr. Clausen echoed many of Mr. DeLarosiere's comments on the current state of the world economy. He emphasized the necessity of increasing the flow of capital of all sorts -- concessional, non-concessional, equity, etc. -- to non-oil LDCs.

The World Bank's current lending level has reached a plateau resulting in a temporary pause in the Bank's growth. The Bank's management feels strongly, however, that the Bank must increase its general capital reserves. The schedule for negotiating such an increase has already slipped six months and will not be finalized until April 1986.

Clausen listed other subjects of discussion both within the Bank and among its member countries. Management is not in favor of increasing the Bank's "gearing ratio" above the current 1:1. At the Bank's next Annual Meeting in September 1985, management will put forth a draft convention for the proposed "Multilateral Investment Guaranty Agency", a facility designed to provide additional security for private investors in developing countries. The Bank will continue its emphaisis on co-financing programs with commercial banks.

IDA, the World Bank's soft-loan affiliate, is short of funds, a problem due, principally to shortfalls and delays in U.S. contributions. The U.S. has also said "no" to any participation in the Bank's "number one priority", (in Clausen's words), the Sub-Saharan African Facility. In reply to a question from John Sewell of the Overseas Development Council, Clausen hoped for more favorable consideration from the new Congress. He added however, that even without the participation of the U.S. and several other significant donors, pledges of $600 million have been received.

In Clausen's view, the "self-interest" argument would be the most effective for the Committee's efforts to educate the U.S. public and win the suport of Members of Congress for the IMF and the development institutions.

Remarks of Mr. Volcker

Chairman Paul Volcker applauded the Committee's "critical and non-apologetic approach" to the Fund and development banks. Volcker portrayed the World Bank and the Fund as fulfilling complementary roles in a "two-phased" approach to the debt crisis. While the Fund was the right organization at the right time in the right place to help stem the debt crisis, the World Bank will begin to take the lead in sustaining the growth that has been restored. The most important work, Volcker said, remains to be done.

DeLarosiere disagreed with Volcker's "two-phased" characterization, telling the audience that, today, the reality is that the Fund must continue to play an adjustment role. If the Fund's "housekeeping" role is relaxed, deLarosiere claimed, the gains of "Phase 1" will be wiped out. The Fund must work with the debtor countries and the World Bank to ensure that these countries do not relax their readjustments to their exchange rates, budgets and their overall macroeconomic setting.

Bill McCullough asked Volcker if the World Bank and the IMF required substantial restructuring to better serve the problems of the current environment. Volcker said he did not feel this was needed but that the current debt situation increased the need for cooperation and coordination between the World Bank and Fund. We must develop a "modus vivendi" between these institutions that has not always been needed in the past, nor has it always been there.

## Afternoon Session

A number of topics, both programmatic and substantive were addressed in the meeting's afternoon session. Members were encouraged to give the Committee their views on what the emphasis of its work should be.

Pedro Pablo Kuczynski opened with the perennial question, "Will it play in Peoria?". He stressed that the Committee would require a substantial amount of money and of organization to communicate at the local level in the U.S.

If one accepts the premise that an educational campaign is of primary neccessity, Kuczynski said, then the Committee should focus its efforts first on the World Bank due to the critical funding situation, (i.e., IDA, the proposed General Capital Increase, and the African Special Facility). The Fund is in a stable and healthy financial situation until 1987 or 1988.

In addition, Kuczynski suggested, Committee efforts should concentrate on the concept of the World Bank rather than "what it is actually doing", because, in his words, "I'm not so sure what it's doing is so good". What is needed in the LDCs, according to Kuczynski, is working capital to decrease debt. Yet the banks and the U.S. Treasury Department "are dead set against that and the push on structural adjustment lending by the Bank is tentative at best".

In response to Kuczynski's criticism of the World Bank's operational policies in this area, Henry Fowler reminded him of the current emphasis on expanding the International Finance Corporation (IFC) and suggested that the Committee might take the position of encouraging the regional development banks to adopt programs similar to the IFC.

Former Senator John Culver suggested a tactical approach for the Committee. Agreeing that the primary thrust of the Committee's efforts should be educational and that its message would play in Peoria, Culver proposed targeting key leadership in the House and Senate, especially Members of important committees. In Culver's words, the Committee needs to "get a person on the ground" in a particular Congressional District or state. This "contact person" would organize perhaps one-half dozen local leaders from the governmental, business and labor union communities, especially those who, through their business dealings, can be shown to have benefited from the operations of the international financial institutions. The next step would then be for this group to visit with local press and their Member of Congress, telling both, but especially the latter, of their support for the Member's vote for the IMF and the development banks. Those Members supporting the institutions could then be enlisted to spread the word to still other Members. Such a multi-tiered, tactical approach would involve only "surgical targeting", a method which would minimize demands on time and financial resources.

A selective tactical approach was endorsed by John Sewell, who warned against any attempt to address too broad an audience as "dissipating the Committee's efforts" well beyond what the Committee could afford. Sewell advocated the Committee carefully select both its issues and its audiences via the executive committee. The issues surrounding any discussion of the Fund and banks vary quite widely as evidenced, he said, in the example of a General Capital Increase for the World Bank versus its Sub-Saharan African Facility.

Restating Charls Walker's comments in the meeting's morning session, Dick Debs underlined the importance of education as the Committee's primary mission but reminded members that there will be instances "where the bottom line" is getting a certain piece of legislation passed.

In the afternoon session, a brief discussion was held as to how to advance the economic "self-interest" argument as a compelling reason for U.S. support for the Bank and Fund. Is specific data available, Henry Fowler asked, that demonstrates, in monetary terms and by Congressional District, the actual benefits in procurement and contract awards to U.S. firms? John Culver said that, yes, such data was available, in past years, from the Commerce Department. John Sewell added that AID procurement figures are available and that figures showing the benefits to U.S. business of trade with the LDCs were available from the White House during debate on the Trade Bill several years ago.

Picking up on one of the morning session's themes, that of a new generation lacking an understanding of the Bretton Woods institutions, Bruce Otter suggested a "redefinition" of the Bretton Woods agencies, and perhaps even a new conference to bring the institutions up to date. Otter reminded the Committee that many Members of Congress (whose ages average 38) were not alive when these institutions were created in 1944.

To get its message out to an even wider audience, Otter suggeted actively engaging the opposition. He suggested inviting them to participate in a dialogue with the Committee and to tell us where the Bretton Woods institutions "have gone wrong". Such a dialogue would offer a high profile debate, high enough to catch the attention of the national media. This attention would widen the Committee's audience and would do so at no cost.

Bill Pearce asked the Committee what it foresees as its primary mission. "Is it to support these institutions and U.S. funding of them", he asked, or, "is it to reshape these instituions so our support of them is made even easier?". To which, Joe Fowler replied that these were both missions of the Committee. Pearce pointed out that, in his opinion, the two objectives are in conflict and that any attempt to deal with them simultaneously would weaken the Committee's message. Pearce believes the Committee should concentrate first on dealing with the criticisms aginast the institutions. "There is", he continued, "a fundamental strength to these intitutions that ought to be preserved so they can in turn be improved".

John Hennessy agreed with Pearce, citing short-term and long-term problems facing the banks and Fund. In the case of the World Bank, for instance, there is, he said, an imminent need, on the one hand, for a General Capital Increase. On the other hand, though, is the evident decline in support for the development institutions. The Committee, in Hennessy's opinion, must attempt to correct this decline in support for the development institutions by attempting to convince young Republicans. John Gutfreund and John Rhodes agreed with Hennessy and urged that the Committee focus on restoring support for the Fund and the development banks and do so by concentrating its efforts on the new generation of American leaderhip which has matured since the Bretton Woods Conference.

Dick Debs, however, did not see any inconsistency between the dual missions that the Committee might undertake. After all, he said, the U.S. Chamber of Commerce, in supporting legislation for IDA and IMF, conveyed to the U.S. Executive Directors concerned, to Tom Clausen, to the Treasury Department and in congresional testimony, the changes in the operation of these institutions that the Chamber wanted to see.

Peter Kenen and John Rhodes agreed with Debs saying that there "should be room in this organization for a fresh look at these institutions", and suggested "taking such a look" by engaging in a dialogue with the institutions, themselves; with U.S. representatives of the institutions; and with the Executive Branch. Kenen suggested focusing discussions as to "improvements" in the Bretton Woods institutions, on the Executive Branch where the problem often lies. It is periodically just as difficult to secure Administration initiative as it is Congressional support for the development banks and the Fund, in Kenen's view.

During the afternoon, the Committee continued discussing the proposal to create a "primer". Peter Kenen suggested creating two separate primers, one for the World Bank and one for the

IMF. The Fund, he said, is already facing a difficult enough struggle against the perception of itself as a development aid institution without the Committee exacerbating the problem by "lumping it together" with the development banks. Bruce MacLaury agreed with the idea of separate treatment of the Bank and Fund in the committee's primers and suggested they be written in a "question and answer" format.

Both Kenen and MacLaury proposed that the Committee also put together more technical materials for certain, specific situations where, for example, the question for a Member of Congress might be whether to vote for a General Capital Increase rather than, simply, to vote for or against the Bank or Fund.

Whether the Committee should address the question of the current exchange rate system was a subject of some disagreement during the afternoon session. Larry Fox favored establishing a subcommittee to examine improvements that could be made to the exchange rate system. Thornton Bradshaw supported this idea. Bruce MacLaury disagreed, saying that enough organizations were addressing this issue, the Committee has "enough work to do" and would face potential divisiveness in addressing the exchange rate question.

Henry Owen and Joe Fowler brought the afternoon session to a close with requests for a letter from the Committee members present. Mr. Owen asked each member to suggest in his or her letter one person in each major region of the country who is interested in these issues and who has some standing in his or her community. Mr. Fowler requested that each member detail the points they made or wanted to make during the meeting. These letters will be used by the Executive Committee to help devise the program of the Committee, and in developing the Committee's "outreach" program to local communities.

C3

FORM NO. 1599
(8–80)

THE WORLD BANK

| ROUTING SLIP | DATE 12/31 |
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OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

| NAME | ROOM NO. |
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| Mr. Clausen | |
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| | To Handle | | Note and File |
| | Appropriate Disposition | | Note and Return |
| | Approval | | Prepare Reply |
| | Comment | | Per Our Conversation |
| | Full Report | | Recommendation |
| | Information | | Signature |
| | Initial | | Send On |

REMARKS

Tom:

Attached are comments on a Treasury report on foreign investment and commercial bank flows. A draft cover note to Jim also is attached. It obviously would have been helpful if they had sent us their study for comment before they sent it to the Congress. As they sent it to us afterwards, our comments are not likely to be very relevant.

Ernie

P.S. Finance, Legal, and ERS worked with OPS on preparing this.

FROM

sent + copy filed in CF 1/7/85

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

December 20, 1984

Mr. A. W. Clausen

Tom -

I am not sure what the objective is of a speech on Development and Security. It is a difficult subject at best and can easily become platitudinous. Unless you have a clear message in mind, I would recommend against using the opportunity of a major forum for this purpose.

Ernest Stern

cc: Mr. Vogl
Mrs. Krueger

P-1852

December 18, 1984

Mr. A. W. Clausen

Tom -

You might be interested in the first 10 pages, particularly Table 2 on page 10 and Table 1 on page 9. It was circulated by Saouma at yesterday's meeting in New York.

Ernie

Ernest Stern

Attachment

P-1852

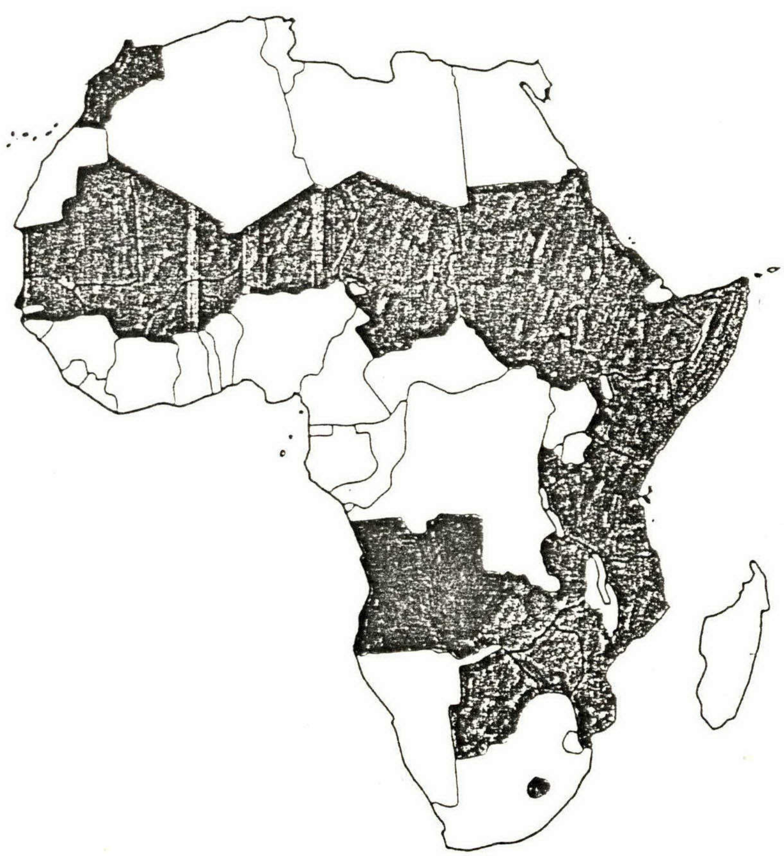
global information and early warning system on food and agriculture

# special report

FOOD SUPPLY SITUATION IN AFRICAN COUNTRIES AFFECTED BY FOOD AND AGRICULTURAL EMERGENCIES IN 1984/85

Rome, 7 December 1984

Angola
Botswana
Burkina Faso
Burundi
Cape Verde
Chad
Ethiopia
Kenya
Lesotho
Mali
Mauritania
Morocco
Mozambique
Niger
Rwanda
Senegal
Somalia
Sudan
Tanzania
Zambia
Zimbabwe



C-3

December 1, 1984

Mr. A. W. Clausen

Tom -

Re Guri, I suggest that

(a) you treat this as water over the dam and not raise it. Your letter should have taken care of it.

(b) if he raises it, just briefly repeat the conclusion of the letter---i.e. we are glad to have reached a mutually satisfactory solution. We have provided a lot of technical assistance to Guri and the repayment is the cheapest way for Venezuela to have obtained the money. If they wish us to help further with supervision, we can do this under the Technical Assistance program (see para 14-15).

brief at CF

(c) you should not get into the details of contracts; consultations with the EDs; a U.S. position or the like.

Re graduation, you should NOT suggest that we may resume lending. The trigger point is not a mechanical trigger---if Venezuela falls $50 below for a year, we are not going to gear up for a lending program.

You should, instead, merely note that the policy has been established by the Board and there is little we can do about it. If, in the future, Venezuela's access to capital markets and its long-term creditworthiness were to change, we would, of course, be prepared to review the matter.

Ernie

Ernest Stern

WORLD BANK / INTER IONAL FINANCE CORPORATION

November 30, 1984

Mr. A. W. Clausen

Tom -

desk file

Attached is a copy of the Regional Objectives for Eastern Africa.

Ernie

Ernest Stern

Attachment

P-1852

November 30, 1984

Mr. A. W. Clausen

Tom -
desk file

Attached are the South Asia objectives. I discussed an earlier draft of this paper with David.

Ernest Stern

Attachment

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

October 5, 1984

Mr. A. W. Clausen

Tom -

Attached is a copy of the Regional Objectives for LAC. I have discussed these with David and his senior staff.

Ernest Stern

P-1852

## LAC REGIONAL OBJECTIVES FY85

### Introduction

1. FY84 was again a year of serious economic and social problems throughout the LAC region. Fortunately, however, it was also a year that saw, in some countries at least, the ending of the severe recession that afflicted the region in 1982 and 1983 and the beginnings of an upturn. The Bank was able to contribute to this process by (a) helping to redesign policies in a number of countries; (b) carrying out a substantial lending program; and (c) arranging cofinancing, including notably the first small but important steps in B-loan cofinancing. The big increase in disbursements from $2,105 million in FY83 to $2,950 million in FY84 was particularly good.

2. Despite these achievements, it was also plain that we did not do as much as we should have done. New commitments were lower than in FY83 ($3,027 million as against $3,460 million). The pipeline of new projects continued to be very weak. Our contribution to resolving external debt problems was at best modest. We were able to lend to only 13 of the 29* borrowing countries in the region; and more importantly, we did nothing in some countries that usually borrow substantially. These problems reflect in part the difficult economic situation in the region and in part our own failings. As to the former, lack of creditworthiness and severe fiscal constraints limited both our lending and attempts to strengthen the pipeline. As to the latter, we did not achieve as much as was needed in convincing either governments or ourselves that larger commitments required a much lesser dependence on traditional project lending.

3. Turning to the future, both the first signs of an upturn and the problems we have encountered point to what we must do in the three interdependent areas of economic analysis, lending, and cofinancing (including contributing to a solution of the external debt problem). We have to use these instruments to:

(a) assist countries to strengthen creditworthiness;

(b) strengthen our lending program in traditional projects, but even more in structural adjustment and sectoral loans designed to encourage policy changes and facilitate quick disbursements;

(c) develop cofinancing so as to assist in restimulating a healthy flow of capital into the region; and

---

* Including Caribbean Islands

(d) explore more vigorously with both governments and their creditors what we can do to assist the move to multi-year debt rescheduling and the resumption of voluntary lending.

4. The paragraphs that follow elaborate briefly on how these themes should be translated into action in each of our main categories of work:

- lending
- cofinancing
- economic and sector
- portfolio supervision

Finally, there are sections on what this implies for people and management in the region and for collaboration with others.

Lending

5. The region plans to lend approximately $3.6 billion in FY85 for about 39 loans, of which no more than 15 will be in the last quarter.

6. Since the pipeline is weak and likely to become weaker, special attention will be given to strengthen it so as to increase our capability to lend in FY86 and later years. Specifically, we will:

- reverse the decline in resources devoted to lending and strengthen control over the operations program so that (a) including standby and reserve projects, it is approximately 135% of the lending program for the next fiscal year and 150% of those for subsequent years; and (b) the number of reserve projects is less than 25% of the five years lending program;

- design the lending program so as to meet the following objectives:

  (a) to strengthen creditworthiness by emphasizing projects that strengthen productive capacity, especially for exports;

  (b) to address critical social problems of unemployment and poverty by designing projects so far as reasonable to be labor-intensive and by paying due attention to the needs for education, housing, water and other social services;

  (c) to reduce the need for counterpart funds to the extent possible through the design of projects and, beyond that, by seeking to increase the share of Bank financing; and

(d) to expand the proportion of quick disbursing structural adjustment and sectoral loans in total lending.

7. The specific mix will be determined for each country, and we will experiment with country teams for this (see paragraph 17). In the course of the current programming review, we will revise our lending program to bring it into line with these objectives.

Cofinancing and Aid Coordination

8. Cofinancing. In the 1970s the external capital flows into the region were from commercial banks (70%), export credit agencies (12%), and the multilateral agencies such as the IDB and the Bank (18%). The flows from the former two are today only a fraction of those in the 1970s. It is improbable that they will return to those levels, but it should be possible gradually to encourage significantly greater flows than at present. This task has two main components: multi-year debt rescheduling and encouraging voluntary lending.

9. As to debt rescheduling, we will seek in FY85 to play a greater role in assisting governments and commercial banks/export credit agencies to prepare multi-year programs.

10. Voluntary lending by commercial banks in FY85 is likely to be extremely limited; but may well grow in later years. Our FY85 objectives are to seek to encourage it where it is possible. Likely countries are Mexico and Colombia. In the latter we plan in collaboration with the government and IMF to have a meeting of commercial banks to seek additional finance. A further objective is to lay the groundwork for an expansion in later years. More specifically this means expanding our analyses of investment programs and identifying suitable projects/sectoral programs for cofinancing.

11. In a similar way we will try to increase our cooperation with export credit agencies in an effort to stimulate their lending.

12. Aid Coordination. We will continue our work with the Caribbean Group for Cooperation in Economic Development, for which the next plenary meeting will be held in June 1985, and with the IDB-led Coordinating Group for Central America. We shall seek to establish a new consultative group for Ecuador and possibly one for Costa Rica or Panama.

Economic and Sector

13. It follows from the objectives for Lending and for Cofinancing/ Aid Coordination that the main objectives for ESW are:

- analyses to assist government to take policy measures necessary to help to restore creditworthiness and resume faster growth;

- analyses to support the formulation of SAL's and sectoral loans; and

- investment program reviews to provide a better basis for encouraging voluntary financing, including co-financing. & 6(b)?

14. In this connection, we will prepare six CPP/Strategy Papers. To strengthen our ability to prepare country strategies, we will experiment with Divisional Country Briefs. We will also complete a regional sectoral strategy paper on Agriculture and update that on Education.

Supervision

15. We plan to devote 75 staff years in FY85 to supervision. In FY84 we held country implementation reviews in Brazil, Colombia and Peru. In FY85 we will continue these and start reviews in Argentina, Ecuador and Mexico. We aim to have a review in each country approximately every six months.

Personnel and Administration

16. Many of last year's objectives were directed to strengthening our administrative control and managerial skills. Principal among them were those directed to improve our management of personnel, increase cost effectiveness and the introduction of specific instrumentalities such as the Performance Planning and Review (PPR) and the Regional Management Information (MIS). We also began the implementation of the country-based programming and budgeting system in the Colombia and Peru Divisions. In addition, progress was achieved in defining responsibility and delegating authority. However, the strengthening of the managerial role is a continuing process. Thus, we consider it essential to continue to make progress in all those major initiatives introduced last year.

17. More specific objectives for FY85 are:

- strengthen the collaboration between the Programs and Projects Departments, inclduing experiment with country teams to prepare country work programs in line with these regional objectives;

- develop by February 1985 a regional staffing plan to fit the directions of work set out earlier, and in particular try further to strengthen our economic and sectoral staff;

- complete the introduction of the new MIS and the transition to country-focussed planning based on it;

- continue our efforts to try to simplify loan documentation, especially the SAR;

- review our arrangements for handling technical assistance lending and other technical assistance work, and implement our work program for Project Related Training support;

- review our office technology with the objective of developing a system of communicating computer terminals and word processors; and

- complete job grading and complete the introduction of the new PPR.

Collaboration

18. To be able to attain these objectives we will have to continue, and strengthen, collaboration with others both in and out of the Bank. In particular, we see a need for continued close collaboration with:

(a) the IMF, and in particular problems with the flow of information should be flagged early to ease resolution;

(b) the Cofinancing Vice Presidency and ERS to develop cofinancing and monitorable medium term programs to assist in debt rescheduling and voluntary lending; and

(c) the IDB to minimize so far as possible program conflicts.

C-3

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

October 4, 1984

Mr. Clausen

Tom -

Attached is a copy of the East Asia and Pacific Region's Objectives for FY85. Attila and I have agreed on them.

Ernie

Ernest Stern

Attachment

P-1852

# EAST ASIA AND PACIFIC REGION

## REGIONAL OBJECTIVES FOR FY85

### Background

During FY84 most of the countries in the Region were affected by the high cost of external finance and the stagnation in world trade. Whereas countries such as Korea and Indonesia could adjust to the difficult external factors, Thailand and Malaysia were less successful in shielding their economies, and the Philippine economy faced a major crisis. These developments resulted in increased problems in delivering the lending program, substantial redirections in our CESW and rapid increases in our supervision effort.

Looking to FY85 the key issues facing the Region are the need to assist the market economies in their efforts at adjusting to the present environment and to maintain our efforts in expanding the China program. A series of objectives central to the work of the Region are set out below.

### Regional Objectives for FY85

### I. Lending

- Investment within an appropriate policy framework remains central to our work. We have now set an objective of 38 projects, totalling $3.2 billion in IBRD lending and $440 million in IDA lending for FY85.

- Strengthening the Lending Pipeline is being given particular attention. In the past we were able to draw upon a relatively stable lending program. With the increased competition from other lenders, the growing worries about borrowing by a number of countries and increased resource constraints, this stability can no longer be assured. We must respond to increased uncertainty with flexibility and innovation and by the end of FY85 we hope to reverse the deterioration in the pipeline.

- Improve our systems of programming, scheduling and monitoring lending operations in order to ensure a realistic program and reach a clear regional consensus on where we stand and what can be done to strengthen the program. In particular, we expect to monitor closely developments in the agriculture sector: we must ensure that the level of resources devoted to agriculture reflects the priority of the sector as well as the effective demand for lending there. Specifically, we shall attempt to develop a realistic lending program and then meet it.

- The emphasis on quality control in operations will remain.

### II. Aid Coordination and Cofinancing

- Maintain the initiative with Japanese agencies aimed at improving coordination with Japan in the Region.

- Improve relationship with ADB, particularly in the Pacific Islands but more generally for all major borrowers in the Region.

- Follow-up B-Loan prospects with Korea and Malaysia as well as maintain contact with Indonesians on this instrument.

III. CESW

With the increased need of and emphasis on policy improvements in our member countries and expanding policy based operations by the Bank, CESW has acquired a new importance. In FY85 we intend to make CESW more focused on the adjustment and reform issues of the countries in our Region. In this we shall devote larger resources to:

- public investment reviews

- cooperation with the IMF; and

- sectoral studies leading up to innovative lending in areas such as financial sector reform, capacity utilization in agriculture and industry, operations and maintenance in irrigation and export development.

We shall also devote more time and effort to the design stage of the tasks in the CESW.

IV. Country Relations

We will attempt to maintain the stable program of Korea and Indonesia and sustain the growth in the China operations. In the Pacific Islands we will attempt to improve the relationship with ADB while in Laos we need to reach agreement with the Government on an implementable program. Three programs present special issues for FY85:

(i) in Philippines there is a need to respond to the economic crisis, in particular to structure operations responsive to the country situation; but it is also important to use this occasion to address a number of important institutional and policy issues which are among the causes of the present crisis. Philippines has been chosen as one of the countries for particularly close coordination with the Fund -- this means coordination of our actions in substance and timing with the Fund;

(ii) in Thailand we need to review how to develop a program which the Government will support and to try to coordinate with the Fund and other creditors in developing an environment where BOP problems and a debt crisis are avoided; and

(iii) in Malaysia we will continue working toward developing a more diversified and larger lending program.

V. Internal Management Issues

While overall we hope to devote less time to internal institutional issues in FY85 (reflecting the substantial investments made over the past few years) there are three specific areas which the Region needs to address:

(a) given the rapid turnover in regional management over the past two years (almost two-thirds of the N level and above staff has changed), we expect to devote considerable energy to fully integrate new staff into the Region, while maintaining a cooperative team approach to our work.

(b) fungibility of staff -- improving our ability to respond to problems and to reallocate resources when problems develop in a program.

(c) field offices -- we need to address the question of whether and when to open up field offices in Philippines and China.

In addition, we need to implement agreed programs in a number of areas:

- PPR;
- job grading;
- Operational-MIS; and
- country based budgeting.

AENVP
October 2, 1984
Revised

C-3

September 24, 1984

Mr. Clausen

Tom -

Attached is the the Statement of Objectives for Operations. It has been discussed with the Operations Vice Presidents.

Also attached is a statement of my personal objectives.

E.S.

Ernest Stern

Attachments

# Objectives of Operations for FY 1985

FY 1984 was an extraordinarily difficult year for many of our members. Although the international economy is more bouyant than it was a year ago, external capital flows remain very scarce and the need for adjustment continues in most countries. The short-term problems have their roots in long-term structural issues and domestic policies, compounding the harsher international environment. These problems require our increased attention, in addition to our concerns for the population, human resource development and poverty aspects of development.

Before listing the objectives for FY 1985, it is useful to review briefly the implementation of our 1984 objectives.

The Lending Program objectives were largely met. Our lending volume met the target level of $ 12 billion for the Bank while the IDA level of SDR 3.4 billion was slightly above its target. We also maintained our emphasis on agriculture and energy, though progress in forestry and fuelwood development remained below expectations. Lending in support of structural change expanded in response to the needs of the developing countries and we also made progress in taking a broader view of economic management, including the investment program, as a basis for such lending. We strengthened our work on institution building and, in some Regions, the organizational structure for this work, though, as the recent OED and OPS reports show, much remains to be done. The priority for Africa to which we committed ourselves was reflected not only in lending allocations, but also in the preparation of the report on Sub-Saharan Africa, which sets out our objectives in that region for the next several years. In cofinancing, a successful start was made through the B-loan program with commercial bank lenders, while cofinancing with sources of concessionary assistance was maintained at a high level despite the constraints on many aid program.

We were less successful in several other areas. We failed to improve the pipeline situation; instead of having more appraisals in FY 1984 for this year's projects, we had fewer. The foundations for an expanded effort in health and population were laid, but the growth of lending for this sector is still dependent on enhancing our policy work and dialogue with borrowers.

In economic and sector work, we made progress in all areas---greater accountability, better focus, and improved integration with the lending program. Work in these areas is continuing as we move towards programming all resources against country assistance programs.

In aid coordination and technical assistance, progress has been more mixed. While the PIR special study on technical assistance has led to better guidelines for technical assistance, progress in integrating the lessons of the PIR study into new operations was slow. The emphasis we placed on better aid coordination, particularly in Sub-Saharan Africa, became the central focus of the Sub-Saharan Africa Report and will be a central pre-occupation. Similarly, the need for having consultative groups make explicit financial commitments became an objective in the Sub-Saharan Report, which donors seem to find acceptable, at least in principle. We were less successful in organizing meetings with commercial lenders and we made only modest, though important, progress in expanding effective country level coordination.

In the area of management, the objectives we set ourselves are, in a sense, permanent ones. We have made important progress in all areas---improved quality of product, more selective intervention by managers, improved communications regarding policies and decisions, and clearer accountability. We have also made great progress in putting into place a management information system which will be operational shortly, and will be the basis for better cost control by managers, for better management of the work program and for the country-focussed allocation of resources.

For FY 1985, we have objectives in many of the same areas. The principal ones, which should be reflected in all unit objectives and work programs, are outlined below.

- To achieve the lending program indicated in the FY 1985 budget, within the range of $ 12.6-13.3 billion in Bank loans and about SDR 3 billion in IDA credits, in support of efficient, realistic and sustainable development programs, utilizing the full range of tools available to meet this objective.

- To assist borrowers in identifying their priorities and to utilize the lending program to support borrowers in their efforts to alleviate poverty and implement the policy reforms necessary for sustainable growth.

- Recognizing the particular constraints of different countries and regions, to manage staff resources with selectivity and flexibility in order to substantially improve the operations' pipeline, paying careful attention to the effectiveness of project identification, preparation and appraisal work, while ensuring adequate supervision of existing operations.

- To implement the action program for Africa, including expanded policy support, aid coordination, and the mobilization of resources---domestic and external.

- To expand cofinancing operations, with special emphasis on official cofinancing for Sub-Saharan Africa, on increasing cofinancing with export credit agencies, and diversifying the B-loan program by country and type of operation.

- To complete the transition to country-focussed planning supported by the introduction of the standardized management information system.

- To further improve the quality, timeliness and relevance of economic and sector work by implementing measures proposed in the recent Task Force report, by closer managerial supervision, and by a sharper focus on policy issues. This work should form the basis for our policy advice---the key to our credibility with borrowers.

- To strengthen our capacity for coordination of aid and other external capital flows, and substantially strengthen our timely analysis and surveillance capacity of public sector investment programs and related economic policies. In this area, we must take greater cognizance of the concerns of other donors and become more selective in our own activities.

- To redress the perceived imbalance between internal and external concerns. Good internal administration is vital to an efficient organization, particularly one as complex as ours. However, the primary concern in Operations is, and must be, to provide appropriate support to our borrowers. In this connection, opportunities must be identified and specific measures sought to limit the administrative burdens placed on managers.

September 24, 1984

CONFIDENTIAL

Personal Objectives

For FY 1985 the following five points will deserve special emphasis:

(a) Improved Bank-Fund collaboration.

(b) Implementation of the Africa Report, with particular emphasis on getting the Regions staffed and focussed on the aid coordination effort.

(c) Instill the use of our newly-created MIS and the newly-assigned budget system as a more effective tool of management, and as a basis for the allocation of staff and administrative resources by country.

(d) Be less vigorous in expressing concern about the quality or content of issues, particularly in the Managing Committee---i.e. "lose more battles."

(e) Continue and intensify efforts to develop Operations' esprit de corps through further improvements in managerial communications and broader participation in the preparation for decision.

September 18, 1984

Mr. A. W. Clausen

Tom -

Attached is a draft statement to open the African caucus. It reflects the report, our policy stance, and the discussions with the EDs.

Ernie

Ernest Stern

# MR. CLAUSEN'S OPENING REMARKS TO THE AFRICAN CAUCUS

Mr. Chairman and Governors:

I welcome this opportunity to meet with you and to review Africa's economic and social problems and its development prospects.

Before I turn to the substance of the meeting, however, I would like to introduce to you Messrs. Thalwitz and Jaycox, two outstanding men with many years of experience in the Bank, who have recently been appointed Regional Vice President for West and East Africa respectively. They need your support so that the Bank can help you most effectively in addressing the challenges which lie ahead.

Since we met last African economies have continued to deteriorate: the decline in per capita food production has accelerated; a serious drought over wide areas of the continent has inflicted severe damage to people, livestock, crop production and the ecology; and the efficiency of investments has continued to decline. The external debt burden weighs heavily on the already constrained fiscal and balance of payments situation of African countries. The external economic environment is still, on balance, unfavorable with continued low primary product prices and high interest rates.

My five trips in Africa during the past three years have left me with a very deep impression of a continent confronted with serious difficulties and in desperate need of new approaches to resume the process of development.

The situation is truly alarming and neither you, nor the international community, can accept a continuation of recent trends.

It is against this background that we have prepared the Report on Sub-Saharan Africa that you have before you; the main objective of the Report is to set out a Joint Program of Action for Africa. It is a difficult program. It is an ambitious program. And it can only succeed if all of us---your governments, the donors, the World Bank, regional institutions and others interested in Africa's future---work together effectively.

The thrust of this program is that decisive and far-reaching action must be taken---by you and by the donor community---to correct the downward trend of the African economies. That process has started---but we must dedicate ourselves to accelerating it.

We continue to believe that the prospects for sustained growth in Africa are good---that action will yield results.

The kind of changes African countries need require a major effort by all of us, working cooperatively, to develop and implement programs consistent with political and economic realities, and that will enable Africa to grow. Policy changes which will provide adequate incentives to expand production and set in place the favorable conditions for the efficient allocation and utilization of both internal scarce resources and external aid must be at the heart of these efforts.

In the Report we have placed special emphasis on the responsibilities of the donor community in supporting your Governments' development efforts. We believe that major economic policy reforms some African Governments already have decided to undertake, and which I hope others will emulate, can only be sustained and achieve their objectives if these measures are matched by adequate and sustained external support. The changes in policy and in development strategies are vital from your own perspective---even within constrained resources action is possible to halt the threat of creeping poverty and the return to subsistence economies.

There is no doubt that additional external resources will facilitate and accelerate the recovery process---indeed they will be critical to the success of the reform programs. Credible policy programs are critical to our collective ability to mobilize the necessary additional resources.

The estimates of resource availability in the Report (page 63), which forecast a substantial decline in both private and public net capital flows from current levels, are not consistent with the minimum requirements of Africa. We cannot allow these forecasts to materialize.

Since the review of "the Progress Report" last year, several African Governments have revised their economic policies and strategies. I am aware that hard policy decisions have been made by many of your Governments or are in the making. I must emphasize, however, that the severity of the crisis in Sub-Saharan Africa is such that further progress on economic reforms is critically needed. The adjustment effort that your Governments have started must be accelerated and increased in intensity and depth. It is essential that forceful action be taken to address development issues with respect to the overall economy, and in such essential areas as agriculture/food production, rehabilitation of public enterprises, rehabilitation and maintenance of essential infrastructure, re-orientation of public investment programs to eliminate low priority projects, and more effective family planning. Delays in addressing these issues will be costly. These changes cannot be achieved all at once; and when achieved, will require continuous attention lest their impact is eroded by changing circumstances. Political decisions to act are essential, but so is the strengthening of institutions which will provide you with the analysis of problems, the alternative courses of actions and the capacity to monitor implementation.

The urgency of immediate problems always creates the temptation to let short-term preoccupations overshadow the consideration of the long-term development constraints as they relate, for example, to human resource development, population and health. We should resist such a temptation.

We must look beyond today's crisis and ask ourselves not only how growth is to be resumed but also how it is to be sustained in the future. Such a long-term perspective should not be lost sight of, while efforts are concentrated on the more immediate problems of stabilization and adjustment, because future growth and development is critically dependent on the actions you take today to increase the supply of skilled and trained manpower, to enlarge the stock of technical knowledge through research and development, to improve the health of the population and to restrain the explosive growth of population. The growth of population already threatens the long-term capacity of the land, the viability of cities and the ability to provide employment to a growing labor force, and the prospects are for a further doubling of population by the end of the century.

Before giving you the opportunity to comment on the Report, let me say a few words about the action the Bank plans to take in support of the Program.

First, we will be prepared to provide, at your request, the technical Assistance that you might need for designing and implementing national action programs. The UNDP, the African Development Bank, and the bilateral donors also will be prepared to provide such assistance. We believe that the first priority should be to review the scale, quality and sector priorities of the public investment programs and to formulate programs for the major sectors to serve as a guide to the donors.

Second, in order to provide the necessary support to you I will, immediately after the Annual Meetings, ask our Board for the resources necessary to increase the staff in the two Africa Regions, and to authorize a doubling of the administratively-funded technical assistance positions.

Third, we will, together with you, strengthen the coordinating mechanisms for assistance in Africa. We must be as sure that external resources address high priority activities efficiently, as we must be certain that domestic resources are so utilized. Donor assistance must be devoted to your national and sectoral objectives, not to their own. The basis for action will be the national and sectoral investment programs which will articulate your objectives. We will also insist on commitments being made at consultative group meetings and other similar aid groups---firm indications by donors about the level and type of assistance matched by clear indications from you of the actions and investments in the period ahead.

Fourth, we will initiate a program to strengthen research institutions in Africa, which serve the region or any sub-region. Our initial emphasis will be on agriculture, and we propose to start, subject to Board approval, with support for the International Center of Insect Physiology and Ecology (ICIPE) in Nairobi. I expect this support for agricultural research will be expanded over the next several years. In addition, we will continue to work within the CGIAR to assure that this network of international research centers continues to increase its attention to African problems.

Fifth, to assure better service to more countries, we plan to expand the number of our resident missions and to increase the size of the existing ones.

Sixth, to ensure that we can monitor the progress of the Joint Program of Action, to remain current on Africa-wide issues, to strengthen our ability to collaborate with Africa's institutions and to make sure that priority attention remains focussed on Africa's problems, I will establish a Special Office for African Affairs, headed by a Director, in the Office of the Senior Vice President for Operations.

Finally, let me say a word about resources. The prospects for external capital flows to Africa are poor. They must be improved. Africa has been a major recipient of aid in the past---some African countries are among the highest per capita recipients of aid---and that aid has not always been used wisely. Nor has it always been of the appropriate kind. But that is past---although the past has taught us all valuable lessons. Looking ahead, it is clear that the projected sharp decline in the net capital flows to Africa is inconsistent in the medium-term with a program for resuming growth and development. Much can be achieved by better policies and greater efficiency, but they cannot be the sole basis for an effective joint program to achieve accelerated growth.

The Bank's own resources are severely limited. IDA VII negotiations, as you know, regretfully had to be concluded at a level of only $ 9 billion---substantially less in real terms than IDA VI. And the capacity of many countries in Africa to borrow from the Bank itself remains limited. We have increased Africa's share in IDA by over 20% in the last several years in an effort to protect Africa from the decline in resource availability. We shall continue to give Africa the highest priority in the allocation of scarce IDA resources. We shall also explore how we can expand Bank lending programs in Africa, consistent both with the prudent management of Bank portfolio risks and the debt problems which already exists in many African countries. The amount of such lending will necessarily be modest, but it can, nonetheless, be helpful in selected countries.

But this will not be enough to support the programs of policy change and economic restructuring, nor to maintain the investments needed in education, training, health and family planning. We will, therefore, begin consultations after this meeting with bilateral donors and multilateral institutions to consider how resources can best be mobilized to help countries in Africa make fuller use of existing capacity, ensure more efficient investments and support programs of change.

In conclusion, we recognize that the development task in Africa is difficult and complex. It requires a long-term commitment. We reaffirm that commitment to you today. We are certain the donors and other agencies financing development in Africa will be prepared to make a similar commitment. When joined with your commitment to improvements in the policy framework, to providing the incentives for efficiency and growth in output, and to the strengthening of your institutions, we will not fail in realizing the potential in Africa for more rapid growth.

Mr. Chairman, I look forward to hearing from you and your colleagues comments on the approach we have proposed. These comments will help us shape our work in and for Africa in the years ahead.

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

September 13, 1984

To: Mr. A. W. Clausen

From: Ernest Stern ES

Subject: Discussion Points for Lunch with Finance Ministers

There are a great many issues which we should be discussing with the Finance Ministers, but I suggest, given the composition of the group, that we start with the declaration in the London Summit Communique and try to elicit from them what the specifics are that they have in mind in calling for an expanded role of the Bank. In that context, we should touch on the following subjects:

(1) their view of the medium-term debt problem and its relation to the resumption of growth in the middle-income countries. How can the Bank be helpful beyond what it has been doing and is planning to do?

(2) the Bank, in order to be effective at whatever level, must take an overall view of a country's performance, its policies, and its incentive framework. This is essential for the efficient use of all available resources in all countries, but particularly in those that the Fund does not have standby arrangements. Yet, mandate for the Bank to deal with these issues and the approach is being undermined by our major shareholders.

(3) we are all agreed that aid coordination, particularly in lower-income countries, is desirable. Yet, very often it is the governments of those countries represented whose agencies undertake projects outside the countries' priorities and in ways which add substantially to cost. We need the effective support of the Ministers if aid coordination is to become substantively meaningful.

We should also raise the issue of Africa, get support for our approach, and explore the prospects for and timing of fund raising.

I suggest we meet to discuss the luncheon in the next few days so that talking points on whatever topics we decide on can be prepared.

cc: Mr. Qureshi

August 24, 1984

Mr. Clausen

Tom -

Attached is the agenda for next Tuesday. I talked to Romualdez, who says the Government prefers to proceed but, I am sure, they will not object if you think it is in their best interest to postpone. You may wish to talk to him further.

As you know, while I consider the issue a close one, I would be prepared to proceed on Tuesday and take the flack. However, there would be no calamitous results if we postponed so, if you feel otherwise, just cross out item 2 before sending it to Secretary's.

Ernest Stern

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

August 13, 1984

Mr. Clausen

SSA covering memo

Tom -

Attached is the revised statement. A copy has gone to Moeen. I suggest you mark any changes and return it. We can meet, if need be, to resolve any major outstanding issues after I have all the comments back. Since Moeen leaves on Wednesday, could you try to get this back to me on Tuesday?

Ernest Stern

P-1852

Mr. A. W. Clausen August 9, 1984

Ernest Stern

SAL Discussion

This is just to let you know that the discussion on the Structural Adjustment Lending paper in the Board proceeded without incident. Indeed, there was a good deal of support for the program. A number of speakers referred to the discussions going on in other fora about medium-term programs, the need for Board discussions of economic programs and country strategies, and the relationship of SALs to such developments. Most noteworthy, howevee, was Mr. Burnham's statement which unequivocally endorsed the SAL approach and stated that if demand, within the present criteria of conditionality, were to rise, the United States was prepared to consider exceeding the 10% ceiling.

ES:dpw

July 10, 1984

Mr. A. W. Clausen

Tom -

Work on the Sub-Sahara Africa paper is progressing. By the time I return, we will almost be ready to circulate it to the Managing Committee. There are three points, however, which you may wish to consider in advance. I have also spoken to Moeen about them.

(a) We have agreed to focus on a special fund for Africa. However, the long delay in reaching that decision makes it impractical to consider anything more than very preliminary consultations prior to the Annual Meeting. This, in turn, dictates, in my view, that we do not be too explicit in the Sub-Sahara Africa paper itself about the size and modalities of the special fund. We may be able to be more explicit in your covering memo.

(b) If we are to describe the principles for guarantee funds to support Bank lending in Africa, it is essential that we reach agreement on the outstanding legal and financial issues. You will recall that we left the last discussion at the Managing Committee with the agreement that the outstanding issues would be reviewed. We need to have a conclusion within the next few weeks if we are to incorporate it in the paper.

(c) It is clear that our activities to support the actions in the Sub-Sahara Africa report, plus a more intensive aid coordination effort that we are planning to undertake, cannot be accommodated within the current budget. We must be clear with the Board as to what we can and cannot do. We should consider asking for budget supplement to cover expenses in Africa. The Board reaction would, of course, be negative. And the first reaction will be that we meet expanded requirements by reallocating resources. There are no resources to reallocate within Operations, and, I suppose, PBD has a similar view for the Bank as a whole. Nonetheless, the kind of expanded activities that we have in mind for

Africa are likely to cost approximately
$ 10 million on an annual basis. If we are not
prepared to seek supplementary funds, we must
make it clear to the Board that little special
action on our part can be undertaken until FY1986.
However, I would be inclined to seek the supplement.

Ernie

Ernest Stern

PERSONAL AND CONFIDENTIAL

July 10, 1984

Mr. A. W. Clausen

Tom -

At the July 16 Managing Committee meeting, the Debt paper is on the agenda. This paper has had a very tortured history, and it is not up to the quality of papers I usually allow to go forward. However, we indicated its availability a long time ago, and have been asked about its status on several occasions. I, therefore, do not believe we can delay it any longer. Nor is it going to get any better by repeated editing.

There are some basic analytical problems and, while we all agree broadly with the recommendations in Chapter 5, they are not very well connected to the analysis nor do they take in us much further in terms of policy actions.

At the OPSC meeting, Mrs. Krueger, Mr. Shihata, and Mr. Wood expressed concerns and Mrs. Krueger remains unhappy with the paper.

At the conclusion of the Managing Committee discussion, which, I think, can be very brief, since all members, except Mr. Paijmans and yourself attended the OPSC meeting, I suggest you conclude that the paper be circulated as a background paper, with no suggestion on the covering note that it be the subject of a seminar. Mrs. Krueger's colloquium on debt is scheduled for July 22, in any event. The paper should not be issued until after the Board discussion of the Future Role of the Bank paper on July 18.

Ernest Stern

# Record Removal Notice



| File Title | Barcode No. |
|---|---|
| General Correspondence - Memorandum to the President - 1981 - 1985 | 30394929 |

| Document Date | Document Type |
|---|---|
| 06 June, 1984 | Memorandum |

**Correspondents / Participants**
From: Ernest Stern
To: A.W. Clausen

**Subject / Title**
Call from Beryl Sprinkel

**Exception(s)**
Personal Information

**Additional Comments**

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

| Withdrawn by | Date |
|---|---|
| A.May | November 03, 2021 |

July 5, 1984

Mr. A. W. Clausen

Tom:

Re: Operations Management Information System (MIS) - Status Report

1. As you know, one of the important objectives for FY84 was to establish a uniform management information system for the Operations complex that included, among other things, a uniform work programming and accounting system based on a task budgeting concept. The task involved defining the content and structure of this system to the satisfaction of Divisional and higher level managers in the Operations complex, defining specifically what this system should do and how it should work, developing the software necessary to manage the data and produce required reports, selecting and installing equipment to operate the system, training over 400 staff on the procedures to maintain and use the system and implementing and assimilating the system.

2. Over the past nine months we have come some distance on this objective. More specifically:

(a) We will begin to implement the MIS about the middle of July starting in the South Asia Region with the first two modules (the Administrative Budget and the Human Resources modules). South Asia conducted pilot tests of these modules over the past three weeks, and at the conclusion asked that a number of minor modifications be made to the software. These modifications are being done. The week of July 23 we will bring EMENA up on these modules and by then, other Vice Presidential units will be wired so that we can accelerate the implementation schedule. By the middle to the end of August all OVP units should be operational on these two modules;

(b) The software for the Task Budgeting module is in the technical testing stage and it is expected to be released for user testing the last week of July. Two weeks will be allowed to test and fix software problems from the user side, which means we should be able to start loading FY85 OVP units' task budgets in late August and I understand that this step can be completed for all units in Operations by the end of September, 1984. To the extent that this is possible, we will have, by mid-October, a set of first quarter reports on the work program and progress over the first three months. To accomplish the work program loading process, "Technical Assistance Teams" have been set up under each Program Coordinator. These teams will be trained so that they can:

(i) walk a Division Chief through the task budget formulation process;

(ii) organize the data in the formats required by the system; and

(iii) instruct local Divisional staff on entering and maintaining data in this system.

We are expecting a lot from the Task Budgeting module and could run into problems that slow the schedule, but we are talking of modest delays on the order of 4-6 weeks.

3. Over the past several weeks I have had discussions with Senior Managers and Division Chiefs and am pleased by the positive reaction to the MIS. My sense is that we will have less trouble with acceptance than I had anticipated. There will be the usual teething problems involving data quality, misunderstandings on how things work, what the reports mean, data security, etc.

4. In addition to the three modules of the system we expect to have operational by the end of September, there is one additional module (Project Portfolio Management) to be put in place by the end of the calendar year. I am confident, given where we are on the specifications and technical development of this module, that this schedule can be maintained.

5. This project, which started Spetember, 1983 has cost about $2 million, including equipment as shown below. I am told that the one remaining module of the system will cost about $150,000 to design and program.

FY84 MIS Costs

| | | |
|---|---|---|
| (a) | 198 3270 personal computers | $1,050,000 |
| (b) | Wiring of 8 buildings | 150,000 |
| (c) | Furniture | 120,000 |
| (d) | Controllers & communication equipment | 82,000 |
| (e) | Development Team Budget - Software development | 330,000 |
| (f) | Training of approximately 400 support staff in Ops. | 40,000 |
| (g) | Six full-time equivalent staff drafted from the Regions for 9 months | 144,000 |
| | | $1,916,000 |

The only additional costs I am aware of in FY84 relate to the Administrative Services Department's staff time associated with logistics management.

Ernest Stern

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

June 26, 1984

Mr. A. W. Clausen
Mr. M. Qureshi

If this information is confirmed, shouldn't we decide now to shift gears? Time is passing us by---if it hasn't already.

Ernest Stern

P-1852

FORM NO. 1643
(4-80)

THE WORLD BANK

| ROUTING SLIP | DATE: June 25, 1984 |
|---|---|

FROM THE VICE PRESIDENT
EXTERNAL RELATIONS

| NAME | ROOM NO. |
|---|---|
| Mr. Stern | E.1227 |
| cc. Messrs. Clausen and Qureshi | |
| | |
| | |

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

REMARKS:

FROM: M.P. Benjenk

FAX MESSAGE

INTBAFRAD PARIS

Date: June 25, 1984

NUMBER OF MESSAGE: ......1.........

NUMBER OF PAGES: ...409.......

URGENT

TO: Mr. Munir P. Benjenk

FROM: Maurice P. Bart

SUBJECT: European Summit - Fontainebleau, June 25-26

1. From the information obtained from different sources, it seems doubtful that the European Summit will deal with the supplementary funding for IDA. The purely european problems are too difficult and pressing to allow that. The Chairman of the Commission, Mr. Thorn, has even voiced the fear that, if the budgetary issues were not resolved, the EEC financial arrangements could come to a halt before the end of the year and a major reassessment of the participation of some countries would be required with the danger of moving towards a Europe of less than ten, or a much looser one of twelve.

2. It appears, therefore, that the outcome of the London summit as regards IDA is unlikely to be questioned in Fontainebleau. In my telex to you of June 11, I had mentioned that the French Treasury indicated a possibility that the discussions be reopened in July after Minister Stoltenberg had arbitrated on budgetary allocations between IDA and the European Development Fund. Since then Mr. Stoltenberg and Mr. Warnke have agreed on the inclusion of budget authorizations for a participation in the $ 9 billion replenishment, without allowing for a supplement.

3. German sources in BMZ told me today that there would be no change in the German position, namely that like Japan they would continue to require a participation by the USA to reopen the question of supplementary funding. They also mentioned that Mr. Warnke intended to reply to Mr. Clausen's recent letter; his reply could not be positive but it remained to be seen how negative it would be.

cc : Messrs. Carter, Cullen, Snoy

MPB/ab

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



CONFIDENTIAL

June 19, 1984

To: Mr. A. W. Clausen

From: Ernest Stern ES.

Subject: IDA Allocations

1. The IDA allocations in the FY1984 and FY1985 budget documents for Sub-Sahara Africa are as follows:

| | Sub-Sahara Africa Share of IDA |
|---|---|
| FY1984 Budget<br>FY1983-87 | 32 |
| FY1985 Budget<br>FY1984-88 | 34 |

The five-year planning figures show an increase, albeit modest. Annual figures will vary. For instance, for FY1984, the Sub-Sahara share will be either 32.8% or 33.9%, depending on whether Sudan meets the two conditions for Board presentation for its sugar project, which is now rescheduled for June 27.

2. The FY1985 budget numbers reflect the discussions in the Managing Committee and your adjustments, before we did the country allocation exercise which underlies the budget. They are based on an assumed SDR 10.5 billion IDA. The underlying major allocation components are as follows:

| | FY1985 | FY1986 | FY1987 | Total IDA VII |
|---|---|---|---|---|
| Sub-Sahara Africa | 36.2 | 34.7 | 33.0 | 34.6 |
| India | 22.7 | 23.6 | 22.3 | 22.9 |
| China | 12.1 | 12.9 | 15.1 | 13.4 |
| Other low-income countries | 29.0 | 28.8 | 29.6 | 29.1 |

The Sub-Sahara Africa share is slightly front-loaded for the IDA VII period because of the immediate pressing problems.

3. The data for 1988, which is also in the five-year period included in the budget document, is not particularly germane since availability, obviously, is not known.

4. We can, of course, change these allocations. However, since operational budgets have been based on the present numbers, we should decide soon so that inter-unit adjustments can be made in the Regional budgets. In considering changes, you should keep in mind that:

(a) India's share is already planned to decline to 22.3% by 1987, about half its share in 1982. The blend in 1987 will be 65/35, Bank/IDA.

(b) China's share is planned to rise only to 15% by 1987. They have much higher expectations. In SDRs, they will receive about 400 million in 1984 and 560 million in 1987. The blend at that point will be 75/25, Bank/IDA.

(c) Despite the rhetoric, the population of the Other Low-Income Countries exceeds that of IDA-receiving African countries. In addition, the African countries generally receive a multiple of the per capita ODA flows to the Other Low-Income Countries. There is, in the abstract, no good reason why their share should be less than that of Sub-Sahara Africa---as it is now.

5. I see no benefit in adjusting Sub-Sahara Africa's share in IDA VII by 1 or 2 percentage points. None of those who think the present share is inadequate will think that is enough. And, given the country circumstances, we cannot deliver the annual programs with such precision in any case. The only way we can release significant additional resources for Africa, within our constraints, is to cut the China/India programs substantially. If we cut these programs by, say 10 points, we could raise the Other Low-Income Countries' share by 5 points and raise Sub-Sahara Africa's to about 40%. That would leave China and India to split 25%, or about SDR 875 million annually, compared to their FY1984 total of SDR 1350 million.

6. If you would like us to reconsider the IDA allocations in the MC, please let me know and I will have a short background paper circulated.

June 19, 1984

Mr. Clausen

Tom: Turkey Grain Storage

Sometime ago, during the discussion on our interest rate risk, you instructed me to reduce the extensions of loans which had been made at the low interest rates then prevailing. Consequently, we have tightened up on the criteria of the closing date extensions and, as you know, cancellations have risen significantly. The loan discussed in the attached memorandum is a case in point. The Region is appealing the decision not to extend the closing date on the grounds that the Bank was in part responsible for the poor design and the consequent failure to implement the project as agreed.

I have no recommendation since one can argue as easily that we should not extend the loan with a 7% interest regardless of the reasons for non-implementation as one can make the argument the Region advances. If we hold to our line I am sure the Government of Turkey can be persuaded to accept a new loan for the redesigned project; should you decide to make an exception, we can justify it both on our role in the project design and also in the context of the Special Assistance Program.

Would you please let me know how we should proceed and then I will tidy up more of the loose ends with the Region.

Ernest Stern

Attachment

C-3

FORM NO. 1599
(8-80)

THE WORLD BANK

**ROUTING SLIP**

DATE 6/10/84

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

| NAME | ROOM NO. |
| --- | --- |
| Mr. Clausen | |
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| | |
| | |

| | | | |
| --- | --- | --- | --- |
| | | | Note and File |
| | To Handle | | Note and Return |
| | Appropriate Disposition | | Prepare Reply |
| | Approval | | Per Our Conversation |
| | Comment | | Recommendation |
| | Full Report | | Signature |
| | Information | | Send On |
| | Initial | | |

REMARKS

Tom -
Sounds to me that a reminder of your deal with Don Regan is in order. Expressing such views in a communique cannot be construed as neutral.

FROM

Ernie

Report On

# YEN/DOLLAR EXCHANGE RATE ISSUES

by the

Japanese Ministry of Finance -
U.S. Department of the Treasury
Working Group
to

**Japanese Minister of Finance Noboru Takeshita**
**and**
**U.S. Secretary of the Treasury Donald T. Regan**

¥/$

May 29, 1984

Minister of Finance Noboru Takeshita
Ministry of Finance
Tokyo

Secretary of the Treasury Donald T. Regan
Department of the Treasury
Washington, D.C.

We are pleased to forward to you the attached official copy of the report by our Working Group on Yen/Dollar Exchange Rate Issues. We believe that this report is responsive to the mandate entrusted to us.

Respectfully,

Tomomitsu Oba
Vice Minister for
International Affairs
Ministry of Finance
Tokyo

Beryl W. Sprinkel
Under Secretary for
Monetary Affairs
Department of the Treasury
Washington, D.C.

# THE JAPANESE MINISTRY OF FINANCE
# AND
# THE UNITED STATES DEPARTMENT OF THE TREASURY
# WORKING GROUP ON YEN/DOLLAR EXCHANGE RATE ISSUES

## Japanese Ministry of Finance

Tomomitsu Oba, Vice Minister for International Affairs, Co-Chairman
Yasutaka Miyamoto, Director General, Banking Bureau
Akira Nishigaki, Director General, Financial Bureau
Kenzo Sakai, Director General, International Finance Bureau
Toru Sato, Director General, Securities Bureau
Masateru Yoshida, Deputy Vice Minister for Policy Coordination
Masaru Mizuno, Deputy Director General, Tax Bureau
Toyoo Gyohten, Deputy Director General, Banking Bureau
Mitsuo Sato, Deputy Director General, International Finance Bureau
Hirotake Fujino, Deputy Director General, Securities Bureau
Tsunaaki Oyama, Deputy Director General, Tax Bureau
Yoshiyuki Kamei, Deputy Director General, Financial Bureau
Makoto Utsumi, Minister, Embassy of Japan, Washington, D.C.

## U.S. Department of the Treasury

Beryl W. Sprinkel, Under Secretary for Monetary Affairs, Co-Chairman
David C. Mulford, Assistant Secretary for International Affairs
Charles H. Dallara, Deputy Assistant Secretary for International Monetary Affairs
Robert A. Cornell, Deputy Assistant Secretary for Trade and Investment Policy
Robert C. Fauver, Director, Office of Industrial Nations and Global Analyses
Margot E. Machol, Special Assistant to the Under Secretary
Douglas C. Kruse, Office of International Banking and Portfolio Investment
Richard Woodworth, Office of Industrial Nations and Global Analyses
Mary Elizabeth Hansen, Office of Industrial Nations and Global Analyses
William McCamey, Financial Attache, Tokyo
Erik Floyd, Assistant Financial Attache, Tokyo

# I. INTRODUCTION

On November 10, 1983, Finance Minister Takeshita and Treasury Secretary Regan jointly released an announcement in which they agreed, inter alia, that "open, liberal capital markets and the free movement of capital are important to the operation of an effectively functioning international monetary system."

Minister Takeshita stated in the announcement that the Ministry of Finance would "assure the prompt and thorough implementation, following due procedures, of the measures listed in the "Comprehensive Economic Measures" of October 21, 1983, which would further liberalize Japan's capital markets, internationalize the yen, and allow the yen to more fully reflect its underlying strength." Secretary Regan also announced that the United States would take a number of measures.

The Ministers agreed that further progress was required. Toward that end, they agreed upon the establishment of a joint U.S.-Japan Ad Hoc Group of financial authorities to investigate yen/dollar issues, co-chaired by the Ministers and chaired at the working group level by the respective Under Secretaries. The purposes of the Group were to:

-- monitor U.S. and Japanese progress in implementing the agreed measures, and develop and implement additional steps; and

-- strengthen mutual understanding and establish a common recognition of the current state of the yen/dollar rate and its determinants.

The Working Group met under the co-chairmanship of Vice Minister of Finance Oba and Under Secretary of the Treasury Sprinkel on six occasions between February and May. The results of these meetings are contained in the following sections of this report.

## C. COOPERATION IN INTERNATIONAL FINANCIAL INSTITUTIONS

The Working Group discussed the importance of continued cooperation between Japan and the United States in the international financial institutions. The Working Group agreed that such cooperation is vital to the smooth functioning of those institutions and welcomed the progress outlined below in strengthening key international financial institutions.

### International Monetary Fund (IMF)

The Working Group reaffirmed its support for a strong, effective IMF and welcomed recent steps taken to ensure that the Fund has resources adequate to fulfill its responsibilities. The Ministry of Finance welcomed, in particular, the successful efforts of the Treasury Department to secure passage of legislation enabling the United States to participate in the eighth quota increase of the IMF and increase its commitment to the General Arrangements to Borrow (GAB). The Working Group also stressed the importance of preserving and strengthening the monetary character of the IMF, and of assuring that its policies and practices were both supportive of this objective and consistent with the resources available to the IMF. In this connection, the Working Group welcomed the decisions taken in late 1983 by the IMF limiting access to IMF resources to levels compatible with the monetary character and resource base of the Fund.

### International Development Association (IDA) Contribution

The Working Group also agreed on the importance of implementing IDA VII as well as the Selective Capital Increase (SCI) of the World Bank. It welcomed the decision to seek a $9 billion increase in IDA funding through IDA VII, and agreed that this could be highly effective if IDA funds are directed to the poorest and least creditworthy countries which lack alternative financing (e.g., Sub-Saharan Africa), and linked to the implementation of appropriate policies by borrowing countries. In this connection, the Ministry of Finance welcomed the progress achieved by the Treasury Department toward securing passage of the legislation necessary to enable the United States to provide its share of IDA VII.

With regard to the proposed additional contribution to IDA, the Ministry of Finance expressed its position that additional funding for IDA should be subject to further consideration, but that Japan would not, in any case, agree to additional funding without U.S. participation. The Treasury Department expressed its view that this additional funding of IDA was inappropriate and infeasible, pointing out that the level of IDA VII was already agreed, that additional funding would increase the U.S. budget deficit at a time when many other countries, including Japan, are seeking a reduction in the U.S. budget deficit, and that an effort to seek additional funding for IDA at this time could derail current efforts to secure funding for IDA VII as well as the SCI.

June 6, 1984

Mr. Clausen

Tom:

The Bank lending program now stands at $11,270 million. There are still five projects which could make it by June 12---the last day we can distribute to the Board for this fiscal year:

(a) the three famous Egyptian projects, totalling $380 million

(b) the power supplement for Egypt of $70 million

(c) the Algeria Water Supply project of $295 million.

I do not believe anything more can be done on the first category. We still have no substantive response from Egypt and, in view of the Cabinet changes, none can be expected.

We are ready to move the power supplement loan, but the Egyptians still have not agreed to come to negotiations. We are still hoping they will show up on Friday.

On the Algeria Water Supply project, we have told the Government that approval of the tariff decree is a prerequisite. The Minister in charge is working very hard to get the signatures on the decree in time. We cannot, at this stage, reverse ourselves. The Region is still hopeful that the approval will be obtained in time.

I have moved the India power loan into the lending program. It is included in the $11,270.

We will, therefore, most likely have a Bank total of $11,270 million; but, if the Algeria loan works out, it would go to $11,550 million. We have no other flexibility.

Ernest Stern

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

A.W. CLAUSEN
President

May 31, 1984

Dear Mr. Ohuchi:

Approval of the Brazilian guarantee was a historic event. I wanted to let you know how much I appreciate the extraordinary effort that was required to bring this operation to a successful conclusion within the very tight deadline. Your staff and the staff from the Region and the Legal Department deserve our special thanks.

Sincerely,

Mr. Teruyuki Ohuchi
Vice President
Cofinancing
The World Bank

cc: Mr. Shihata
Mr. Taylor
Mr. Lerdau
Mr. Agueh
Mr. Sasson

ES:n

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



CONFIDENTIAL

May 14, 1984

TO: Mr. A. W. Clausen

FROM: Ernest Stern

SUBJECT: Egypt

As you know, we had hoped to have lending program to Egypt of about $ 400 million this year, exclusive of any lending to the Energy sector. With the exception of a $ 4 million engineering project, the rest of the program was to consist of three loans totalling $ 380 million---for the construction industry, for export promotion, and for small/medium-scale industry. I mentioned to you some weeks ago that we have run into a serious problem which affects all three loans. The issue has now caused a stalemate.

In essence, the problem is that the Egyptians have a multiple exchange rate system with a spread of more that 40% between the rates at which foreign exchange is available to importers. The government insists that, for the purpose of these loans, the lowest exchange rate will apply. This would mean that the sub-borrowers under the loans would obtain foreign exchange and be able to purchase investment goods at a 40% discount from prices faced by other investors. This clearly cannot be acceptable.

The Region has been in discussion with the Government to explain ways and means by which this gap can be bridged without getting into the specifics of an exchange rate reform---on which the Fund has been working without success. We have suggested that one of the higher rates apply to our loans but that has been rejected. We have also proposed that, rather than deal directly with exchange rate issue, the Government offset the subsidy by raising the effective interest rate for sub-loans under our project. The Region thought it had tentative agreement on this, but the Government reversed this tentative decision during Mr. El-Naggar's recent visit to Cairo. We also suggested that we start with interest rates which would offset the subsidy deriving from the low exchange rate and review the total effective cost of capital at six-month intervals with the Government. Disbursements under our loans would cease if the effective cost of capital dropped below agreed limits. This approach, which has worked well in several LA countries, also has been rejected.

In the Region's conversations with the Government, they recently read a draft letter to me from Minister Said which has not yet been formally received and which may never, in fact, be transmitted. But his letter argues that the Government is not in a position to deal with the exchange rate issue now. We have reiterated to the Government, orally and in writing, that we accept the position and are seeking an interim solution to deal with the capital subsidy problem, pending their action on the exchange rate. We will again stress this point to the Government.

Mr. El-Naggar is very excited about our position and insists that this issue is not one that is to be dealt with in the project context. Both the Region and I explained to him that we are <u>not</u> trying to deal with exchange rate issue but are trying to ensure that the users of our funds do not obtain them at subsidized prices. Under any of our proposals, the subsidy will not be completely eliminated but reduced to about 5%. That would be acceptbale for the time being.

It is possible that Mr. El-Naggar will call on you in the course of the week. Mr. Lari, who is acting for Mr. Chaufournier, is fully familiar with the problem and you might want him to join you. Mr. Favilla, Division Chief, has done much of the negotiations and is also conversant with the various proposals we have made. Obviously, the Government will see a lending program of only $ 4 million (plus, possibly the supplemental for the power projects of $ 75 million) as a major issue. It is, of course, deeply disappointing and will adversely affect the FY1984 total. However, in terms of our policy objectives, our relations with IMF (which also has investmens in Egypt), and our relations with the Fund, I do not see any alternative to insisting that some measures be taken to eliminate the very large windfall profit which would accrue to our sub-borrowers if we accepted the Government's position. If our proposals are unsatisfactory, we are willing to entertain any counter-proposal, but to date we have received none. You should also be aware that the problem would disappear if, shortly after we make the loans, the Government were to move to unify exchange rate at a more realistic level. There has been movement in that direction (there are now five rates and the Government has been shifting purchases to the higher rate), and it is, of course, possible that they will act in the course of 1984. But, given the history of policy changes in Egypt, assuming that change will come soon is a very high-risk proposition. We also considered whether it is feasible, for the sake of country relations, to move one of our three loans. Clearly, that is possible but the Region feels that this would undermine our credibility and simply lead to further pressure early next year to release the other loans without any action. I believe that is a correct assessment.

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

CONFIDENTIAL

May 9, 1984

DECLASSIFIED

NOV 15 2021

WBG ARCHIVES

TO: Mr. A. W. Clausen

FROM: Ernest Stern ES.

SUBJECT: World Bank Energy Lending Policy

Jim Burnham came to visit me on May 3rd to discuss what he had told you earlier, namely, his proposal on accommodation between the views of the United States Government and the Bank's policy regarding energy lending. He indicated that if we could reach an agreement, then it would be possible for the United States not to take strongly negative positions on the remaining projects in the pipeline.

Essentially, Mr. Burnham's proposition is the following: World Bank lending for energy, i.e. oil and gas, ought to be limited to projects in low-income countries which do not have established national oil companies. The U.S. government would wish to avoid lending to companies which, in his words, are "going concerns". Such companies have, in his view, adequate cashflow or, if they do not, such a cashflow can be generated by changing Government pricing or related policies. In addition, no hydrocarbon lending to OPEC countries.

We explored the rationale for this constraint at some length, without making any progress. I pointed out that we had no difficulty with not lending to countries or institutions which had adequate resources and where we could not make a technical or policy contribution of significance. As to the first point, financial ability, we believe it is important to distinguish between the cashflow of a corporation and the foreign exchange capacity of government. Obviously, oil is an exportable commodity or, if not that, an important import substitute. But this does not mean that a country with oil resources had unlimited access to necessary foreign exchange. But I reiterated what we had agreed earlier, i.e. that it is not the Bank's intention to rest its case for lending in the hydrocarbon sector on its financial contribution. Nor did we wish in any sense to displace other sources of financing. We go to great lengths to assure that the latter policy guidance is taken seriously. Mr. Burnham also rejected all attempts to define exceptions to his basic rule, exceptions which, in his view, would make the monitoring of the policy more complicated. I postulated a case where we might make a contribution in technology or policy and would finance a project in which private investor was already participating and our contribution was simply 15% of a B-loan in order to provide market access. He thought this would still not meet his Government's criteria.

We also explored at some length the relevance of our policy advice. He pointed out that we have a number of approaches to convey our policy views such as structural adjustment lending, economic and sector work and the general ongoing policy dialogues with the Government. I told him that this was, of course, true. And that many of the issues in the hydrocarbon sector could be accommodated in ways other than through project lending.

But, of course, it was important to recognize that we did not have structural adjustment loans to all countries and that the issue of pricing was not the only issue. If the problem was the size of the companies' hydrocarbon investment program or the design of its exploration program, these were issues which could not be dealt with through aggregate lending tools, such as structural adjustment loan. Moreover, unless we were involved in the sector, it was unlikely that the Government would be prepared to discuss such issues. While he acknowledged that this might be true, it did not, in his view, constitute an important enough exception to the general policy that we ought to stay out of lending to established oil companies anywhere or to any company in middle-income countries.

I pursued the possibility of exceptions further by postulating that in a country such as Peru, there might be a quick yielding project; that Peru today had no independent access to capital markets, it had a hydrocarbon policy that encouraged private foreign investors and whether or not Petro-Peru was earning a profit with positive cashflow was irrelevant to the need for it to obtain foreign exchange to undertake such a project. But even in this case, Mr. Burnham could not agree that a highly leveraged Bank loan to capitalize either investment or lending by others could be justified in the view of his Government.

In short, his position boils down to the fact that our technical contribution to the design and physical aspect of an investment or exploration program, or to the strengthening of institutions, is to be valued at zero and that our policy advice, beyond that which might be incorporated in more general policy discussions, should be given no greater weight. The only thing then left is our financial contribution, and that is not to be viewed at a country level but strictly at the corporate level. The inevitable conclusion then is that we should not lend at all since we ourselves would not advance a case that we would be financing a hydrocarbon project simply to transfer financial resources.

I told Mr. Burnham that these were interesting ideas, but that he had to recognize that the rest of the Board felt differently. As far as I was concerned, these constraints were so broad they could apply equally well to all sectors and that would undermine the mandate of the Bank. Today the U.S. Government did not like energy lending; tomorrow it might be another shareholder who did not like ports.

Mr. Burnham suggested that if we could reach an understanding on these approaches, we might simply incorporate this understanding in the policy guidance which we are to issue later this fiscal year. I told him that I saw no prospect of putting out such a drastic change in policy without consultation with the Board. He indicated that he did not see this as a drastic change in policy but rather as a change in application, and that Bank policy in the energy sector always was evolving. Therefore, it might well be feasible to include these changes in the policy guidance. When he recognized that this would not be feasible, he said he understood that he would have to explain to "other major shareholders" just how strongly the United States felt about this issue. We left the matter at that.

I think we need to discuss this in the Managing Committee, or a core group, to see how we might deal with these proposals. It seems implausible that we can accept them and yet we face a major political issue if the U.S. persist in their views as they seem prepared to do, at least at the Treasury.

cc: Mr. Qureshi

April 10, 1984

Mr. Clausen

Tom -

Attached is a draft paper on Population, which Bob McNamara has done and is trying to place for publication. It is an excellent statement---in his usual vigorous style. I think you will enjoy reading it.

I have spoken to Munir about your giving a pre-Mexico speech on Population. I still think it would be an excellent lead-in to Mexico---where your speech will be one of many---and could draw on the same material. But I have heard nothing further and timing is running short.

Ernest Stern

Mr Stern

C-3

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

DECLASSIFIED

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WBG ARCHIVES

DATE April 6, 1984

TO Mr. A.W. Clausen

FROM Eugene H. Rotberg EHR

EXTENSION 72213

STRICTLY CONFIDENTIAL

SUBJECT Conversation with David Mulford, U.S. Assistant Secretary for International Affairs and Jim Burnham

This reflects the substance of a lunch conversation I have just had with Jim Burnham and David Mulford, the recently appointed Assistant Secretary for International Affairs to the U.S. Treasury.

Mulford made the following points:

(1) He expressed the view, which has been previously communicated to the Bank, that the Treasury believed that Japan was not deserving of the Number 2 position in the Bank and that it "ill behooves" Bank management to press for an enhanced Japanese position in the Bank--given the poor way the Japanese have treated the Bank;

(2) He said that it was not the U.S. Treasury which linked IDA to the SCI; as far as the U.S. was concerned, IDA could go right ahead, but that it was the Japanese and the Bank which linked IDA to the SCI.

I expressed the view that the matters were in fact linked since the Japanese contribution to IDA was conditioned upon their becoming Number 2 --which in turn "required" an SCI. Mulford replied that was not the U.S.'s doing; he saw no reason why the Bank was bending over backwards to meet Japan's demands. He was quite persistent on this point. He said that Japan had not been supportive of the Bank and had deprived it access to its capital markets; in particular, Japan did not permit SAMA to lend yen to the World Bank.

I told Mulford that the fact was that we are borrowing more in Japan than in the U.S. (our choice); that while Japan did not give us permission to borrow from SAMA, they had increased our access to domestic savings in Japan; and that this fiscal year we expect Japan to lend us almost 25% more than last year. Mulford, however, pressed the point and went so far as to say that if Japan would permit the Bank to borrow yen from SAMA, that would be evidence of the internationalization of the yen and that it would "get rid of the SCI problem."

He reiterated the point that if Japan wanted to do something for the Bank, that was an easy way for them to do it and that it would "free up" the SCI.

I was taken aback by this surprisingly minimal sign--which ostensibly would clear up the whole problem--(but Mulford having said it, I did not choose to pursue whether he really meant what he said). I told Mulford

Bank management believed it was hostage to what appeared to be a bi-lateral disagreement between the U.S. and Japan. I said that I had a somewhat different concern, i.e., the U.S. simply did not wish to go to Congress at this time with a $8.4 billion SCI, given a lot of other fish to fry and their views on the Bank in general, and that the Japanese confrontation was only a convenient side aspect. I asked which was, in fact, the reason for the failure to go ahead with the SCI. I received no direct response.

Mulford then, however, went on to say he had had a meeting with Sterns (sic) and, among other things, had expressed the position that if the Bank persisted in being obsessed with oil and gas lending and other matters, then the Treasury might well show its displeasure by denying the Bank access to the dollar market. He made this point in the context of my request that the Treasury finally give us the consent letter for a $250 million increase in our discount note program, which the Board and the U.S. Director had already voted favorably upon. They were holding it up on the grounds that they wanted to give us the right to issue and rollover these short term notes only one year at a time; previously they had given us the right to have them outstanding for 10 years plus 12 months notice.

I pointed out that putting us on a one-year leash would be read in the market as the U.S. having questions about the financial management of the Bank. Mulford said that the Treasury thought that this constraint was an initial low-key approach to showing how strongly they felt about the Bank's lending operations and that they wanted the market and the Bank to have a signal about how they felt about it.

I told Mulford: (1) This "technical" constraint would have minimal effect unless the market knew the reasons, in which case it would be quite serious, (b) it was not the right way to go about expressing their views, (c) it was in any event unrelated to their other concerns, and (d) once issued, could be quite damaging and irreversible. Mulford said that it seemed a less confrontational way to send a signal--rather than the more severe one of "no access to capital markets." I told him that within 6-8 weeks, when we present the FY85 borrowing and lending program, he would have that opportunity and, in any event, it would be wiser to discuss the lending program on its merits. In short, better to await the dialogue on the substantive matters concerning which they have disagreements, which I understood from his comments will occur over the next 60-90 days.

Meanwhile, I noted, we had already lost a couple of million dollars because of the rise in interest rates and the failure to hold the liquidity because we could not issue the discount notes.

The lunch concluded with Mulford saying that he would get back very soon on the specific request (to issue a consent letter covering the issuance of discount notes for 10 years) but that I should understand how the Treasury felt about using its power to assure that the Bank operate in a way not inconsistent with what is important to the U.S.

. . .

My own view is that Mulford, on one hand, gave away too much by agreeing to free up the SCI for so little in return while he was extracting too much--denial of access to market or advertising publicly the U.S. disagreements with Bank policy--over matters in which there had not yet been a full and frank exchange of views. I think this "extremism" is dangerous for the institution as well as to our relationships with the U.S.--particularly since I have the feeling that Mulford and perhaps others at Treasury are not adverse to "going public" with their views. They seem to be anxious for a public confrontation in which the U.S. Treasury can show that it can influence the Bank, Japan and other players in the international scene.

cc: Messrs. Qureshi and Stern

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

April 6, 1984

Mr. Clausen

Nicaragua

I would appreciate your guidance on the attached. Could we plan to discuss this after the MC meeting on Monday, April 9.

Ernest Stern

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

STRICTLY CONFIDENTIAL

# OFFICE MEMORANDUM

TO: Mr. A.W. Clausen

DATE: April 6, 1984

FROM: Ernest Stern ES.

SUBJECT: Meeting at the U.S. Treasury with Assistant Secretary Mulford



On Wednesday, April 4, 1984, Mr. Burnham and I went to call on Mr. Mulford, whom I had not previously met. Mr. Mulford started the meeting by saying he was interested in discussing a number of issues between Treasury and the World Bank, particularly lending to the energy sector. Before responding to the request for comment on that policy, I told Mr. Mulford that I understood he had told Mr. Qureshi the preceding Monday, that the senior management of the Bank, particularly myself, was inaccessible and I wanted to clarify that point in case there was a misunderstanding. Mr. Burnham had mentioned casually that it would be desirable to meet Mr. Mulford. An appointment had been set up for 5:30 p.m., Friday March 30 - a time of his choosing. That appointment had been cancelled by Mr. Burnham. I understand that Mr. Mulford might have wanted to meet Monday afternoon, but Monday afternoon we had a Managing Committee meeting. While I would have been glad to come over afterwards, that was inconvenient since Mr. Burnham was to accompany Mr. Qureshi to Mr. Sprinkel. In any event, no one had indicated there was any urgency to the introductory visit and Mr. Burnham had made the appointment for the time we were now meeting. I assured him that neither I nor any of my colleagues were inaccessible and would be glad to meet at any time. Mr. Mulford did not acknowledge that his comments might have been inappropriate. He merely said that they had met with Mr. Qureshi, who had requested the meeting urgently, even though it had been at a very inconvenient time and he expected reciprocal action by senior Bank staff.

I then proceeded to comment on our energy policy. I noted that it had been a subject of some controversy and that the policy had been reviewed on several occasions by the Board. I felt that all members of the Board, except for the United States, supported the present policy. Mr. Burnham demurred that the support was not unqualified and I agreed that on specific aspects there were nuances of opinion. However, no one else objected to the basic thrust of the policy. Our energy program assists developing countries in the exploration for and development of hydrocarbon resources. We were very careful to make sure that we avoided displacing private commercial bank lending and to assure ourselves that every reasonable effort had been made to attract equity participation. Mr. Mulford said that this was not his understanding, the U.S. had been forced to vote against a number of projects recently, and the Bank management was "entirely insensitive" to the U.S. opposition. We spent a lot of time on this subject. I explained that we were very much aware of the U.S. concerns, that we did not enjoy having the U.S. in opposition and that we had made changes in response to U.S. concerns. However, we had a mandate from the Board and his quarrel was not with management. Its resolution required a change of attitude by the other shareholders who had listened to, and considered, the U.S. position on a number of occasions.

We then turned to a number of recent projects where the now familiar arguments were rehearsed. We went over the same issues raised in the Board with regard to India. I pointed out that if one accepted the fact that India had a limited annual borrowing capacity, which was, broadly speaking, fully utilized, then it did not make much difference whether we financed an energy project or some other project, provided the commercial banks were able to finance projects in which they were interested and which were suitable for their financing. As far as we know, that was the case. I cited the Hungarian project as evidence of the disinterest of international oil companies, which the Hungarian government had tried to attract for a number of years before they turned to us to develop further information on this field and to undertake some appraisal drilling. I also indicated that at the last Board meeting, the U.K. had said that it found the projects fully consistent with the Bank's policy and their objectives, that France had said the U.S. position to be uninformed and dogmatic, that Japan had supported the project and that Germany had asked why this well known dispute was being raised in each and every project since the general principle had been settled by the Board when it decided on the policy. This, I think, was news to Mr. Mulford.

Mr. Mulford felt particularly strongly about the Nigerian gas engineering loan and we spent some time on this. He said that the engineering loan was "a scandal" because Nigeria was a rich country and could easily get financing for itself. The oil companies that work in Nigeria would be prepared to finance the gas development. I said that we thought we had played a major role in Nigeria in getting the parties to consider the development of a pipeline and that the real scandal in Nigeria had been the flaring, for many years, of their valuable gas resources. I did not think that Nigeria could today borrow from the commercial banks. Mr. Mulford agreed but said that was their own fault. They had messed up and in due course they could restore their creditworthiness. I said that might be true several years from now but meanwhile it was important to proceed with the planning for this project. He disagreed. Moreover, he said that Nigeria could eliminate the problem by pumping more oil. I indicated that no doubt was true but Nigeria had an agreement with OPEC limiting its production, to which Mr. Mulford replied that was their problem and not a basis for Bank lending. I then said that if that was his view, presumably this applied to all lending to Nigeria and wasn't particularly relevant to the energy sector. He confirmed that this was right, although he later modified his stance slightly to say that the Bank lending in agriculture might be warranted even now in Nigeria.

Mr. Mulford also asked when our lending for oil and gas had started. When told it was about six years old, he asked how the sector had been financed before and what had changed. I told him that the energy price changes had made a very large difference. Before then it generally was more economic to import oil; afterwards small and medium scale deposits were worth developing. Even today, after much effort at conservation and development of new resources, oil imports constituted a major constraint on the balance of payments of many countries.

Towards the end I stressed that there was an important difference between the Bank and other lenders in the energy sector as elsewhere. Through our operations, we sought to improve the policy framework with great emphasis on the role of the market, appropriate prices and improved production incentives.

I thought these objectives were ones that the United States could readily support. The U.S. ought to view the Bank's operations and achievements as a package. We could not match their views 100% of the time; we were an international organization with many members. I said that, broadly speaking, the U.S. Treasury had no cause for complaint about the general policy stance that the Bank was taking and if, on 5% of our lending, there was a difference as to the suitability of the Bank role, they ought to look at that in the context of the overall performance.

Mr. Mulford didn't disagree with this but neither did he acknowledge that this would make any difference to the U.S. view. He said he was also concerned about management's "undue" enthusiasm for the energy sector, particularly mine. I told him that my enthusiasm for the energy sector was no more or less than my enthusiasm for lending in population or agriculture, and in any event, it wasn't my enthusiasm or lack of it which drove any part of the lending program, but an assessment of priority needs of developing countries.

Mr. Mulford also said that we should recognize the depth of feeling for this matter in the Treasury and since we had consistently ignored their wishes, they were reviewing whether the Bank should continue to have access to the capital markets. This quarter was already covered by understandings but the review would apply to subsequent quarters. I told him this of course was their prerogative and if the U.S. insisted on another review of the energy policy we would be glad to put the matter to the Board, including the relation between the Bank's energy lending and continued access to U.S. capital markets.

Mr. Burnham intervened and said that he had a proposal which he thought could resolve the issue, but he provided no specifics. I said that if there was a way to meet both the mandate of the Board and the concern of the United States we would all be delighted. On the way back, Mr. Burnham said he would be prepared to discuss this with me next week.

I am reporting this conversation in some detail because of the obvious gravity of Mr. Mulford's position and the threat of limiting access to the market as a way to get the U.S. view accepted; which they have failed to do in several open discussions in the Board. I think after we have heard Mr. Burnham's proposal, we should consider it and you need to go see the Secretary. If the threat is real, and to be consummated shortly, I believe it is a matter of urgency that we put the issue to the Board so that we can have their guidance as to how we proceed with the energy projects in the pipeline.

cc: Managing Committee Members

February 29, 1984

<u>Mr. Clausen</u>

Tom -

You'd better have a look at this. We can discuss at your convenience but, clearly, you need to talk to Jacques about this.

Ernest Stern

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

February 27, 1984

MEMORANDUM

To: Mr. Stern

From: William B. Dale

Subject: The Treatment of Cofinancing Loans in Debt Restructuring

Our support has been made clear for the objectives of the World Bank's cofinancing program, on the basis that cofinancing is related to soundly evaluated projects and is intended to result in improved terms or levels of banking flows to developing countries. At the same time, we have become increasingly concerned about proposals to exempt commercial bank cofinancing loans from debt reschedulings. This concern, which was noted in the recent case of the Philippines, relates both to the treatment of earlier cofinancing loans in current reschedulings and to the provisions in the new "B" loans which seek to encourage the view that they may be exempt from future reschedulings.

The reasons for our concern are fourfold:

(1) In the recent concerned bank lending packages for major borrowers, a manifest risk has been the fragmentation of groups of bank lenders into subclasses of creditors with greater or less exposure in different categories of lending (interbank, trade-related, general balance of payments, etc.). A strategy of exempting classes of restructuring is likely to fragment further the banks' support for individual creditor countries at times when increased commitments prove necessary. Most seriously, it could undermine the incentives for the "exempt" lenders to participate in future financial packages for member countries, since they might feel themselves to be protected from the consequences of the borrowing country's debt service difficulties.

(2) If rescheduling exemptions were to be conceded to one class of loans, it would be only realistic to expect that pressure would build to extend this progressively to other categories of debt. We have seen this in practice. Over time, this process could limit countries' flexibility materially, if indeed further restructuring did become necessary (as in some cases seems evident), and could prove self-defeating.

(3) The need for specific clauses to deal with potential future rescheduling exemption of new lending may cast doubt on the realism of the borrowing country's commitment to appropriate economic adjustment policies, and deter other lending. If, in fact, such doubts were justified, the primary means to address them would lie not in rescheduling exemptions but in improving the quality of general economic management.

(4) More generally, loans for a wide variety of sound and high priority projects are often caught up in rescheduling, because most creditors are approached for debt rescheduling when difficulties in meeting external debt service payments occur, and not only those with "unsound" loans. The soundness of a loan or project by itself, therefore, is not a valid argument for exclusion of cofinanced commercial bank assets or any other specific class of assets from rescheduling.

While each of these issues seems important, the crucial problem, from our point of view, lies in the danger that, as the cofinancing program grows, the spread of rescheduling exemptions could create a situation in which the assembly of financial packages for countries experiencing debt service problems could become increasingly more difficult. Notably, "exempt" lenders might seek to break ranks and thus threaten the very fragile cohesion of a country's bank creditor group by avoiding participation in any "concerted" new lending. Moreover, even if "exempt" lenders were to agree to participate in new money commitments pari passu with other banks, their existing exposure would be reduced by the amount of principal repayments falling due on cofinanced loans during the relevant period. Therefore, the exemption of cofinanced credits would still weaken their overall contribution to a financing package, unless their exposure were to rise by the generally agreed increase in new money plus the principal payments due on cofinanced credits--which would imply, of course, a de facto rescheduling.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: February 24, 1984

FROM: Ernest Stern ES

SUBJECT: Graduation

We had the seminar on Graduation on February 21. It lasted most of the day and all 21 Directors spoke. The Board remains very much divided, as it was in 1982, when the graduation policy was reaffirmed and its implementation more clearly specified.

Of the 21 Directors, 9 argued that the graduation policy was either inappropriate as a basic concept, should be put on the back burner in view of current economic conditions, or should be drastically overhauled based on a further study of other factors to be considered in deciding on graduation. The Directors who held this view are Messrs. El-Naggar, Miller, Zalduendo, Xu, Ayala-Gonzalez, Echeverri (for Mr. Romualdez), Guimaraes (for Mr. Ragazzi), Benachenhou, and Phaichitr. Several of these Directors also asserted that graduation was illegal under the Articles and/or, if implemented, required prior agreement of the borrowing country. In the management's response at the end, Mr. Shihata gave an excellent reply to this assertion, making it clear that to lend or not to lend was a decision to be made by the Bank; that its authority for this rested with the Executive Directors; and that the agreement referred to in the Minutes of the 1982 Meeting was an agreement on the details of the phase-out program and could not be construed to mean agreement on the basic proposition of graduation since that, inevitably, would give the borrowing country a veto. This, in turn, would be inconsistent with explicit provisions of the Articles giving the Bank the authority to decide whether or not to lend.

The Executive Directors who supported the graduation policy were Messrs. Burnham, Ray, van Dam, Dean, Korpinen, Munzberg, Kivanc, Yamaguchi, de Maulde, Derek Smith, Soglo, and William Smith---in terms of voting power obviously a clear majority. Their views ranged from a very strong endorsement of the need for an effective need for graduation policy to a more reluctant recognition that such a policy was necessary in view of present and looming resource constraints.

All the speakers recognized that the Bank's application of the 1982 decision had been very flexible (Mr. Burnham said that when we discuss the country paper, he would advance the opinion that in several cases we had been too flexible) and that having established a procedure two years ago without having any countries started in a phase-out program, it was premature to re-evaluate the process. Nor did they believe that there was any basis for a reconsideration by the Executive Directors of the basic principles.

It was interesting to note that all of the Executive Directors accepted the paper on the Small Economies as putting an end to that special plea. They accepted the arguments in the paper as sound and convincing. This included Mr. Miller.

There was a good deal of discussion about the relevance of GNP and a good deal of confusion about the function of the "trigger". Those opposing the graduation policy made much of the point that GNP was an imperfect indicator and the trigger was a highly mechanical approach to a complex problem. But we pointed out in our response, and several of the speakers also noted, that the GNP indicator, imperfect though it was, merely serves as a start for the review. All factors referred to, such as social and economic development and capital market access, were carefully considered and taken into account.

We have now scheduled the graduation papers for March 1. We will start with the Yugoslav and Uruguay papers which, I assume, will be non-controversial since they recommend postponing the start of the phase-out process. Thereafter, we will take up the countries one by one and should press for Board approval of the specific recommendations made in each individual paper. I think we must firmly resist all attempts to have yet another general discussion of graduation policy.

For the individual countries there are four problem areas. In regard to Cyprus, Mr. van Dam may argue that, while the Government of Cyprus accepts the need for graduation and the phase-out program in view of the establishment of an independent Turkish Cypriot entity in the Turkish occupied territory of Cyprus, the timing of graduation is inappropriate. He may get support for this from others who oppose the graduation policy in general and, possibly from some of the EEC countries, on political grounds. I think we must reject the argument since the phase-out program will cover five years and that provides ample time to review the situation if the formal establishment of a Turkish Cypriot entity has any significant impact. In practice, of course, nothing has changed since Turkey has occupied that part of Cyprus for several years and, as the paper makes clear, the Government of Cyprus has long since adjusted economically to the costs of the separation. The fact that the Turkish Cypriots are now trying to give a different legal form to that part of the island has little or no economic significance. There also will be a problem in regard to Barbados because the Prime Minister continues to refuse to accept the concept of graduation. As you know, we have stretched the phase-out period to seven years since Barbados has the lowest per capita income of the group of countries now being considered for graduation and it is a relatively fragile small economy. However, this means that lending will continue through 1992 with Bank involvement in economic and sector work and project supervision almost till the year 2000. This provides an adequate and flexible response to the case of Barbados and we must insist that no further extension of the phase-out period be considered. If pressed, we should fall back on our general commitment to keep economic development of all these coutries under careful review and, should our expectations change, to report back to the Board.

The third problem case is Trinidad which now, through Mr. William Smith, has announced that it opposes the Bank's graduation. As you know, we have proposed no phase-out period for Trinidad since Trinidad has not thought it necessary or desirable to borrow from the Bank in the last four years. To restart lending simply to have a phase-out period seems to us cost-ineffective and inappropriate. I think this case is clear, although there may be debate on it. Finally, Dr. El-Naggar will argue that we misconceive the problems of an oil-exporting country like Oman. While rich in per capita income terms, it is a highly undeveloped country if judged by the social and economic indicators. This, of course, is true. But the Bank's role in Oman has been very limited and dealt mostly with infrastructure. The government has not been willing to follow policies to deal with human resource development or a more equitable distribution of income. Our paper says this mildly and Dr. El-Naggar has already objected to those references. You must, therefore, be careful in what we say in the Board. Nonetheless, we had earlier told the Board that Oman would be graduated in January 1982. It was only at the behest of Dr. El-Naggar and Abdul Latif that we agreed that, because our decision to graduate Oman coincided with the redefinition of the graduation policy, Oman would be entitled to be considered under the revised policy.

In general, despite the seminar, I think we will be hard-pressed and we must keep in mind that, in order to eventually limit debate and get approval for our proposals, you must indicate that you are prepared to ask for a vote of the Board. This may not be necessary but, in the absence of that indication, the debate will be interminable and possibly inconclusive.

ES:n

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

To: Mr. A. W. Clausen

January 30, 1984

From: Ernest Stern ES.

Subject: China

I understand that you will have lunch with Mr. Xu on Tuesday. Mr. Karaosmanoglu and Mr. Benjenk are scheduled to attend.

No doubt the IDA allocation to China will come up. Mr. Xu has, in several conversations with Mr. Karaosmanoglu, referred to his expectation that the allocation would be in line with what you told his authorities in Beijing. I am not sure what he means by that. In any event, it is very important that you do not mention numbers at this time. We should, of course, express our gratitude for their political support. As to the lending program, we should limit ourselves to the following general points:

- A $9 billion IDA inevitably means changes in plans and relative allocations.

- Since we are still hopeful of raising supplementary resources, uncertainty will remain about availabilities over the FY85-87 period.

- Blends for blend countries will harden. This is particularly true for those with considerable borrowing (creditworthiness) capacity.

- It remains true that the India share will continue to decline, while the China share will continue to rise. However, the substantial shortfall in IDA availability necessarily affects these rates of change too.

- We will have in mind in our allocation the maximum possible protection of the poorest countries and an equitable treatment of the other IDA borrowers.

Whether you wish to make the next to last point will depend on how the conversation goes and how far Mr. Xu pushes for information.

ES:n

CONFIDENTIAL

Mr. A. W. Clausen

December 20, 1983

Ernest Stern

Special Action Program for Africa

You suggested that we explore an approach to Sub-Saharan Africa which would seek to deal more effectively with the major problems facing that area. A proposed approach is spelled out below. I suggest that you meet with Messrs. Wapenhans, Knox and myself on January 10 to discuss it, consider any alternatives, and agree on how we should proceed.

The basic development problems in Africa have been exacerbated in recent years. Sub-Sahara Africa has been particularly hard hit by the global recession and this compounded the legacy of 20 years of largely inappropriate policies. In addition, population pressures on land are increasing as are the costs of a burgeoning population moving increasingly to urban areas as well as massive migrations of refugees among several of the Region's poorer countries. And while more African governments now see the need for policy changes and modified development strategies, progress remains slow and their willingness and ability to move is hampered by 1 lack of external capital. Prospects for both bilateral aid programs and IDA suggest there will be little or no increase in aid flows in real terms in the near future.

Africa's problems are deep-seated and structural. These are still societies and economies as early stages of development. Institutions are weak and skilled manpower is scarce. These problems will take decades to overcome. But Africa also faces major short-term problems, the solutions to which are intertwined with the longer-term structural issues.

It is for these reasons that we believe a Special Action Program for Africa is warranted. It will have to be tailored specifically to Africa's needs, along the lines sketched out in the paper on the future operational product of the Bank. The program should have a three-year perspective initially -- to focus attention of donors and borrowers on the priority issues and to keep the amount of resources and the measures required within reasonable limits.

Objectives

The Special Action Program for Africa would have the following objectives:

a) to increase concessional flows to Africa over the next three years to support those governments undertaking significant policy reforms and to ensure that these efforts can be fully carried through and will not fail for lack of funds. Failure to provide adequate support for policy reforms heightens the risk of adverse political consequences, the prospects of which will reduce the willingness of African leaders to act;

b) to avoid any sharp contraction of support for human resource development which is crucial to long-term progress. Programs built up slowly over the last 20 years are in danger of collapse because of the imperative of stabilization efforts and reduced budget outlays.

c) to expand substantially the role of agricultural research in Africa at the national level and, possibly, at the sub-regional level to lay the foundations for longer-term productivity increase as well as diversification;

d) to expand aid coordination for the purpose of:

- increasing resource flows to Sub-Sahara Africa including through reallocation of resources in bilateral aid programs from relatively high income countries;

- avoiding the financing of investment projects which are not clearly of the highest priority in the next several years;

- linking conditions for policy change to the availability of resource flows from as many sources as possible;

- assuring a larger share of non-project financing for Sub-Sahara Africa in the next several years, even at the expense of reprogramming existing commitments for projects; and

- integrating medium-term assistance measures with debt rearrangements appropriate to the African problems.

<u>The Initiating Conference</u>

While it remains essential to work out specific proposals and detailed country programs, and while we must ensure selectivity in accordance with performance, to be effective we must launch the effort on a <u>sub-continental basis</u>. Therefore, we propose that the Bank consider convening a high-level meeting of all major donors in the course of 1984. The meeting should be chaired by you and should consist of finance ministers and development ministers of all significant donors to Sub-Sahara Africa. Such a meeting will have to be carefully prepared and preceded by (i) substantial work on all the above five points to prepare the agenda and (ii) extensive but confidential consultation with major donors, regional organizations in Africa, and some individual African countries.

To ensure effective participation, and to assess their willingness to contribute, we would need to promote support through high-level contacts with the five or six most important bilateral donors as a first and critical step. Should we decide to proceed with such consultations, they could be initiated early in 1984 assuming the IDA VII negotiations are completed by then. While we should explore the idea of such a meeting, this must be done without any publicity until the preparatory discussions have indicated a reasonable prospect for success.

Implementation

In order to undertake this activity successfully, I would establish a special unit consisting of some four or five professionals, drawn from the Regions, in my office. I would develop proposals and documentation for the agenda and undertake the organizational arrangements for the conduct of the conference. It would work under the direction of a steering committee consisting of Messrs. Wapenhans, Knox and myself, a system which worked well for the two Sub-Sahara Africa reports, and be led by the individual to be appointed to replace Stanley Please. They would, of course, draw on the resources of OPS, ERS, and External Relations. Organizational arrangements for follow-up after the meeting could be considered at a later stage, to ensure that the general conclusions endorsed at the meeting are translated into specific actions by the donors.

Preparation

A detailed preparation schedule remains to be worked out. But, in outline, it would involve papers on:

a) medium-term debt rearrangements and their integration with medium-term recovery programs;

b) the status of education and training systems;

c) applied agricultural research in Africa;

d) aid coordination which would try to spell out for a number of countries the major issues in aid coordination, including (i) willingness of donors to support policy changes in specific sectors, (ii) willingness of donors to reconsider their current commitments and long-term plans and reprogram their resources, (iii) understanding that aid coordination ultimately has to be the responsibility of the borrowing countries and agreement to strengthen finance and planning ministries in order to carry out this task, and (iv) the link between IMF, export credit, commercial bank financing and official flows to Africa;

e) the current situation, building on our report on Accelerated Development in Sub-Saharan Africa, reviewing the current situation in detail, identifying the major problems facing the individual countries including the problems of debt, reaffirming the broad outline of recovery programs including policy reforms, and updating assessments of progress.

f) financial proposals to augment flows which should explore, among other possibilities, a special fund for Africa, the scope for reallocation of bilateral concessional flows and ways and means for increasing Bank Group lending.

The latter point I would like to discuss with you further after I am back. I have thought about the possibility of devising an approach which would allow us to lend IBRD funds in modest amounts and to selected countries not fully creditworthy by buffering the credit risk. I have discussed it with Joe Wood in a very preliminary way.

Timing

If we decide to proceed along these lines, we would aim for convening the conference around the time of the Annual Meetings, probably in October. Time will be needed for the preparatory work and, more importantly, for the prior consultations. We must not start the process till we are reasonably certain which specific results can emerge from such a conference. If the soundings are positive, the Annual Meetings and the meeting with the African Caucus will provide a good opportunity for you to complete the preparatory consultations. However, I want to stress that careful and confidential high-level soundings should be initiated first with major donors before we signal our intent. This need not, of course, delay the start of the necessary analyses. But premature disclosure of our intentions could put us in a very embarrassing position and might bring us hordes of interested participants, not all of whom are likely to fit into a tightly-structured approach designed to achieve concrete results.

cc: Mr. Wapenhans
Mr. Knox

ES:dpw

December 5, 1983

Mr. Clausen (o/r)

Tom -

Bill Ogden sent you his paper (Tomorrow and Beyond). He called. He would very much like to have your views on his suggestions.

Ernest Stern

ES:n

FORM NO. 1599
(8–80)

THE WORLD BANK

| ROUTING SLIP | DATE 10/27 |
|---|---|

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

| NAME | ROOM NO. |
|---|---|
| Mr. Clausen | |
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| | To Handle | | Note and File |
| | Appropriate Disposition | | Note and Return |
| | Approval | | Prepare Reply |
| | Comment | | Per Our Conversation |
| | Full Report | | Recommendation |
| | Information | | Signature |
| | Initial | | Send On |

REMARKS

Tom –
This is not a forthcoming response. But we have checked with FIDIC staff and they know of no issues. And we know of no reason why you should meet with him. But, if you want to accede to his request, we'll turn the letter around.

FROM

Ernie

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

A. W. CLAUSEN
President

October 27, 1983

Dear Mr. Miller:

Thank you for your further letter regarding your concerns about the construction industry and suggesting we meet next spring.

FIDIC officers and Bank staff are scheduled to hold their next regular review meeting in mid-March and I would be prepared to meet with you after that if there are any issues identified by our respective staff that warrant our personal time and attention.

Sincerely,

A. W. Clausen

Mr. Peter Miller
18 Argyle Street
Sydney 2000
Australia

October 26, 1983

Mr. Clausen

Tom -

Re the Ivory Coast - the story seems to be that the Government has paid no one except the civil service in the last few months. That too, probably, is a bit of an overstatement. We have a mission in the field now and we ought to have a clearer view in a couple of weeks.

ES

Ernest Stern

September 13, 1983

Mr. Clausen

Tom -

I met with Mr. Smith as you requested. The discussions covered Tanzania, Bank-Fund coordination in Africa's IDA share. It was amicable. On Tanzania, I explained the difficult choices we have to make, in view of the scarce resources. We have no option but to concentrate support more on those countries which were implementing sufficient policy changes. He accepted the need for such choice. The other items were merely repetitions of what had been said before.

Ernest Stern ES.

# Record Removal Notice

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| 13 September, 1983 | Memorandum |

**Correspondents / Participants**
From: Ferdinand van Dam, Executive Director
To: A.W. Clausen

**Subject / Title**
Visit to Cyprus

**Exception(s)**

**Additional Comments**
Declassification review of this record may be initiated upon request.

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September 13, 1983

Mr. Clausen

Tom -

You asked about the lending program status.

In my August 1 review of the program, on which I reported to the Managing Committee, the Regions had planned 36 projects in the first quarter. (I realize PAB has been reporting a higher number but their data base is not, and never has been, reliable).

The ones that have been delayed are:

Guatemala Industrial Credit - Change of government and, consequently, uncertainty about agreed economic policies.

Jamaica- Export Crops - Government delay in meeting (politically difficult) conditions of Board presentation to restructure state-owned export marketing organizations.

Turkey Irrigation - You are familiar with the problem. Turkey has not yet decided to proceed.

In dollar SDR terms, commitments in the first quarter are:

| | FY1984 | FY1983 |
|---|---|---|
| Bank | $ 1193 million | 753.2 |
| | 10% | 7% |
| IDA | SDR 441 | 575.2 |
| | 15% | 19% |

The data do not suggest any basic change in plans on implementation.

ES

Ernest Stern

C-3

August 12, 1983

Mr. Clausen

Tom -

Please have a look at the attached draft letter. If it's OK - or with any changes you like - would you send it to Timothy who will process it and take care of the mailing.

Ernest Stern

ES/jh

August 12, 1983

Mr. Clausen
Mr. Benjenk

The attached article has been written by Mr. Please, reflecting on his 20 years in the Bank. It is intended to be published in the Bank's World in the issue which w will come out during the Annual Meetings. It is an interesting piece and would be perfectly understood within the Bank as constructive comments on the need for further change. However, because of its subject matter I was concerned that it may be misunderstood on the outside and have unfortunate repercussions. I therefore wanted to bring it to your attention so that Mr. Vogl can have your views on this.

Ernest Stern

Attachment

Mr. A. W. Clausen

August 8, 1983

Ernest Stern

Early Retirement Program

I just want to reiterate my concern with making a formal commitment to the Board regarding absorbtion of the costs of the early retirement program in the current year budget. Whether or not we try to do so is an internal matter and we should, of course, explore whether that can be done and specifically what it will entail, but you are already on record with the Board that you will try to come in below the approved budget. To commit yourself publicly to absorb a further $5 million will a) undermine the credibility of our budget process, thus making future presentations more difficult (the $5 million is twice the increment which several members focussed on, and which we defended), and b) involve at this stage a public cmmmitment which we do not know how to execute.

August 8, 1983

Tom:

I have given further thought to the proposed appearance before the Kissinger Commission and concluded that you should avoid such as appearance.

We have two types of contributions to any Commission -- knowledge and prestige. Obviously we would be prepared to give the Commission our views on the economic performance and development prospects of the Central American countries. But this can be done by sending an unofficial note, by talking informally to Commission members or Commission staff. Nothing more could be achieved by a public appearance.

A public appearance also adds prestige to the proceedings. It seems to me that we should agree to appearances on those grounds only rarely, and only when there are clear and important benefits to the institution. This is not the case here. It is true that we are interested in the economic development of our members in Central America but that is not the basic mandate of the Commission. It is to deal with a major issue of US foreign policy, which has political and military aspects. The development aspects are important, but cannot be isolated. Moreover, the issue is highly controversial within the US, and between the US and its OECD partners. Your appearance before a Commission with so political a purpose would be a serious mistake and certainly not be seen in Europe as a neutral act by the Bank's President concerned with development prospects in Central America.

Finally, you should be conscious of the precedent. The Carlucci Commission at least deals with aid. But if you appear before US Commissions with other, broader purposes, you will not be able to refuse invitations from other countries for other commissions which may embroil the institution in controversy.

Ernest Stern

ES/jh

Mr. A.W.Clausen August 3, 1983

Ernest Stern

Meeting with Secretary Schultz

Below are some comments on topics, including some (Items 1 and 2) which Secretary Schultz plans to raise at the meeting on Thursday:

1. IDA 7 - No analysis is being done within the Department on the consequences of a US contribution of $750 million nor is there discussion of the possibilities of a higher level of participation and what that might achieve. The Under Secretary, Mr. Wallace, is firmly committed to the $750 million position and no information reaches the Secretary inconsistent with that position. However, the Policy Planning staff, which has direct access, has raised the possibility of a $1 billion dollar US participation on the grounds that with the recent supplementary the US appropriations will be very close to a $1 billion per year for two years and that this could constitute a basis for future congressional support if the Administration wishes to use it.

I suggest you make the following points:

a) A minimum contribution from the US of $1250 million is essential to a successful IDA.

b) Even if the US' share declines to 25% it would permit a $15 billion IDA.

c) If the US appropriates $1 billion for 1983 and $1 billion in 1984, and if the economy continues its recovery, it is perfectly plausible for the Administration to consider a contribution of $1250 million for 1985.

At levels below that it will not be possible to provide IDA resources to support effective policy changes and sound investments designed to strengthen market-oriented systems in the private sector in countries in which the US has strong interests. With IDA at very low levels we have no flexibility for even modest amounts anywhere in Latin America, including Bolivia, with the exception of Haiti. With a $9 billion IDA we cannot effectively support or provide adequate leadership in such African countries as Ghana, Liberia, Zambia, Sudan, Mauritania, Kenya, Uganda, Somalia, Zaire, in all of which policy changes are in progress, and for all of which international community support remains inadequate (with the possible exception of the Sudan). With a smaller IDA we can also not provide adequate support in the South Asian belt, including Pakistan, Bangladesh and Sri Lanka. Finally, with such a low level of IDA, the world and the US is buying long-term political turmoil in India for a certainty.

Mr. A.W. Clausen
Page 2
August 3, 1983

2. <u>Africa</u> - The Secretary is interested in a special effort for Africa and he is likely to raise this in the context of the Bank taking active leadership on coordination, both generally and at the country level. They are thinking of, and he might indicate his interest in, a proposal to establish a special fund to which the US would contribute $500 million over a number of years, in association with some other major donors for Africa. They recognize that the decisions on how to allocate resources from such a fund would have to be made internationally and could be done best based [illegible] ld Bank recommendations. They have our Progress Report on Sub-Saharan Africa and presumably the Secretary has been briefed on that. In the discussion I suggest that you encourage such a proposal if the Secretary refers to it; indicate our interest to work with them in formulating it; and report to the Secretary on what we have been doing in aid doordination and in strengthening our field level presence. In this context, it is important to note our increased coordination with the EEC and you should stress that our coordination efforts in such places as Zambia, Zaire, Liberia, Uganda and Kenya must be more effectively supported by the bilateral donors if there is going to be positive reinforcement for the right kinds of policy which these governments are now trying to put into place. There are still too many divergencies of view among donors, particularly at the project level, and too much unwillingness to make the right kinds of resources available to support well performing countries.

3. <u>The Bank Lending Program</u> - I suggest you brief the Secretary again on the artificial limitation imposed on our annual lending volume. In current circumstances this makes no sense since capital flows in the private markets of developing countries have declined sharply (the BIS reports only $500 million in the first quarter compared to $9 billion of the previous year) and many countries of presumably great interest to the US, such as Mexico, Brazil, Peru and the Philippines, are being affected. If there were a more reasonable interpretation of the sustainable ledding level Bank lending could be expanded modestly (say, $2 billion per year) for the next several years. We had a decline in IDA availability of more than a third in the middle of FY 1982 and managed to accomodate it managerially and in terms of programs. A decline in future Bank lending of that order certainly cannot be considered seriously disruptive,, particularly if we know it is coming and can plan for it. Such an increase in lending requires no budgetary outlays now. However, we must recognizd that while we can respond quickly we cannot respond instantaneously. Increased lending in support of sound policies requires negotiations and careful preparation. If we are to assist our middle-income members in 1984, the time to decide is now. Presumably you will make suggestions along these lines in your Annual Meetingss speech and it would be useful for the Secretary to support them, as the US response in terms of the speech of Secretary Regan at the Annual Meetings is prepared and in the comments the US will make at the Development Committee and subsequently in the Board.

Increased lending to help with the immediate problems of adjustment also will require further changes in the composition of our lending and for this too we need more US support and leadership. We need agreement on lifting the ceiling of 10% on SALs, on increased local cost financing in middle-income countries and on such other means as export development funds and maintenance and rehabilitation projects designed to achieve increased output with little or no new investment. The US could do much to change the attitude on our Board which continues to constrain such initiatives.

4. The Development Committee - It is unlikely that the Secretary will raise this and I do not recommend you do. But there has been a lot of discussion in the US Government after UNCTAD and a searching for more amenable fora. As you know, in our internal discussions and consultations on reshaping the Development Committee the only agreement was on procedures and there was little interest in converting the Development Committee to a decision-making body. As long as it is structured as it is, and no matter what improvements we can achieve in procedures, bringing broader issues to the Development Committee will only lead to the developments that took place in UNCTAD but this time we will be intimately associated with them. The failures of UNCTAD are due principally to the lack of weighted voting which permitted all demands to be approved without having to worry who would pay for them. Inevitably there was a gradual loss in credibility and an increase in the level of confrontation. The DC also works on one country one vote although the number of participants is smaller. No decision on issues of trade, aid, technology transfer and other matters can be expected in the DC. Should the Secretary raise this issue I strongly urge that you express these cautions. The problems would be compounded if the US overtly tried to substitute the DC, even in part, for UNCTAD. The long-term damage to the Bank would be considerable.

Mr. A.W. Clausen July 29, 1983

Ernest Stern

Breakfast with Mr. Kissinger

As you know, you are scheduled to have a breakfast meeting with Henry Kissinger and presumably the subject will be Central America. The topic that this Commission will deal with is highly political and I think it is very important that the World Bank not be involved in any way publicly. Obviously we stand ready to provide available information on Central America to any member country but we must avoid special arrangements or any special staff studies, or any protracted staff consultations. I would appreciate it if you would let me know the results of the discussion, if appropriate, so that I can provide the proper guidance to the Regional staff.

Mr. A. W. Clausen

July 22, 1983

Ernest Stern

Henry Owen called to say that after checking with David Rockefeller and Frank Carlucci they feel there is no reason to delay further the establishment of the Bank support group. He hopes to have members lined up, and be ready to announce the formation of the Committee by the Annual Meetings.

He will be in touch with you after you get.

July 5, 1983

Mr. Clausen

Tom:

PAB has revised slightly the disbursement figures for Sub-Sahara Africa from the table I gave you last week. The attached is the corrected version.

Ernie

Attachment

## FY80-83: IBRD/IDA Commitments for Sub-Saharan Africa
($ million)

| | FY80 | | FY81 | | FY82 | | FY83 | |
|---|---|---|---|---|---|---|---|---|
| | Amt. | % | Amt. | % | Amt. | % | Amt. | % |
| **Sub-Saharan Africa** | | | | | | | | |
| IBRD | 589.7 | 7.7 | 858.8 | 9.7 | 961.7 | 9.3 | 563.1 | 5.0 |
| IDA | 956.9 | 24.9 | 953.6 | 27.4 | 839.8 | 31.3 | 1231.0 | 36.8 |
| Total | 1546.6 | 13.5 | 1812.4 | 14.7 | 1801.5 | 13.8 | 1794.1 | 12.3 |
| **Bankwide** | | | | | | | | |
| IBRD | 7644.2 | 100.0 | 8808.9 | 100.0 | 10329.6 | 100.0 | 11251.6 | 100.0 |
| IDA | 3837.5 | 100.0 | 3482.1 | 100.0 | 2686.3 | 100.0 | 3341.3 | 100.0 |
| Total | 11481.7 | 100.0 | 12291.0 | 100.0 | 13015.9 | 100.0 | 14592.9 | 100.0 |

## FY80-83: IBRD/IDA Net Disbursements for Sub-Saharan Africa a/
($ million)

| | FY80 | FY81 | FY82 | FY83 b/ |
|---|---|---|---|---|
| IBRD | 294.4 | 247.7 | 412.9 | 456.9 |
| IDA | 335.8 | 500.5 | 580.6 | 686.4 |
| Total | 630.2 | 748.2 | 993.5 | 1143.3 |

a/ The figures presented here are from the Loan Department. Some minor discrepancies between these figures and those originating from FPA are being resolved. As a result, slight revisions to the figures presented here might be necessary.

b/ Estimate.

PABCP
7/01/83

A.W.Clausen, President

July 1, 1983

Ernest Stern, SVPOP

SubSaharan Africa - Lunch with Mr. Soglo

I had an extended lunch with Mr. Soglo regarding his comments on the SubSaharan Africa program. He apparently had received a table which showed only a 29% share for SubSaharan Africa in IDA 7 and it was that that made him so conserned about our commitment to the 30% allocation. I'm not sure where he got the number from.

In any event he is in full agreement that the focus of IDA discussions by the developing countries, including the African countries, ought to be on the total amount of IDA and that they ought not to be discussing the question of shares at this stage or as part of the IDA negotiations. He is prepared to leave that subject to Management, trusting we'll continue to do what we can to exceed the minimum level we have committed ourselves to of 30% of IDA availabilities. Secondly he is concerned that although China has indicated it understands the problems of Africa, that India has given no such signs. While he agrees that both India and China should be eligible for IDA resources he also believes that they ought to recognize they have a larger number of options and should be willing to recognize the greater plight of the African countries. I believe what he is talking about here is India's continued iteration of its entitlement to 40% since he seemed to have no difficulty when I explained to him that in the previous meeting of the IDA deputies a cap of about 45% for India and China together had been generally accepted. Third, he fully understands and is deeply appreciative of the efforts by Management to expand the other resources of the Bank in Africa, including the expansion of our economic work, the assignment of more and highly qualified staff, and the increase in number of field offices. Fourth, he believes we should continue to stress heavily the obligation of other donors to expand their financing for SubSaharan Africa, and he asked explicitly that we try and prepare a table of resource flows by source comparing 1979 or 1980 with 1982. I told him we would try to compile such a table but information on aid flows by donor and recipient country is very scarce; it is compiled only by the DAC, and it has about a two year lag. But it may be possible to prepare something not fully complete but nonetheless informative in time for the African caucus meeting.

I thought you should be aware of the above before you have your own lunch with Mr. Soglo.

## FY80-83: IBRD/IDA Commitments for Sub-Saharan Africa
($ million)

| | FY80 | | FY81 | | FY82 | | FY83 | |
|---|---|---|---|---|---|---|---|---|
| | Amt. | % | Amt. | % | Amt. | % | Amt. | % |
| **Sub-Saharan Africa** | | | | | | | | |
| IBRD | 589.7 | 7.7 | 858.8 | 9.7 | 961.7 | 9.3 | 563.1 | 5.0 |
| IDA | 956.9 | 24.9 | 953.6 | 27.4 | 839.8 | 31.3 | 1231.0 | 36.8 |
| Total | 1546.6 | 13.5 | 1812.4 | 14.7 | 1801.5 | 13.8 | 1794.1 | 12.3 |
| **Bankwide** | | | | | | | | |
| IBRD | 7644.2 | 100.0 | 8808.9 | 100.0 | 10329.6 | 100.0 | 11251.6 | 100.0 |
| IDA | 3837.5 | 100.0 | 3482.1 | 100.0 | 2686.3 | 100.0 | 3341.3 | 100.0 |
| Total | 11481.7 | 100.0 | 12291.0 | 100.0 | 13015.9 | 100.0 | 14592.9 | 100.0 |

## FY80-83: IBRD/IDA Net Disbursements for Sub-Saharan Africa
($ million)

| | FY80 | FY81 | FY82 | FY83 a/ |
|---|---|---|---|---|
| IBRD | | | | |
| IDA | | | | |
| Total | 633.6 | 726.4 | 893.9 | 1245.6 |

a/ Estimate.

PABCP
6/30/83

May 31, 1983

Mr. Clausen

Tom:

Take a look at the attached memo from Scott. It poses the issues correctly, I believe, though the judgement on each factor is necessarily open-ended and fraught with uncertainty. How we decide on each item can affect our future decisions in other siutations though each one of these cases is unique.

Ernie

cc: Mr. Chaufournier
w/attachment

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

DATE May 26, 1983

TO Mr. Ernest Stern, SVPOP

FROM Hugh N. Scott, Acting VPG

EXTENSION 61699

SUBJECT Resuming Lending to Lebanon

Further to your telephone call last week and your discussions with David Goldberg, we have given further thought to issues which could be relevant to the Bank's decision to resume lending to Lebanon. Since the present government there is constitutional and internationally recognized the question of whether to resume lending to Lebanon is essentially one of judgment based on the facts as we see them and our best estimate of the future evolution of the situation there. What I have attempted here is to outline broad categories of considerations under which judgment would have to be made and to indicate some other countries in which we have had problems of a roughly similar nature. I would group these into four basic areas: creditworthiness, economic performance, implementation and security of personnel. These categories are to some extent interrelated.

## Creditworthiness

This issue is primarily a question of the Bank's judgment of the country's economic situation. In this regard the presence of foreign troops and the extent to which the country exercises control over its territory are relevant in determining whether the country has the economic resources available to it to service its debts, manage its economy and repay the proposed loan. The extent to which loss of control over territory affects creditworthiness very much depends on the circumstances, including the resources left in the Government's hands and our judgment as to the likelihood that the foreign or hostile troops may affect the Government's control over such resources in the future. Thus in the case of Cyprus, the fact that the Government does not control a substantial section of its territory is not an impediment to Bank lending since the remaining portion is relatively stable from an economic standpoint and sufficiently endowed with assets and a tax base to be creditworthy on its own.

## Economic Performance

A second category is the degree to which we have confidence in the Government's ability to carry out a rational development policy generally, aside from its ability to repay loans obtained for this purpose, although economic performance and creditworthiness are closely related, particularly as regards Bank lending. In Vietnam one of our stated reasons for not lending was our concern about the country's development policy and our doubts that investment objectives would be realized and that our projects would benefit the masses of the people. At that time Vietnam was not dealing with invading troops but was itself invading Kampuchia and fighting with China. Afghanistan might also be seen as an example of a case in which the economy is so disrupted, in this case by foreign troops and opposition to them, that doubts arise as to the borrower's ability to mobilize economic resources generally. On the other hand, in the case of Uganda during the immediate post-Amin period, the presence of foreign troops, although disruptive, was seen as not adversely affecting the borrower's economic situation, but perhaps, in fact helping to stabilize it.

Implementation

A third category of judgments involves the extent to which the Bank is satisfied that the Government can effectively implement the project or program being proposed and ensure that the benefits expected will be realized. This involves not only whether the Government has effective control over the areas covered by the project, but whether there is a likelihood that foreign troops or militia hostile to the Government will interefere with its implementation or operation. In the Uganda situation, it was thought that the Tanzanian troops would not unduly affect our projects as they were supportive of the Government. In the Cyprus situation, it was thought that implementation in the Turkish Cypriot areas was obviously impossible, so our projects are tailored to those areas controlled by the Government. In Afghanistan, implementation in almost all areas has been substantially affected.

Security of Personnel

A fourth issue is whether the Bank is satisfied that security in the proposed project areas is sufficiently assured to permit appraisal and supervision by Bank staff. The Bank is also concerned with the safety of project personnel, particularly foreign staff. Lack of security affecting supervision was the stated reason we stopped our program in Afghanistan where no area is effectively free from hostilities. On the other hand, in Uganda we resumed lending when hostilities abated but isolated violence still occurred.

Conclusion

In summary, questions with regard to lending in situations like Lebanon involve judgments about factual situations which are so unique and complicated that past precedents, although useful as guidelines, cannot be considered to limit our options. Any decision on whether to resume a lending program therefore very much depends on the Bank's assessment of the current situation and our estimation of how things are expected to be for the reasonable future.

cc: Mr. D. Goldberg

ANVorkink/LForget/HScott:sck

Mr. A.W. Clausen May 31, 1983

Ernest Stern

Statement of Objectives

I have told Mr. Ohuchi to delay the preparation of his statement of objectives till the end of CY1983. He has only just arrived and it would not be productive to ask him to spend time on preparing a statement of objectives before he has had an opportunity to learn a bit more about the Bank and his job.

I plan to forward a statement for the Co-financing Unit in January 1984.

cc: Mr. Ohuchi

AWC file

April 26, 1983

Mr. Clausen

Tom:

Subject: Attendance at Development Bank Meetings

The group from the Bank for the Asian Development Bank meeting consists of Mr. Karaosmanoglu and Mr. Wiehen, representing our two regions involved, plus one assistant (Ms. Davis) to help with scheduling, report writing, etc. There are two IFC people going from Washington (Parmer and Stephansen) plus the IFC staff member resident in Manila (Kupasrimonkol). In addition, External Relations is sending a press officer from Tokyo (Ms. Ogawa), plus, I just learned, Mr. Sankaran from Washington. These are presumably going for general public information; not for support of our staff.

For the African Development Bank meeting, only Mr. Knox and Mr. Kpognon are going from here. Mr. Kpognon is Knox's Special Adviser on Regional government matters. He is an African and very well connected; he helped, for instance, in getting the very positive reaction to our African Report. In addition Guetta will attend, since he is our liaison with the African Development Bank and Loos, who is in Nairobi anyway.

Ernie

Ernest Stern

ES:ct

SMC 5-2-83

| )F MEETING | ORGANIZATION | PURPOSE OF MEETING | PLACE | REPRESENTATION BY |
|---|---|---|---|---|
| | ARPEL | Eighteenth Ordinary Assembly of Mutual State Assistance for Petroleum in Latin America | Asuncion | None |
| | UN | Regional Seminar on Recommendations of Second UN Conference on Exploration and Peaceful Uses of Outer Space | Brazil | Under Consideration |
| 0 | UNCTAD | United Nations Sugar Conference, 1983 | Geneva | Invitation not yet received |
| 0 | WHO | World Health Assembly | Geneva | Burney |
| 7 | WMO | Ninth World Meteorological Congress | Geneva | None |
| 7 | ECOSOC | First Regular Session, 1983 | New York | Bazin |
| 3 22 | UN | International Law Commission, 35th Session | Geneva | Invitation not yet received |
| | AsDB | Sixteenth Annual Meeting of Board of Governors of Asian Development Bank TRAVEL COST + | Manila OPPORTUNITY COST ∴ 2160 | Karaosmanoglu Wiehen, Ogawa, Davis, Parmar, Stephansen Kupasrimonkol |
| | AADFI | Ninth Ordinary General Assembly and Workshop on Industrial Development Centre and National Development Banks: Cooperation and Development Strategies | Nairobi | Under Consideration |
| 4 0 | UNESCO | Executive Board, 116th Session | Paris | Invitation not yet received |
| | ECWA | Tenth Session of Economic Commission for Western Asia | Baghdad | Bank will be Represented |
| | UNDP | Asia Region Least Developed Country Meeting | Geneva | Invitation not yet received |
| | ECLA | Fourth Conference of Ministers and Heads of Planning of Latin America and Caribbean Countries | Buenos Aires | Bank may be Represented |

| E OF MEETING | ORGANIZATION | PURPOSE OF MEETING | PLACE | REPRESENTATION BY |
|---|---|---|---|---|
| 10 | OECD | Ministerial Meeting | Paris | Bank will be Represented |
| 13 | FAO | Western Central Atlantic Fishery Commission | Managua | None |
| 13 | UN | Asian Regional Seminar on the inalienable rights of Palestinian people | Jakarta | None |
| 13 | UN | Inter-regional Seminar on Regulatory Administration for Promoting National Development | Bangkok | None |
| 13 | UNESCO | Intergovernmental Committee for Promoting Return of Cultural Property to Countries of Origin | Istanbul | None |
| 13 | ALIDE | General Assembly of Latin American Association of Development Financing Institutions | Montevideo | Ludvik |
| 14 | UNESCO | Fifth Regional Conference of National Commissions of African Member States | Yaounde | Under Consideration |
| 20 | UN | Commission on Transnational Corporations, Special Session | New York | Invitation not yet received |
| 9<br>3 | UN | Committee for Programme and Co-ordination, 23rd Session | New York | Bazin |
| 11 | CDB | Annual Meeting of Board of Governors of Caribbean Development Bank | Cartagena | Invitation not yet received |
| 13 | WFC | Preparatory Meeting of the World Food Council | Rome | Invitation not yet received |
| 13 | FAO/ILO/UNESCO | Inter-secretariat Working Group on Agriculture Education and Training | Paris | Tobelem |
| 14 | AfDB | Nineteenth Annual Meeting of Board of Governors of African Development Bank and Tenth Annual Meeting of African Development Fund | Nairobi | Knox<br>Kpognon, Guetta<br>Loos |
| 24 | UNEP | Governing Council, 11th Session | Nairobi | None |

(6-73)



| DATE OF MEETING | ORGANIZATION | PURPOSE OF MEETING | PLACE | REPRESENTATION BY |
|---|---|---|---|---|
| June 6 - 17 | UN | Intergovernmental Committee on Science and Technology for Development, Fifth Session | New York | Invitation not yet received |
| June 6 - 24 | UNDP | Governing Council, 30th Session | New York | Riley |
| June 6 - 30 | UNCTAD | Sixth Session | Belgrade | Clausen Benjenk, Burki, Burney, Chatenay, Shakow, EPD staff |
| June 7 - 10 | ESCAP | Regional Intergovernmental Meating on Health and Development | Bangkok | Schebeck |
| June 7 - 11 | EURODIDAC | International Educational Materials Fair (International Association of Manufacturers and Districutors of Educational Materials) | Singapore | Futagami Swahn (?) |
| June 8 - 10 | IPEA/ECLA | Seminar on Planning and Control of State Enterprises | Brasilia | None |
| June 8 - 17 | UN | Committee on Natural Resources, Eighth Session | New York | Invitation not yet received |
| June 9 - 10 | ACC | Inter-Secretariat Group on Water - Consultations with Committee on Natural Resources | New York | Hotes |
| June 12 - 17 | IPC | International Port Congress, Eighth Annual Meeting | Antwerp | Grosdidier de Matons |
| June 13 | BIS | Annual General Meeting of Bank for International Settlements | Basle | Rotberg |
| June 20 - 24 | FAO | Joint Meeting of Panels of Experts on Development Aspects and on Ecological/Technical Aspects of Programme for Control of African Animal Trypanosomiasis | Addis Ababa | Under Consideration |
| June 20 - 29 | UN | Commission on Transnational Corporations, Ninth Session | New York | Invitation not yet received |
| June 20 July 1 | UN | Committee on Peaceful Uses of Outer Space, 26th Session | New York | Invitation not yet received |

file
AWC

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. Clausen

DATE: April 11, 1983

FROM: Ernest Stern

SUBJECT: Chairmanship - CGIAR

You have already received a briefing note for your meeting with Dr. Sauoma, at FAO. However, in addition to the general exchange of views which that note suggests on the topics indicated, it is important that you raise, and settle with him, the question of the chairmanship of CGIAR.

As you know, Warren Baum was the first and only Chairman of the CGIAR so that there is little by way of precedent about how a chairman should be appointed. When Warren was appointed it was done on behalf of the three sponsoring agencies -- the World Bank, FAO and UNDP. Warren has indicated to me that some of the members might be interested in a more consultative process this time. However, that information was not borne out when I consulted with the UNDP. In any event the first step is to have agreement among the three co-sponsoring agencies.

It has been acknowledged, including by FAO, that the Chairmanship and the Secretariat are two interconnected responsibilities and that as long as the Secretariat is housed in and financed by the World Bank, the Chairmanship should rest with a senior officer of the World Bank. We could simply suggest that Mr. Husain would be Mr. Baum's replacement as Chairman of CGIAR. While there is no inevitable linkage between the Vice Presidency OPS and the Chairmanship, it does fit in most logically. Regional Vice Presidents travel too much to be responsible for running the CGIAR and in any event it is a global operation which does not match well with their Regional responsibilities. However, if there is a need for consultation, we would be prepared to select three of our managers for initial discussion with the members: Shahid Husain, Roger Chaufournier and David Knox. We need however not to leave Dr. Sauoma in doubt that given our preference we would appoint Mr. Husain. Putting up a group of three would enable members to exercise some choice and would avoid embarrassment in case there were significant opposition to Shahid, something I do not anticipate.

In addition to not wanting to put the burden on another Vice President, we believe Shahid to be fully competent. He is an excellent negotiator and manager, and he has ample experience with consultative groups. He will be fully able to steer the meetings of the CGIAR and to provide adequate guidance to the Secretariat in its administrative responsibilities. UNDP concurs in the selection of Mr. Husain. We would therefore hope that Dr. Sauoma would join us in indicating that the sponsoring agencies would like to nominate Mr. Husain as Chairman of the CGIAR to replace Mr. Baum at the fall meeting.

Depending on Dr. Sauoma's reaction to Husain you should go on to say that we had understood that there might be some interest in a consultative process with the members, to give them a broader choice than simply to confront them with a pre-selected candidate. You can indicate that the tentative response from the UNDP was that such a consultative process is either not necessary or can be done quite informally once the sponsoring agencies agree. It would be useful if Mr. Sauoma could be gotten to take the same position; it would reduce the complexity of the consultative process to a few phone calls to principal members.

As you know, Dr. Sauoma is a very sensitive individual and while as far as we know the FAO has no designs on the Chairmanship it is possible that something along these lines might be broached. You must be very firm that the Bank could not continue to provide the Secretariat services if the Secretariat were serving a chairman who was not a senior Bank officer. This is not a question of turf, but a question of how politicized or professional the future leadership of the CGIAR will be. UNDP would strongly support us in this position. You should also be aware that amongst our senior staff there has been a fair amount of lobbying about who should be the next Chairman. Specifically, David Hopper, who as you know has an extensive background in agriculture, would like to be the Chairman and I know that he has discussed it with his colleagues in Rome. Nicky Barletta, although he has made no overt move in that direction as far as I know, also has an agricultural interest, is a member of the International Food Policy Research Institute and might also see himself as a possible candidate. Finally, Warren doesn't like Shahid as his successor and has been probing support for alternatives. Neither David nor Nicky are sufficiently capable managers to allow them to take on a significant burden outside of their Regional responsibilities. The two other individuals we have proposed (Chaufournier and Knox) could possibly do it if there were significant opposition to Shahid, but it is a far from perfect solution.

<u>Summary</u>

(i) You should seek Dr. Sauoma's concurrence to the nomination of Mr. Husain as the successor to Mr. Baum as the next Chairman of CGIAR.

(ii) Ascertain his preference on the consultative process. We would like to simply undertake consultations on Mr. Husain but would be prepared to list two others if Dr. Sauoma thinks this desirable.

(iii) We would not wish to undertake a consultation process with three candidates unless we have prior agreement among the co-sponsors on their preference.

ES:ct

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMO..ANDUM

DATE: March 23, 1983

TO: Mr. A.W. Clausen

FROM: Ernest Stern, SVP, Operations ES

SUBJECT: FY1983 Lending Program

We have completed a further review of the FY1983 lending program. The situation remains difficult and uncertain but, except for the problems noted below, we are on target.

## Timing

The program is late this year due to the many uncertainties in the borrowing countries. Board slots for May and June are solidly booked and some reallocation and assignment between Regions was necessary. Workloads and pressures are very high but all projects are now scheduled by week and the full program can be accommodated on this basis.

## Volume - IDA

The full SDR 3.1 billion will be committed. There are still uncertainties about a few projects due to country conditions (Ethiopia, Ghana, Sudan) but any foreseeable results can be accommodated.

## Volume - IBRD

Major uncertainties remain as listed below. Assuming not everything goes badly the $11.2 billion lending objective will be reached.

The following loans, which are counted in the current version of the $11.2 billion program, are still at issue: (in millions)

| | | | |
|---|---|---|---|
| Chile | $125 | Highways | Country situation |
| Mexico | $350 | Export Development Fund | Conditions on liberalization and protectionism |
| Egypt | $165 | El Dikheila Steel | Congressional problem under discussion between US and Cairo |
| Turkey | $ 60 | Thrace Gas | Country Decisions |
| | $120 | Agricultural Credit | Interest Rates |
| Yugoslavia | $ 70 | DFC | Interest Rates |
| | $136 | Serbia | Interest Rates |
| | $ 70 | Kosovo | Interest Rates |
| | $120 | Power | Tariffs |

On the other side we have not counted on the following loans in the present $11.2 billion scenario, some of which might be ready:

| | | | |
|---|---|---|---|
| Ivory Coast | $200 | SAL | Under discussion. No major issues but need to be worked out |
| Yugoslavia | $250 (of which only $50 net since it would replace several projects) | SAL | Under negotiation. Several issues still outstanding |
| Turkey | $300 | SAL | Under discussion (also depends on the release of the second tranche of SAL III) |
| | $ 10 | Technical Assistance for State Enterprise | Linked to SAL |

cc: Messrs. Qureshi
Thahane
Benjenk

ES:ls

1) [illegible]
2) File
EL

EK

Would you arrange for a short note to the Regions.
We must keep (or try to) a distinction with savings. Therefore, we cant be talking about cancellations of balances after most of the work is done. The focus has got to be on projects in the beginning or middle of implem es

3-15-83

TO: MR STERN

Ernie — while this paper was not "put" to the managing committee as an "action" item — I am sure you will not waste any time in issuing guidelines to the Regional staff to re-commit cancellations resulting from basic restructuring — as the paper suggests!

A

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

For MC information
Mr. Clausen E-1227

DATE: March 10, 1983 OPS/MC83-19

TO: Members of the Managing Committee

FROM: Ernest Stern, SVP, Operations ES

SUBJECT: IDA Cancellations

At our last meeting we agreed to distinguish between "normal" cancellations (due to savings at project completion or severe project problems which cannot be satisfactorily resolved) and cancellations which might result from a basic restructuring of investment priorities as a result of the current economic crisis. We agreed that the former would no longer be made available for recommitment authority but that we would consider the latter further after the scheduled discussion with the OVPs had taken place.

The OVPs discussed the matter at Wednesday's meeting and recommend strongly that we maintain that distinction and that cancellations resulting from a basic restructuring of the investment program remain available for recommitment in the same country. The reasons for this are that it will provide an important incentive, both to the governments and to Bank staff, to take a more objective view of the necessary restructuring of investment priorities, and will strengthen the willingness to cancel projects which are no longer appropriate under current circumstances. In the absence of this incentive, there is a very strong tendency by governments to protect projects financed on highly concessional terms because they fear the loss of this scarce resource even when, on other criteria, the project should be postponed. Unless we can assure governments that these funds would remain available to them major efforts will be made to maintain a project, even in the face of inadequate local currency support, and the reallocation of limited foreign and domestic resources will be impeded.

O/C

3-14-83 By ALL MEANS! A

A special anomaly arises in the case of countries where there are on-going IDA projects but where the country has since been graduated from IDA. We believe the above policy would, nonetheless, be appropriate and that the IDA funds could then be used in the same country, on an exceptional basis, together with Bank funds to finance new projects.

We foresee no difficulties in specifically identifying the amount of resources which would be covered by this policy. Cancellations resulting from restructuring would be explicitly identified by the Regions and action would only be taken with my approval. The approval would serve as documentation to exclude the amount from the standard cancellation total. In considering such cancellations we would limit them to countries which are undertaking a restructuring of their investment program and to projects which are not near the end of the implementation stage so as to avoid confusing such cancellations with savings which might arise at the end of a project.

It is impossible to estimate the volume of such cancellations in any fiscal year but we believe the amount may be around $50-75 million per year in the next 2 years. At the end of the period of the Special Assistance Program we would revert to normal procedures and all cancellations thereafter would be treated identically.

If we agree on this procedure, I will issue the necessary guidance to the Regional staff.

cc: Mr. Humphrey
Mr. Southworth

DATE: March 7, 1983

TO: Mr. Clausen and Mr. Qureshi

FROM: Ernest Stern

SUBJECT: IDA Negotiations

I am becoming increasingly concerned about our IDA negotiations. I already discussed my concern about Mr. de Lattre's visit to India with Moeen, and I subsequently talked to Mr. de Lattre in Sydney. After that I discovered that he is also visiting China and plans to attend a G.24 meeting in Tokyo. All these things are done withour prior consultation and without an adequate briefing on the issues which are likely to be raised with him and his appropriate responses. For instance, the Chinese Government is thoroughly confused as to the purpose of the visit since they discussed the IDA question when the Minister visited in December and the matter was further discussed when Mr. Karaosmanoglu visited last month. In both India and China the focus inevitably will be on shares and volume. The views of both countries regarding volume could easily be predicted without a visit, whereas a discussion of shares is highly sensitive and not to be undertaken by the negotiator.

I am also very seriously concerned about Mr. de Lattre's views on what constitutes an acceptable IDA replenishment. These concerns arise both from my very brief meeting with him and from what I have heard subsequently about the Paris meeting. It is this institution's view that an appropriate IDA replenishment should be $18 billion. I recognize that the probability of reaching that level is small, and clearly we could consider ourselves successful if we reached $15 or $16 billion. However, that is inconsistent with our negotiator talking about $9 billion, or a maximum of $10 billion. An agreement at that level could be reached tomorrow. I would be glad to detail the reasons why we need substantially more than the present annual operating level for IDA and we should take a very firm position that we will not close negotiations without agreement on a substantial increase over IDA 6.

I am sending you this note because I understand that Mr. de Lattre will return to Washington towards the end of March and there will be an opportunity for him to meet with the Managing Committee and with us individually. It seems to me essential at that point that we get a clear understanding from him that he will spend much more time in Washington so that he can learn about requirements and work out a strategy which is acceptable to the institution. We also need to have an understanding of how his travels will support this strategy and a clear agreement on his objective which is not to reach consensus at the lowest possible level for the sake of consensus, but to help us achieve what is much more difficult, i.e. an IDA 7 at an acceptable level.

ES:ls

March 7, 1983

Mr. Clausen

Tom:

Topics for Shultz Luncheon

The list of potential items for discussion is very long and, of course, you will have to be selective but I list below a few items which, time permitting, may be worth mentioning:

1. US Leadership Role - The US has long equated the availability of funds with the extent of its leadership role in international organizations. This is a fallacy. Obviously, as the largest economy within the OECD, a reasonable contribution by the US remains vital. However, there also is a significant leadership vacuum on international economic matters, including international financial and development institutions. The US, even with its present budgetary constraints, affecting its IDA contribution, can be immeasurably more helpful on implementing IDA 6 and on reaching agreement on a satisfactory IDA 7. That its share might have to come down can be explained; but it does not have to associate this with a general downgrading of IDA in order to avoid criticism of an inadequate contribution. This is neither necessary nor in the best interests of the US. More effective leadership from the diplomatic side could I think make a major difference.

2. Hungary - You are familiar with the problem. It would be helpful for the Secretary to be aware of the position apparently taken in the Treasury since it is hard to see that integrating Hungary into the Bretton Woods institutions, at a minimal cost, can be anything but in the long-term interest of the US. That we will get approval of our lending is without doubt. The US by taking the position it does can only be affecting its bilateral relationships adversely, to no purpose.

3. Africa - The US is expanding its activities in Sub-Saharan Africa. It has requested funds which are three times the level of 4 years ago although, on an Africa-wide basis, they

are still modest and highly concentrated on a few countries. It would be worthwhile to stress to the Secretary that the US long-term development objectives in Africa being pursued with this funding requires complementary action by other donors, particularly the Bank. Unless IDA is expanded significantly we will not be in a position to support policy reform programs and to assist such countries as Sudan, Uganda, Kenya and Ghana which either have started a reform program or which are about to. The expanded US effort cannot yield positive results without a substantially enlarged IDA, except in the very short-term.

4. Energy - You are familiar with the issue. The differences between us and the Treasury are not nearly as great as they are made out to be and they relate principally to financing of a few of the exploration activities and some of the development activities in the oil and gas sector. On the other hand, both sides recognize the importance of Bank operations in this sector and the contribution the Bank has made to reducing the energy dependence of the developing countries either by increasing production of all kinds of energy or by improving their policy framework. Neither does anyone disagree that we have contributed substantially to improving the investment climate for foreign investors in a number of countries. There has got to be some recognition by the US Administration that not all of our members believe that national oil companies are inappropriate entities. If over 90% of the energy lending program is satisfactory, there ought to be a reasonable case within the US to stop trying to torpedo the whole thing for the sake of the marginal 10%. That more drilling and greater energy self-sufficiency in the developing countries is consistent with US long-term interest is, I think, self evident.

5. You may also want to bring Mr. Shultz up to date on our approach to Lebanon.

Ernie

February 22, 1983

Mr. Clausen

Tom:

The US ED's paper on oil and gas lending raises a number of issues. It may be easiest to list those together with the main points of the response. Of course, the paper may not exhaust the US objections.

1. The Bank ignores the "potential displacement of commercial finance" (p.1)

We do not believe the Bank's financing displaces private commercial flows because:

a) as the paper says, "the Bank's effort is thus marginal by global standards." This is certainly true - oil and gas projects totalled $539 million through November 1982, compared to total exploration and production expenditures of $78 billion in 1981 alone. (These figures from the US paper.) Bank financing is less than 0.3%. At that level one can only argue that our catalytic effort was inadequate - there cannot have been a measurable negative impact on total flows;

b) in aggregate, there hardly is an excess of capital searching for investments in LDCs at present;

c) we explicitly review alternative sources of financing on a case by case basis;

d) wherever feasible (China was the exception because of its position on commercial financing) we limit our financing to a small share of the project, and an even smaller share of total hydrocarbon investment.

2. The terms of our lending are inappropriate to the cash flow of the project (p.3)

This is true - but its not limited to energy sector projects. And it works both ways. We decided some time ago that terms would be set on country criteria. This was done to conserve capital and to give us a mechanism to assure that the project mix would not be determined by these financial ramifications but would continue to reflect development priorities. As a result we have a long list of projects where repayments exceed disbursements during implementation. We can change our policy but then we must do it for all sectors. The impact on our capital will be strongly negative. We could not harden the terms for projects with a good cash flow without softening them for projects with long gestation periods.

3. Loan sizes are excessive (p.3)

Obviously this is a matter of judgement. Our policy is clear - minimize our participation. But what is an acceptable minimum depends on objectives - not only on the possibility of additional commercial bank financing. The size of the loan is set in the context of the project; the involvement of the Bank in the sector; the changes in technology, institutional structure, prices and policies we are pursuing; and the texture of our overall country relations.

4. Should the Bank proceed if the project could go forward without Bank financing (p.3)

   a) This raises the lender of last resort issue which we'll address shortly. Briefly, this question cannot be answered at the project level, essentially for the same reasons as bear on the question of project size.

   b) Taking this proposition to its logical conclusion we ought not to lend in <u>any</u> countries which have, <u>even temporarily</u>, adequate access to the capital markets; and we ought never to lend to any projects with a good financial rate of return. Such an approach is totally inconsistent with a Bank role in policy dialogue. We would become an intermittent actor and not a regular participant in general issues nor have the capacity to strengthen individual institutions through a sustained series of loans.

5. "Economically viable deposits of oil and gas in the ground are viewed as relatively attractive commercial lending propositions" and therefore "exploration and development" can be financed on a project basis. (p.4)

   a) First, there is a question of what is economically viable and to whom. Not every oil deposit is large enough for export, yet may be important for domestic consumption. Gas, unless in very large deposits, is not of interest to the internationals yet may be important to the country. Without internationals project financing is highly improbable, according to every bank (except Chemical) that we have checked with.

   b) Exploration activities are not financed on a project basis. A State oil company like PEMEX can borrow against its general revenues but there are few such companies in countries to which we lend. For countries with no, or little, proven reserves, this is simply not an option.

   c) Project lending for development is done by the commercial banks but it is relatively rare in developing countries, unless on the security of an international oil company. The general consensus of all the bankers we have consulted on the issue recently is that project lending is less likely to be used - especially in developing countries. If the lending is general sovereign risk, then the project makes little difference.

d) We urge countries to improve their investment climate and attract international oil companies. But that also means the country reserves the right to an equity share if exploration is successful. When the field is declared commercial the country must put up its share of the development costs and not all countries have the -resources. It is a legitimate fonction for us to help finance these capital costs.

Finally, its worth noting that our lending, both for exploration and development, can be seen as reducing political risks and the risk of creeping contract revisions.

Ernest Stern

ES:ls

Mr. A.W. Clausen (o/r) January 13, 1983

Ernest Stern

Outstanding Chinese Bonds

You had asked some time ago that we consider the issue of outstanding Chinese bonds. The attached memorandum from Mr. Scott discusses this issue in detail and was used as the basis for a meeting with him and his colleagues and the Region.

Under our policy, it is encumbant on the institution to take action in cases of appropriation or default regardless of whether the issue is raised by Executive Directors. The fact that these bonds are old does not change that situation. Moreover, the recent court decision in the US Federal Court in Alabama makes the issue current. As you know, the issue is highly sensitive and very complex, and we must proceed carefully.

We agreed that, as a first step, Mr. Koch Weser, the Division Chief who is now in Beijing, would seek to ascertain the reasons why China did not intervene in the court case and whether the PRC intends to appeal. He will also leave with them the statement of our policy and indicate that while we do not have any specific views on the issue of Chinese bonds, we have in the past, and are currently, withholding loans from countries which have expropriated property. We have an obvious obligation to treat all members equally. It is, therefore, important that we be able to respond to enquiries about the Chinese debt indicating that some of it is acknowledged and that a process for settlement is envisioned. Only the PRC can provide us with the necessary information. Mr. Koch Weser has been asked to tell them our inability to respond will leave us in a much more precarious situation. Upon his return we will assess the situation in light of whatever information he may have received. We will then advise you further and we may also wish to discuss this in the Managing Committee.

Attachment

cc: Mr. Hugh N. Scott, LEG

ES:ls

January 7, 1983

Mr. A.W. Clausen

Ernest Stern

72004

Data Provided to Commercial Bankers and Others

At the present time, we make a great deal of information available to commercial bankers and, for that matter, to many other public and private agencies, on request.

We routinely make available all "Grey Cover" President's Reports and Staff Appraisal Reports to cofinanciers. Economic Reports are available officially only to EDs and governments, but most EDs will hand them out to banks and we do so unofficially when there is an important interest involved. Such documents contain data updated semi-annually on economic and social data, on economic projections and on current economic performance indicators such as GNP, balance of payments, export growth, gross and net borrowings, disbursements, investment priorities and so on. Operational guidelines to staff regarding the provision of such information to Executive Directors are attached, and these are generally followed in relations with other outsiders, including commercial bankers.

In addition, we provide a great deal of information (but not printed documents) to those with legitimate interests, including commercial bankers, regarding, for example, global economic projections by Region and by country, and on country debt estimates. For the latter, the Bank issues World Debt Tables annually, which have been revised recently to include the IMF's standard series for exports, imports, GNP and so forth. These tables are updated three times per year, and issued as supplements to the annual tables. In addition, the debt division in ERS responds to some 20-40 requests each week from commercial bankers, for updates on particular countries or groups of countries. Our computer tapes on debt data are available through publications, and are purchased by the major data distribution agencies to which most commercial banks subscribe. A number of the larger banks purchase these data files directly.

While we do not discriminate in the provision of such information, there is naturally wide variability among commercial bankers in the extent to which they avail themselves of our information resources. We do not make our creditworthiness analyses of individual countries available to outsiders in any circumstances, although we do, as explained above, make available virtually all of the raw data on which our analyses are based. This latter point is important - on the whole what is being asked for is not additional data or information but our conclusions and judgements.

Let's discuss this further after M.C. on Monday.

JPratt/EStern:ls

January 5, 1983

Tom:

Attached is the briefing material for Egypt. Roger and I would be glad to meet with you to discuss any aspects of it if you wish.

I want to draw your attention to the two central issues - Energy and the Lending Program.

The discussion on Energy on pages 10 and 11 is correct and the recommended Bank position in para 28 is the appropriate one. It is essential that you state this position to the President, Finance Minister and the Minister of Energy. We have been very flexible on this issue but have simply reached the end of the road. I advised McPherson of our position before he went to Egypt in December and while AID entirely agrees with us substantively they, of course, are not sure to what extent they can follow the same position because of the large political elemant in the USAid program.

It is also important that we settle the matter of the terms of Bank lending to Egypt. The discussion in paras 29-31 is correct, as is the recommended approach in para 32. We must be sure however that we not put this in the context of asking Egypt to do us a favor. We should make it clear that we will not send appraisal missions for projects in sectors for which we do not have clear Government assurance that they wish to borrow on standard Bank terms for the project. We have already incurred heavy staff costs in appraising projects which the Government subsequently decided not to borrow for. We also should not accept the proposition that we should be responsible for obtaining cofinancing which will reduce average lending levels to what Egypt will consider appropriate. We will, of course, extend assistance but in Egypt, unlike in many low-income countries, there is ample capacity for the Government itself to explore the availability of cofinancing. Moreover, the cofinancing to get average terms for a project down must be a secondary consideration since we should not be prepared to incur the risk of appraising a project for which we might not find cofinancing later and for which the Government might then not wish to borrow.

Ernie

action

1719

file

Mr. Clausen December 28, 1982

agree! F

Tom:

While I think it is correct that we helped to establish contact between the Southland Corporation and the appropriate PEMEX officials, after having made the introduction our involvement should cease. We ought to tell Southland in our response that the Mexican Government and PEMEX may be interested in a commercial contract for heavy crude and give them the name of the PEMEX official to contact and we can then make sure that that official will expect a call from Southland. We should also make it clear in our letter to Southland that there is no connection between a commercial contract for purchases from PEMEX and any loan from the Bank to Mexico. This is what paragraph 4 of the attached memo indicates but I think it is important that we make that very explicit in our response to Southland. I think it is also important that we make it clear to Southland that our involvement in the exercise is now at an end.

If you agree, please so indicate and I will convey the appropriate instructions to the Region; if you wish to proceed differently please let me know so that we can discuss.

Ernie

Mr. A. W. Clausen December 10, 1982

Ernest Stern

Project Implementation Review

I thought you might like to see an example of our semi-annual Project Implementation Review. Submissions, like the attached one, are prepared by each Region. The Regional process starts at the Division level, where all projects are reviewed, and then moves to the Vice President level with only projects with major problems reviewed at the final level. The final assessment is reviewed in a meeting with me and OPS staff. The common lessons and conclusions are prepared by OPS and discussed with the Operations staff. This overview, as revised, becomes our report to the Board.

In the attached, the first 20 pages describe the state of the portfolio. I'd skip Annex B, but you might want to glance at some of the examples of project problems in Annex C.

Attachment

ES:dpw

Mr. A.W. Clausen & Mr. M. A. Qureshi November 1, 1982

Ernest Stern

Meeting of the "Ditchley Group" in New York

I attendedaa meeting of the "Ditchley Group" in New York. The list of participants is at Tab A. The first meeting was in May, at Ditchley, on which I reported previously. A good summary of the May meeting, for background, is the letter of May 28 from Bill Ogden, at Tab B.

In New York, the group discussed the establishment of an International Banking Institute based on a draft proposal (Tab C) prepared by a working group. The law firm of Surrey and Morse has prepared by-laws and articles of incorporation. We have a copy of this lengthy document if you wish to see it. There was broad concensus that the creation of such an Institute was highly desirable and would meet an important need of the commercial banks. Despite this general agreement there were widely divergent views about the functions of the Institute. All agreed that the Institute should collect data on major borrowers but there was little concensus on how the data should be used and no definition of what type of data would be useful. Views ranged from collecting and disseminating data on short-term debt to full-scale credit reviews. Most felt, however, that the Institute staff should not formulate recommendations and some even suggested that the Institute should not formulate judgements on major policy issues or economic management. There was an equal range of views of how interventionist the Institute should be. Some thought the Institute should comment on the realism of the borrowers' balance of payments projections and investment programs and insist on changes, while others felt the Institute should merely report. Nor was the time-frame for analysis very clear. While most of the Banks believe that the Institute should not deal with current debt crisis the discussion suggested that most had a quite short-term focus. These issues were not resolved but were left to be settled by the Institute Board and staff. It was understood, though, that the banks would have to reach decisions on their own and the Institute reports should serve only to improve the basis for decision-making. Also, most thought that a formal "review" was inappropriate and that a better context was to offer a forum for the borrower to present the country's program and strategy.

The Institute is to have an initial staff of about 15, and will be located in Washington, to be close to the Fund and Bank. The tentative thinking envisages a CEO (salary about $250,000), a second senior manager (salary about $200,000) and several senior economists (estimated salary $85,000). Membership would be open to all commercial institutions which lend for their own account (explicitly excluding investment banks) and voting would be weighted by the bank's international exposure. Banks with an international exposure, not limited to LDCs, of over $15 billion would elect a majority of the 20-member Board of Directors.

Although the preliminary work is not very detailed, the initiative is an important one and, if appropriate staff is chosen, the Institute could become a useful instrument in a more differentiated assessment of borrowers by commercial banks, provide better information for regional and smaller banks giving them a better basis for their decisions, and offering borrowers a better channel of communications with the commercial banking community.

While there are a number of questions as to how we can best collaborate with such an Institute, we should welcome its establishment and assist in whatever ways will prove feasible. I so told the Group.

cc: Mr. Vibert

ES:dpw

## PARTICIPANTS

Chairman

William S. Ogden
The Chase Manhattan Bank, N.A.

Participants

**S. D. N. Belcher**
Bank of Nova Scotia
Canada

**Aldert Blank**
Algemene Bank Nederland
The Netherlands

**William Bolin**
Bank of America
United States

**Lawrence J. Brainard**
Bankers Trust Company
United States

**George J. Clark**
Citibank, N.A.
United States

**Leighton Coleman, Jr.**
Morgan Guaranty Trust Company of New York
United States

**C. Todd Conover**
Comptroller of the Currency
United States Treasury Department

**Sam Y. Cross**
Federal Reserve Bank of New York
United States

**Richard Demuth**
Surrey and Morse
United States

**David T. Devlin**
Citibank, N.A.
United States

**Hans-Ulrich Doerig**
Credit Suisse
Switzerland

**C. David Finch**
International Monetary Fund
Multilateral

**Edouard Finot**
Banque Nationale de Paris S.A.
France

**Karl Frei**
Swiss Bank Corporation
Switzerland

**Friedhelm Jost**
Commerzbank, A.G.
West Germany

**Axel Kollar**
West Deutsche Landesbank, A.G.
West Germany

**Dieter Krummenacker**
Union Bank of Switzerland
Switzerland

**Alexandre Lamfalussy**
Bank for International Settlements
Multilateral

**Yves Laulan**
Societe Generale
France

**E. Frans Limburg**
Amsterdam-Rotterdam Bank N.V.
The Netherlands

**Francis L. Mason**
The Chase Manhattan Bank, N.A.
United States

**Joseph Maternati**
Credit Lyonnais
France

**Eiichi Matsumoto**
Bank of Tokyo, Ltd.
Japan

**Donald G. McCouch**
Manufacturers Hanover Trust Company
United States

**William J. McDonough**
First National Bank of Chicago
United States

**Paul Mentre de Loye**
International Monetary Fund
Multilateral

**Alfred F. Miossi**
Continental Illinois National Bank & Trust Company
United States

**Soichi Miyawaki**
Industrial Bank of Japan
Japan

**Alan Moore**
Lloyds Bank International Limited
United Kingdom

**Kazuo Nakamura**
Mitsubishi Bank, Limited
Japan

**Philip Nurse**
National Westminster Bank
United Kingdom

**David O. Nordby**
Mellon Bank
United States

**Brian Quinn**
Bank of England
United Kingdom

**David S. Sias**
Bankers Trust Company
United States

**Winfried Spaeh**
Dresdner Bank, A.G.
West Germany

**Werner Stange**
Morgan Guaranty Trust Company of New York
United States

**Ernest Stern**
The World Bank
Multilateral

**Alexander C. Tomlinson**
National Planning Association
United States

**Robert A. Utting**
The Royal Bank of Canada
Canada

Staff

**Maureen H. Re**
The Chase Manhattan Bank, N.A.

**Loretta B. Glazer**
The Chase Manhattan Bank, N.A.

## GUEST SPEAKERS

Tuesday, October 26

LUNCHEON
**Jacques de Larosiere**
Managing Director
International Monetary Fund

DINNER
**Anthony M. Solomon**
President
Federal Reserve Bank of New York

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10081

William S. Ogden
Vice Chairman

CHASE

May 28, 1982

This is a copy of the letter which was sent to all those originally invited to the May 7-9 Ditchley Park meeting, but were unable to attend (list attached). Copies of the same were forwarded to all Ditchley attendees (list attached).

Dear

When we originally contacted you April 5th it was with the feeling that the meeting at Ditchley Park, May 7-9 might bring some additional focus on matters of mutual concern in the field of international finance. We regret that you were not able to attend the meeting, particularly as all of us who were able to attend came away with the feeling that many of the matters discussed are increasingly relevant in view of the events that have taken place since the idea of such a meeting was first conceived last fall. The meeting was attended by bankers from Canada, Germany, Japan, the Netherlands, the United Kingdom and the United States. We also had as our invited guests, representatives from the Bank of Japan and the Bank of England; the World Bank and the International Monetary Fund; including the United States Comptroller of the Currency, C. Todd Conover; and Dr. Jacques de Larosiere, Managing Director of the International Monetary Fund was able to attend a portion of the meetings and to address the group. We are enclosing a list of all attendees.

In order to lend some structure to the meeting we tried to work from the attached agenda and had asked various participants to lead off the discussions under the various headings.

There was general agreement that, while perhaps the role of the private banks which has been so dominant in the financial flows between countries over the last decades might be reduced somewhat, the international banking community had a continued essential and responsible role to play in the intermediation of financial flows not only between the developed countries, but between the developed countries and those other countries in various other stages of development. By the same token, there was some general recognition that in many ways there is no lender of last resort in such efforts.

Rather than attempt to take you through two-and-a-half days of rather intensive discussions, it might be helpful if we went directly to a few specifics that came out of the meetings on which there was broad agreement.

The first was that there may be a need within the private banking community for some sort of a structure or body which could supplement the efforts already taking place within each of our institutions in the gathering of financial information from various countries and that some of the information that is not uniformly presently being provided by various countries could be obtained if they were encouraged to provide such information to such a body.

It was also felt that this body might serve as a catalyst to encourage various countries to meet regularly using the good offices of the body to review their present situation and future plans and projections. A number of countries already do this with various banking institutions, but more or less on an ad hoc basis, and invariably only when there is an urgently perceived need to do so.

Exactly the form of such a body, its modus operandi, its relationship with the banking community, and a host of other questions that immediately leap to mind, were left unresolved. It was unanimously agreed, however, that these thoughts should at least be pursued. Therefore, a Working Party consisting of William McDonough as Chairman, Jack Clark, Francis Mason, Donald McCouch, Alfred Miossi and Werner Stange, together with a designee from Bank of America, to be invited, could explore whether this idea should be fleshed out and more fully examined. It was further agreed that Messrs. Werner Blessing, Terrence Green, Eiichi Matsumoto and Robert Utting on behalf of the European continental banks, the United Kingdom, Japanese and Canadian banks present would serve as co-ordinating points for any exchange of thoughts with the Working Party.

The other idea that came forward during the meeting on which there was unanimous agreement to pursue further concerned the issue of "country debt re-structuring". It was generally felt that while undoubtedly each re-structuring has its own unique features, there have now been about nineteen agreements entered into in the recent past containing most of those elements that are commonly thought to be present in what has now come to be called "re-structuring". The thought was that these elements in past re-structurings might be examined with a view towards future applicability. This is an issue that concerns not only various classifications of lenders as well as borrowers, but also touches upon the role played by advisors to borrower countries who seem to be turning up with increasing frequency.

A second Working Party under the Chairmanship of Winfried Spaeh and including Messrs. Francis Mason, Werner Stange and Walter Surrey was formed to see if these thoughts could be explored further. The same group of co-ordinators, namely Messrs. Blessing, Green, Matsumoto and Utting would serve as conduits should Working Party II feel the need to exchange thoughts with other institutions that were represented at the Ditchley Park Meeting.

It was further agreed at the Ditchley meeting that each Working Party would attempt to put their thoughts together exploring further these still somewhat vague and tenuous ideas with the hope to have something prepared for circulation by the end of June. We would also like to include for circulation those institutions that were originally invited to send representatives to the meeting with the thought that either personally or through one of your colleagues, you may share our interest in pursuing these matters. If it appears worthwhile we would then have a second meeting sometime early in the fall.

We believe there was considerable support for further exploration of these ideas from the non-commercial bank attendees at the meeting. It was felt, however, by everyone that this is really a matter for the commercial banks to explore and carry forward should it prove feasible essentially as something done by the commercial bankers rather than a joint effort of commercial bankers and others.

It was also agreed that should these thoughts ultimately prove worth pursuing, we should invite a number of other commercial banking institutions from the O.E.C.D. countries to participate. It was felt that until these matters are explored further, to stick with the original group of invitees recognizing however, that some very significant commercial banks, with very significant international financial activities were not included in the original list of invitees only to keep the original meeting down to what was felt to be a somewhat workable number in exploring such thoughts. This is an issue we will have to face up to quite quickly but, it would certainly be everyone's intention to include a greater representative sample of commercial banks from the O.E.C.D. countries should anything come out of this that was worth moving forward.

We also touched, at the conclusion of the meeting, on the matter of publicity. Given the state of world affairs, it is very difficult to get a group such as this together quietly and privately. It was unanimously agreed, however, that it would be extremely premature, to say the least, to even begin to discuss these matters in a more public forum at this time. We did not attempt to hide the fact that such a meeting took place under the auspices of the National Planning Association of Washington, D.C., and that it was to discuss matters of mutual concern concerning the role of financial intermediaries in both the private and public sectors in the world of international finance. Further, that the meeting was held in recognition of the continued, very important role commercial banks will continue to play in the vital process of financial intermediation between the developed, developing and less developed countries. Other than these general statements we all firmly agreed (and we hope not wishfully) that speculation that anything else may come out of this meeting is sheer conjecture at this point in time.

We would welcome your thoughts and hope you can be part of this effort.

With kindest personal regards and best wishes,

Sincerely,

William S. Ogden     Peter E. Leslie

Attachments

# D R A F T

## Proposal for Review of Country Borrowers by the International Banking Industry

### I. Need for Reviews of Borrowing Countries by the International Private Commercial Banking Industry.

During the 1970's, the role of the international private commercial banking system has evolved from the traditional function of providing trade finance to a growing role as an intermediary in the flow of short- and medium-term capital from those countries which are net savers to those which are net borrowers. Major borrowing countries through the private banking system now include newly industrialized countries, non-oil producing, less developed countries, certain members of OPEC and the smaller member countries of the OECD.

The ongoing stability of the world financial system is essential for a sufficiently high rate of world economic development to provide jobs for new entrants to the labor force and to continue to improve the standard of living of the world's population. This will be difficult to achieve since the levels of indebtedness of many countries are now so high that a large number of commercial banks are concerned about existing exposure to borrower countries. Many countries have debt which is of short average maturity. A reasonably high level of gross borrowing will be required to smooth out the debt repayment profile, as well as to provide net new borrowing necessary for the import of capital characteristic of developing economies.

The non-oil LDC's alone will require approximately $100 billion per year during the first half of the 1980's to satisfy these debt service and new capital requirements. A significant diminution of captial flows below these levels could only result in world economic stagnation to the disadvantage of all countries and serious country credit problems. International official institutions and bilateral sources of capital cannot be expected to increase significantly their lending of recent years. Consequently, there is no substitute for the private banking system to serve as an intermediary in the coming years.

For the sake of their country customers and for the protection of their own solvency and profitability, all private banks making up the international commercial banking system should engage in this role of intermediary prudently and responsibly.

The banking industry as such lacks any instrument to collect relevant information about the borrower countries, whereas governments can work through the international financial institutions which they own, such as the International Monetary Fund and the World Bank.

What seems to be required is some institution or other method by or through which all the private banks as an industry can deal reasonably and prudently with individual borrower countries for the purpose of collecting meantingful information for dissemination to the members of the banking industry. As a first step (which could turn out to be the principal step that is necessary) the banking industry should create a vehicle to which all interested parties could be a member to conduct periodic reviews with all important borrower countries.

II. Need for an Institution to Conduct Periodic Credit Reviews.

A review of country borrowers will provide an appropriate and necessary discipline for the borrowers to submit to their lending banks information on which each lending bank can undertake reasonable credit judgments.

There must be some formal methodology to bring adequate country credit information on a timely basis to the private commercial banking industry and this would be best done by an institution owned by and responsible to all banks which take the necessary steps to become a member. The International Credit Institute would be a not-for-profit institution which would have as its primary and certainly initial responsibility the scheduling and management of country reviews and dissemination of the resultant information to its members.

III. Structure of the International Credit Institute.

The Institute would be a not-for-profit institution whose members would be private banks which take an active role in international finance and especially in medium-term lending. All banks would have an opportunity to become members.

Because of the importance of a close working relationship with the international financial institutions located in Washington, the Institute should be located in that city. Meetings of the Institute could take place in other countries.

The staff of the Institute should be small, but of extremely high quality. Initially one and in the course of time perhaps three or four highly respected private bankers would serve as the nucleus of the staff and participants in review meetings. More junior staff, with a ratio of about three to one to the senior staff members, would be recruited from the line lending or economics departments of members banks. Staff members could either be permanent employees or seconded from member banks. A modest size secretarial staff and a small group of people to arrange the mechanics of the review meetings would also be required. The costs of the Institute would be covered by subscriptions by member banks with a sliding scale depending on bank size and international involvement.

IV. Which Countries Should be Reviewed?

All countries which are significant borrowers from the private commercial banks ultimately should be subject to review. Since all significant borrower countries would be required to take part in the review process, there would be no indication that a country was in any way a problem credit because it was being reviewed. However, probably only some 10-20 countries would be done the first year because of the practical limitations of time.

V. How Reviews Would be Conducted.

The Institute would develop a country analysis form which would detail the information required from each country, which information would also constitute the basis for the reviews. Borrower countries, in coordination with the Institute, would be asked to submit a written memorandum detailing the information requested on the country analysis form prepared by the Institute, which information would include not only historical data, but also key domestic and international projections for an appropriate period of time.

Since the borrowing country would be expected to dedicate both the time of one or more senior officials and serious preparation to the meeting, it will be necessary for the Institute to present an ad hoc group of senior bankers of sufficient stature to justify the procedure. The chairman of the review group would be one of the bankers, but an official of the Institute would also be part of the group. Such bankers should be experienced in international finance, knowledgeable of the country being reviewed and of policy making level in their institutions.

## VI. Presentation to Members of the Review Meeting.

After each country is reviewed, a document prepared by the Institute based on the country input and discussions will be distributed to Institute members. Through this publication, member banks will be given a basis on which to make independent credit judgments on the amounts of credit, if any, they will wish to make available to individual countries.

October 20, 1982

Mr. A.W. Clausen

Ernest Stern

Travel Information for Executive Directors

I understand that your comment at last Monday's Managing Committee regarding information to Executive Directors about members' travel referred, at least in part, to my recent trip and the comments made by both Mr. Abdulai and Mr. El Naggar that they had not been informed.

I attach for your information the memoranda which were sent to all three Executive Directors concerned well before I left on my trip. In the case of Mr. Abdulai the full program was attached.

Attachments

cc: Mr. Thahane

ES:ls

# OFFICE MEMORANDUM

TO: Mr. Armand Razafindrabe, Executive Director, Rwanda DATE: September 27, 1982
Mr. Yesufu S.M. Abdulai, Executive Director, Burundi and Kenya
FROM: David M.I. Thomas, Acting Chief, EA1DA
SUBJECT: Mr. Stern's visit to Burundi, Kenya, and Rwanda

Mr. Stern, Senior Vice President Operations, will be visiting Rwanda, Burundi and Kenya during October for general discussions with the authorities. He will be in Rwanda from October 2 to October 4; in Burundi from October 4 to October 6; and in Kenya from October 6 to October 9.

For your information, I attach the program for his visit.

cc: Mr. de Capitani, Ms. Pratt

DMIThomas:mlh

Program for the Visit of Mr. E. Stern (SVPOP)
to East Africa

October 2 - 9, 1982

| | | |
|---|---|---|
| Thursday, Sept. 30 | 1705 | Leave Washington, D.C. (National) for New York: TW708 |
| | 1817 | Arrive at Kennedy Airport |
| | 2100 | Leave Kennedy for Brussels: SABENA 548 |
| Friday, Oct. 1 | 0900 | Arrive Brussels<br>Accommodation: Amigo Hotel |
| Saturday, Oct. 2 | 0030 | Leave Brussels for Kigali, Rwanda: SABENA 499 |
| | 1155 | Arrive Kigali. Met by Minister of Foreign Affairs and Cooperation, and Minister of Finance.<br>Accommodation: Hotel des Diplomates<br><br>Lunch: Private |
| | 1530 | Meeting with Ministers involved in Bank projects and Economic Management<br>(Note: Mr. Doyen will attempt to postpone this meeting to 1600 and to limit the attendance and duration) |
| | 1930 | Dinner hosted by Minister of Foreign Affairs and Cooperation, Hotel des Diplomates |
| Sunday, Oct. 3 | | Field visit to Mutara - Itinerary Kigali-Gatuna-Mutara-Gabiro-Rwamagana-Kigali. Total about 200 km, of which 70% paved. |
| | 0730 | Departure<br>-Visit OVAPAM project<br>-Lunch at Nyagatare |
| | 1450 | Return to Kigali |
| | 1830 | Reception by Resident Mission |

| | |
|---|---|
| Monday, Oct. 4 | Field visit to development agencies in Rwanda's rural areas (round-trip 60 km paved road mostly) |
| | 0730 Departure toward Simrama -Visit of a "commune", a "Banque Populaire", a TRAFIPRO store and possibly a "Centre Nutritionel" |
| | 1130 Return to Kigali |
| | 1230 Lunch with Mr. Birara, Governor Central Bank hosted by ResRep |
| | 1600 Meeting with President (now scheduled at 1600) |
| | 1730 Departure for Bujumbura Overflight of Lake Kivu, Ruzizi Valley |
| | 1900 Arrival Bujumbura |
| Tuesday, Oct. 5 | |
| Morning | Meeting with President, Governor of World Bank, Minister of Public Works, Governor of Central Bank and Minister of Foreign Affairs |
| Luncheon | Hosted by Mr. Stern |
| Afternoon | Visit of Ngozi Project (most populated areas, see farming systems) (and meeting with Minister of Agriculture). Visit of coffee washing station and of one primary school built under 1st Education Project. |
| Evening | Official reception by Government. |
| Wednesday, Oct. 6 | |
| Morning | Visit to Project Unit of Education Projects |
| | 1000 Departure by chartered jet to Nairobi |
| | 1130 Arrive Nairobi Accommodation: Intercontinental Hotel |
| | 1145 Depart by helicopter on field trip arranged by RMEA to cover Rural Health Centers, Rural Access Roads, T&V project, Tea smallholdings and factory and Olkaria Thermal. Lunch hosted by the Minister of Energy at Lake Naivasha. |
| | Night at Government's camp in Masai Mara. |
| Thursday, Oct. 7 | Continuation of field trip and return to Nairobi late afternoone. The Ministers of Agriculture, Energy, Health and Transport accompany Mr. Stern on the field trip and spend the night at Governor's camp. |
| | 2000 Dinner, hosted by Mr. Stern at hotel. Guests to include the Vice President, the Minister of Constitutional Affairs and Prominent private sector/banking/academic representatives. |

Friday, Oct. 8

Meetings with:

(i) The President (1130 am)
(ii) The Minister of Finance
(iii) The Minister of Economic Planning and Development
(iv) The Permanent Secretary, Office of the President (Mr. Nyachae)

1230 Lunch hosted by the President

1600 Press Conference

1830-2000 Reception for RMEA staff and wives.

Saturday, Oct. 9

0815 Leave for Addis Ababa by Ethiopian Airlines 780

0955 Arrive at Addis Ababa

1210 Leave Addis Ababa by Ethiopian Airlines 764 for Sanaa

1340 Arrive Sanaa.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Dr. Said El-Naggar, Executive Director

DATE: September 27, 1982

FROM: Attila Karaosmanoglu, Director, EM1 AK

SUBJECT: YEMEN ARAB REPUBLIC - Proposed Visit by Mr. Ernest Stern

In response to an invitation from the Government of the Yemen Arab Republic, Mr. Stern plans to visit YAR arriving in Sanaa on October 9 and leaving October 12 to review activities of mutual interest. He will be accompanied by Ms. Jane Pratt. Mr. Aiyer will also accompany him, arriving in Sanaa October 6 and leaving October 13.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: September 22, 1982

FROM: Nicolás Ardito Barletta

SUBJECT: Reception in honor of General Walter Pires, Brazil

We recommend that you accept the invitation from the Brazilian Embassy in honor of General Walter Pires. The reception will probably be attended by some high officials of the US Government as well.

General Pires will be next week here in Washington and will probably be accompanying President Figueiredo to the United Nations the same week. He is clearly a member of the "inner circle" of the Brazilian government, and Bank contacts with the government at that level are to be encouraged.

General Walter Pires de Carvalho e Albuquerque, 67 years old, has been Minister of the Army since the administration of President Figueiredo assumed power in March 1979. He has had a long and distinguished military career and has possessed General rank since 1969. General Pires is most clearly identified with the "hard line" element of the armed forces and is a member of the faction associated with General Octávio Medeiros, currently the head of the SNI (security service). While Gneral Pires' name has been mentioned as a possible presidential successor, we feel that he is unlikely to emerge as a strong candidate. His age and health (open heart surgery a couple years ago) are considered to hinder his candidacy. However, he undoubtedly will be important in the choice of the next president, and it is expected that he will be a strong supporter of General Medeiros' candidacy.

cc: Mr. Stern

Tom - I don't agree. Our relations with Brazil are fine and Gen. Pires is highly marginal to economic matters. From an institutional point of view there is no reason to go. —

9/27/82

September 22, 1982

Tom:

Re the attached letter:

(a) We cannot say on page 1, 5th line from the bottom, that China was not a member of the Bank during IDA 6. It was. I have suggested the appropriate language changes.

(b) At the bottom of page 1 we could add something like the following:

"Even this amount would not take into account the fact that IDA lending to countries such as Egypt was terminated because of the acute shortage of funds. Indeed, although the official IDA eligibility level was set at a per capita income of $730, no IDA is available for countries with a per capita income above $500, and only in a few exceptional cases does IDA remain available for countries with a per capita income between $400-$500. This is a very sharp reduction in actual eligibility for IDA funding from previous replenishments. The economic situation of the countries for which IDA funding is no longer available has deteriorated in line with the world economic situation and their debt capacity remains severely limited. For other countries, such as Kenya and Pakistan, we have had to harden the blend between Bank and IDA funding. There is no doubt that for both sets of countries a softening of the blend would be justified on the basis of their economic prospects if resources were available. Almost certainly this would help to avoid future debt management problems. The scale of such IDA replenishment..."

(c) On top of page 3 we could add:

"This lending program derives from the discussions during the last general capital increase, at a time when no substantial lending program for China was contemplated, when several of the countries now relying exclusively on the Bank still had access to IDA and when the world economic situation and access to the international capital markets were very different. Were we to retain this program, Bank lending would not grow in real terms..."

I discussed point (c) with Moeen last night and he agrees that while the $60 billion was shown for the first time in the FY 82 program, it has its foundation in the discussions surrounding the General Capital Increase. Even so, it is correct to say that the FY 82 program did not include any significant lending for China. In November 1980 we forwarded a paper to the Board calling for an expansion of the lending program in order to take account of China and other factors. In the FY 82 budget, where the $60 billion first appeared, we stated explicitly that it included lending for China only in FY 82 and FY 83; the amounts for those two years were small and could be absorbed. But we drew explicit attention to the fact that the China program, which was to grow over the next few years, was not covered. However, to avoid any possible confusion or argumentation on this essentially minor point of timing, I have drafted the language as shown above.

Ernie

ES:ls

C
O
P
Y

Mr. A. W. Clausen — September 14, 1982

Ernest Stern, SVP, Operations

FY1983 Objectives of the Operational Complex

Introduction

1. The fundamental objectives of the Operational complex in FY1983 remain unchanged from previous years, namely: to provide technical advice and professional services to member countries to assist them in formulating appropriate development strategies; to translate these strategies into effective investment and development programs; and to provide financing in support of those strategies in sectors in which the Bank has an operational capacity.

2. These basic objectives must be applied in FY1983 in the context of the present difficult global economic and political environment in which we operate. Our borrowers are faced with severe--and in many cases increasing--economic pressures at the same time as they must adjust to the prospect of reduced concessional resources for the foreseeable future. The current political context is highly volatile; the economic climate difficult and uncertain. Borrowers are increasingly heterogeneous in their needs, and we must increasingly develop individually tailored approaches to deal with the problems faced by particular borrowers. The Bank must emphasize the formulation and implementation of appropriate adjustment policies, provide assistance in this effort and help to translate these policies into specific implementation action. Emphasis on putting in place an appropriate policy framework also will require more attention to developing local capabilities, both in terms of trained manpower, and institutional capacities.

3. This will require conscious efforts to upgrade the level of intellectual leadership provided by the Bank's highly trained professional staff, which is fundamental to productive relationships with our borrowers, and to focus this capacity on priority development issues in a way relevant to decision makers. It also will require enhanced flexibility and responsiveness to changing country conditions. We can only achieve this if we continue to increase delegation of authority to line managers, in the context of improved but streamlined monitoring procedures which will ensure standards of quality and consistency in treatment of borrowers. Line managers must be weaned from their preoccupation with their technical expertise and be gotten to deal with their full range of managerial responsibilities.

4. The structure and allocation of our lending program too will require particular attention this year. The variability of IDA resources for both FY1983 and FY1984 is still great and this involves difficult planning questions for operational managers as well as uncertainty in the

borrowers as to which high priority development projects to prepare for Bank financing and for which to begin the search for alternative sources or postpone them. In view of the difficult international capital markets we also will face strong pressures on the Bank side. Conversely, the number of country problems is increasing--both in IDA and Bank countries--and we may not be able to reach our lending objectives without very large changes in country allocations. Even if we were prepared to consider such changes on financial grounds they would involve serious staffing and managerial problems. The sectoral distribution of our lending program also needs attention. The share to agriculture and, to a lesser extent, the social sectors is under pressure. Some of it is explained by changing borrower priorities but some may be due to inappropriate managerial and staff attitudes.

5. FY1982 was a successful year for cofinancing and we hope to do better in FY1983. Approval for all, or most of the options presented to the Board will be an important step.

6. Communication remains a problem. A number of steps have been taken to strengthen communications within Operations but the supply of information on broader issues is too limited, too restricted or too late. This area will require structural attention in FY1983.

7. Progress on other management issues - such as data administration, cost effectiveness measures, improved budgeting and strengthening the responsibility of line managers, will continue in FY1983. Details on these objectives are outlined in the section below.

8. In addition to these matters there are two broader issues which will require attention in FY1983 - new substantive initiatives and improved aid coordination.

9. As regards major initiatives we will, during FY1983, prepare an assessment of the follow-up to the Sub-Saharan Africa study. Now that we are at the stage of implementation at the country level, a regular review of progress is essential to keep an overview and to adjust our approach as necessary. Secondly, we have initiated work on a major review of our energy program, including a look at the future. I think this will be an important basis for our own thinking about additional financing mechanisms, for discussion with the Board and for shaping our program for the next several years. The paper will be ready early in 1983.

10. I also anticipate that we will start work on two other topics. One is a review of large-scale hydroelectric power sites which require regional markets for their utilization. This will become a basis for discussion with cofinanciers, particularly in Africa, and for helping to set priorities. The other is an analysis of water resources and their use

in the developing countries over the next quarter century. With increasing industrialization, expansion of irrigation and growing personal consumption, I believe water will become a much scarcer resource than now generally thought and its availability (at reasonable cost) may become a serious constraint to growth in particular localities or for entire regions and countries.

11. On aid coordination, we need to expand our activities, involve private creditors more actively and strengthen the role of consultative groups. There is a real danger that these will reach agreement at the rhetorical level but add nothing to resource flows nor help to avoid allocation of scarce resources to low priority investment projects. In the process they may well erode the pressure for policy change.

Economic and Sector Work

12. Our policy dialogue with member countries continues to be based on a large volume of economic and sector work which enables us to develop an appropriate policy framework for member countries and provides the basis for judgments as to the size and composition of our lending program.

13. FY1982 CESW Results: In support of the Bank's ongoing policy dialogue with borrowers, an economic and sector work program for FY1982 allocated about 275 staff years to economic and sector work at a cost of about $55 million. The actual economic and sector work program exceeded the planned level by about 4% on account of increases in CESW by field officers in the South Asia region and the need for increased effort in support of structural adjustment, particularly SAL operations in West Africa. In addition, increased sector work was undertaken by the Population, Health and Nutrition Department and by the Energy Department - both areas in which we are trying to strengthen our sectoral knowledge as a foundation for expanded lending. This resulted in an expenditure of almost 290 staff years on Economic and Sector Work in FY1982 with the delivery of over 150 economic and sector reports versus about 140 originally planned.

14. In addition, a major reorganization affecting economic and sector work was carried out and completed in FY1982. The reorganization of DPS/CPS into the new Operational Policy Staff has created a central unit to help provide better support and review for CESW. This reorganization also resulted in the movement of about 20 additional economists onto the line and out of advisory positions. It is expected that these moves will strengthen the links between economic and sector work and the formulation of our lending programs, as well as providing the basis for improved dialogue with borrowers.

15. FY1983 Objectives: A significant increase in Country Economic and Sector Work is planned in FY1983 - about a 12% increase over the FY1982 budget plans and 8% above actual FY1982 results. In the environment of reduced growth in lending and rapidly growing economic difficulties, these increases are necessary to improve the underpinnings of our overall economic and policy dialogue with member governments. The increase is part of our effort to focus on asssisting borrowers in formulating and implementing appropriate adjustment policies geared to individual country needs. The major increase planned for Sub-Saharan Africa would bring the share of Sub-Saharan Africa to about one-third of the Bank's total FY1983 CESW.

16. Sector work by the Energy and Industry Departments is planned at a level more than double that of FY1982, with Energy and Industry together accounting for 40% of total sector work in FY1983.

17. The reorganized Industry Department has been asked to work closely with the Regions to begin to develop industrial sector strategies for major countries where we expect to be lending for industry. The Bank has done little industrial sector work in the past and this constitutes a major gap in our ability to advise our clients which have an increasing industrial capacity and a growing industrial investment program. We expect to complete 6-8 of such sector strategies in FY1983. The third area of major expansion in FY1983 will be for work on poverty-related issues with work on poverty incidence, employment, income distribution and basic needs. Sector work on agriculture and rural development is also planned to increase by about 17% in FY1983.

18. A Task Force has been established to examine our economic and sector work program, drawing upon a number of specific studies undertaken in the Regions and in DPS in recent years, and in connection with the CPS/DPS reorganization. The Task Force will focus on the relevance and timeliness of CESW to member country needs, on its effectiveness in influencing macroeconomic and sector policy making in borrowing countries, and on the quality control and efficiency provided by our review processes and procedures. The report of the Task Force will be reviewed by a specially selected panel of senior staff. The final report and recommendations of the Task Force are expected in 1983.

## Lending Program: FY1982 Results and FY1983 Objectives

19. FY1982: The original FY1982 Lending Program called for a total of 268 projects amounting to $1,017 billion, including 107 IDA projects for a total of $4.1 billion and 161 IBRD projects for a total of $9.6 billion. The massive shortfall of $1.5 billion in IDA availability midway through the fiscal year required a major reprogramming to bring our lending program in line with reduced resource availability. The revised

program provided for about 245 operations for a total of $2.6 billion IDA and $10.4 billion IBRD. Revised program figures were discussed extensively with the affected borrowers immediately following the reprogramming exercise. The completed FY1982 lending program was consistent with allocations determined at the mid-year review. The program consisted of 247 operations and a total lending program of $13 billion, (about $10.3 billion Bank and about $2.7 billion IDA) Within the reduced IDA availability, the share for the least developed countries was 37.8% compared with 32.1% the preceding year. The share in IDA for Sub-Saharan Africa was 31.3%. Key sectoral allocations included 25% for agriculture, 25.8% for energy and 9.5% for non-project lending.

20. In the circumstances of reduced resources, we made a special effort to increase the use of Bank projects to leverage additional resources. We succeeded in substantially increasing our cofinancing operations, particularly with commercial banks. In FY1982 the total volume of cofinancing reached $7.4 billion, compared with $4.1 billion in FY1981, and the number of cofinanced operations rose from 81 to 99 -- 40% of all projects. Cofinancing with commercial banks totalled $3.3 billion in FY1982, a significant increase over the $1.4 billion in cofinancing the previous year ($1.1 billion of the commercial cofinancing was provided in a single loan to the Ivory Coast).

21. The other special initiative undertaken in FY1982 was to increase assistance to borrowers in the structural adjustment process. This was accomplished through our structural adjustment lending program (9.5% of total lending) and through an increased emphasis on using the total project lending program to leverage increased sector policy change or changes in the general incentive framework.

22. FY1983: The proposed lending program for this year consists of over 250 operations totalling $13.6 billion of which $10.5 billion is Bank lending and $3.1 billion represent IDA credits. Within this lending program assistance to least developed countries has been protected to the extent feasible, with a significant increase in the share of lending to Group 1 (per capita income below $410) countries as well as smaller increases for Groups 2 and 3. These increased shares are offset by sharp declines in projected lending to countries in Group 4 and Group 5. Sub-Saharan African countries would receive 36.7% of total IDA commitments according to current plans. A major increase in non-financial technical assistance is planned and for this purpose, 20 positions have been allocated in the administrative budget to provide for secondment of Bank staff in high-priority technical advisory positions primarily in Sub-Saharan Africa.

23. While the technical work for the lending program is on target, an increasing number of countries (Mexico, Philippines, Kenya, Yugoslavia, Bangladesh), in all income groups, face severe economic difficulties which

may require substantial reductions in their investment programs. Creditworthiness problems also are increasing. This, in turn, may reduce the number of new projects to be started, including high priority ones supported by the Bank. While some restructuring of our lending program may help, we face the prospect of not being able to meet our lending objectives this year. We will review the matter in detail prior to the mid-year review.

24. We plan in FY1983 to continue and further expand our program of cofinancing both with official and commercial sources. We have increased the central staff unit devoted to full-time cofinancing activities, as approved by the Managing Committee and have strengthened Regional staff responsibility for cofinancing. While we expect a further increase in the number and percentage of cofinanced operations current conditions in the financial markets and increasing budget difficulties for bilateral aid agencies make projections very uncertain.

## Management Issues

### Communications

25. FY1982: In the face of an unusually turbulent year with difficult internal and external circumstances, it was planned in FY1982 to give special attention to management issues, to effective communications with staff, and to special measures designed to enhance collegiality.

26. The regular weekly meetings of the Operational Vice Presidents were supplemented by meetings of the Operations Policy Sub-Committee which met about twice monthly, as necessary, to discuss issues having substantive policy implications for operations. These formal meetings were supplemented by other more informal meetings, including quarterly luncheon meetings and discussions among Operational Vice Presidents, similar luncheon discussions with Programs and Projects Directors, and with groups of Assistant Directors and Division Chiefs. All managers were included during the course of the year in small group discussions providing substantially increased scope for communications, personal contact and feedback. The annual Senior Operational Managers' retreat, held in April of this year, was again successful and other operational units have been encouraged to undertake retreats of their own. These have now been held in almost all regions and departments. They have resulted in clearly improved working relationships, and have generated internal initiatives aimed at improving the quality and efficiency of our work. In addition, I have undertaken to meet with staff at all levels in departmental and other special groups to provide direct access and a forum for discussion at all levels. The Operational Managers' Review Group has continued its role in assuring participation of all Senior Operational Managers in Personnel

decisions and these meetings have been supplemented, where necessary, by special panels.

27. FY1983: In addition to continuing the activities described above, we intend, in the coming year, to expand and deepen efforts to improve communications, particularly with respect to feedback from staff. All of the special, small group meetings with managers which were started last year on an experimental basis will be continued on a systematic basis. The meetings with staff, also undertaken on a trial basis in FY1982 will be continued. One major objective for this year will be to improve the openness of communications. While the Bank does not lack for meetings and discussions, the information provided, particularly in personnel assessments, does not always cover all concerns adequately. There also is a dangerous habit growing of not commenting adversely or critically on someone else's work because "we've got to live with him". This must be nipped in the bud or it will erode our professional credibility.

28. We also plan to continue our increased attention to external communications, coordinating with IPA and Finance to ensure consistent and coordinated support from senior operational managers for public speaking in support of the Bank and its policies, and adequate contributions to the Bank's World.

29. Another important initiative to be implemented in FY1983 is a change in the review process for CPPs. All CPPs will be reviewed in the Operations Policy Subcommittee - thus creating participation by all Operations Managers in the review of these strategy documents. CPPs for major borrowers will be sent on to the Managing Committee, assuring participation by the full senior management.

## Data Management

30. Effective data management and dissemination remains a problem in the Bank, with inadequate control over statistical integrity and consistency and a proliferation of systems. The reorganization of the IMCC and the Computer Activities Department are important initiatives by VPA which will help resolve these problems. In Operations we have appointed a Data Administrator, as requested, to serve as the central contact point for the development of the new approach. We were successful in FY1982 in finally getting agreement on a standardized set of balance of payments tables for economic reports. The next steps are similar tables for the other elements of the national account. Basic data and information for line managers have been reviewed and alternative systems are being piloted. The present reporting system was developed starting with the requirements for top management. As a consequence data required by subordinate managers, particularly Division Chiefs, often was not available except through a laborious process of manual compilation. In addition, the

submission of data from the Divisions was on a manual basis with heavy costs in stafftime and inaccuracies. The new system will provide all managers access to data needed to discharge their responsibility, be capable of aggregation for reporting to senior management and permit electronic submission of data by reporting units thus reducing staff costs and increasing reliability. Work on developing such a system for Division Chiefs was carried out in the course of FY1982, and a system will now be implemented on a pilot basis in FY1983.

31. These changes and, generally, the improvement in our data and reporting systems, will require more attention by our managers to data management - a subject which many have neglected in the past.

## Personnel Management

32. In the course of FY1982 Operational staff contributed substantially to the effort to improve our system for evaluating managers. Following the decision of the Managing Committee, the work of the Operational Task Force on performance evaluation and selection of managers was turned over to PMD for extension Bank-wide. To this has been added the management by objective component so that we will have a system which provides a firm base for both accountability and rewards. The introduction of the system in FY1983, will require extensive training efforts with managers and staff to assure the purposes of the system are fully supported and understood, so that the new evaluation system does not become as intellectually inadequate as our present one.

33. The work of the Operations Manager Review Group continues to evolve satisfactorily with consistently improving support from PMD. Management appointments within Operations are now jointly decided by the Operational Vice Presidents and take into account career development objectives as well as personal preferences. During FY1982 the scope of the group's responsibility was broadened to include all appointments to "N" level positions, the review of candidates for promotion by functional categories and the reassignment of managers to enhance career development. Most recently the group also took on the responsibility for the recommendations on senior position planning in Operations.

## Budget Process

34. Our budget process continues to be cumbersome, complex and rigid. It is neither understood by staff nor believed to reflect operational realities. This remains true despite much progress in decentralizing the process and increasing the flexibility of managers to shift

resources between budget categories. Moreover, since the budget is essentially a manpower budget it does not generate cost consciousness. Consequently, PAB in cooperation with Regional staff, has been asked to explore the possibility of introducing dollar budgeting. We hope to have some conclusions in time to be incorporated in the FY84 budget cycle. Even if we cannot move fully to a dollar-based budgeting approach for the whole system, we intend to expand the number of operational units which now attach dollar budgets, in addition to manpower budgets, to specific tasks.

Quality Control

35. A number of the organizational and administrative initiatives undertaken in FY1982 were aimed at improving quality control. The impact of these changes will begin to take effect in FY1983. The reorganization of CPS into the Operational Policy Staff will provide better and more timely advice to staff in carrying out economic and sector work, and the new system will be monitored continuously in the course of the year to ensure that the intended results do, in fact, materialize. In FY1983, a system of issuing periodic interim guidelines to staff will be introduced whereby recurring quality control or procedural problem areas are identified, and guidelines and clarifications provided regularly to assist staff in ensuring a continued high level of quality for both lending and economic and sector work. The addition of a second Senior Operational Adviser in the office of SVPOP and the various communications efforts referred to in the previous paragraphs, provide additional channels for timely transmittal of information to staff with respect to adherence to standards and guidelines and achievement of consistency in treatment of members. The work of the various Task Force studies referred to above is expected to result in further improvements in quality as well as efficiency.

Efficiency

36. In addition to the efficiency gains resulting from the DPS/CPS reorganization in the course of FY1982, operational line managers have been charged with the responsibility for improving efficiency, and a number of initiatives have been undertaken by regional and other operational units to streamline and improve their own work processes. Systematic reviews were undertaken in most of the regions in the course of FY1982 and in all cases analyses have been completed and reports prepared for consideration. Numerous small improvements, such as streamlining paper work and reducing reporting requirements, were undertaken while more substantial administrative or organizational realignment are expected to be implemented during the course of FY1983. This program is ongoing and continues to be monitored by OPD. The first phase of our program to improve computer support for economic and sector work has been completed

and it is expected that the initial phases of implementation will take place in FY1983. Work on development of operations-wide management information systems, reported above as a major communications initiative, is expected to result in substantial efficiency improvements as well.

## Coordination with the IMF

37. We strengthened our coordination with the IMF substantially in FY1982 both at the senior management and staff levels. This involved joint training seminars, joint field appraisals and improved arrangements for sharing data and information. This will continue in FY1983. But it is important that we further develop this relationship in light of the very difficult economic environment, the acute problems many countries face and the increased resource flow from the IMF. All these factors may sharpen potential differences of view and the extent and timing of needed policy changes.

Mr. A.W. Clausen September 9, 1982

Ernest Stern

Tidewater

Additional information onaa point which may be made at Tidewater, i.e., the Bank has neglected food production in Africa. The facts are: between FY74 - FY82 (incl) the Bank and IDA made 100 loans and credits that involve grain production in Sub-Saharan Africa amounting to $1.95 billion. These investments are expected to yield 3,150,000 metric tons a year, or an annual incremental amount to sustain some 15 million people a year.

ES:dpw

Mr. A.W. Clausen

September 9, 1982

Ernest Stern

Meeting with Heqds of Field Offices
September 13, 1982 at 9:00 am

Attached are talking points for your meeting with the heads of our overseas missions. We have invited only those who had business anyway at the Annual Meetings or who planned to be in Washington at this time for other reasons. Others visit Washington at other times; about 29 of the representatives are expected to be present.

The basic purpose of your appearance is simply to give our heads of missions a chance to meet you. The talking points report on the results of the Annual Meetings, but the field representatives would be interested in your views on any other aspect of the Bank and its future. You are scheduled for a short statement (about 15 minutes) but if you want to take some questions feel free to do so. I am the next speaker and I will mould my remarks and time to your presentation.

Attachment

ES:dpw

WO BANK / INTERNATIONAL FINANCE CORPOR N

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: September 2, 1982

FROM: Ernest Stern

SUBJECT: Food Security and Tidewater

You will have a detailed brief on food security this weekend. I suggest we take some time to discuss the topic Tuesday or Wednesday. Let me know what time would be convenient.

Attached is the letter from Maury Williams. You have sent a courtesy reply but have not addressed the substantive issues. These will be handled in your comments to the Tidewater group. But, for your background, below are comments on Maury's principal points.

A. The Bank ignores food production in Africa. This is nonesense. The bulk of our agricultural activities is in food production (crops and livestock). However, it is true that the technology for rapidly increasing foodgrain production under African conditions (difficult land, low raidfall, little experience in irrigation) holds out no promises for such rapid increases as were achieved by the high yielding varieties in Asia (which were all based on irrigated land). Therefore, much work needs to be done in research, pilot operations and extension, before there is a system which can be replicated and be expected to produce increases in yield. Existing projects - ours and those of others - have not been smashing successes. But there is no disagreement that improved yields in foodgrains and increased production are of high priority. Indeed, our report on Sub-Sahara Africa stressed that the dependence on imported foodgrains had grown explosively and could not be sustained.

B. Export of food crops is bad. The exports referred to are not foodgrains - they are cocoa, coffee, palm oil, groundnuts etc. Africa has had experience with plantation crops and we have played a leading role in developing plantation crops based on smallholder participation. Of course, prices are low at present but then so are prices of foodgrains. This has little to do with "sunk costs" from colonial times - it has a lot to do with government policies and incentives. Virtually all governments in Africa keep foodgrain prices artifically low. It should be no surprise that farmers prefer other crops.

C. National Food Strategies are a first step. The World Food Council has been pushing this idea for years. We undertook to help a number of countries prepare such strategies (Philippines, Morocco). They have not been a success, because they are complex, have limited government support and are not effectively integrated with budgets and development plans. These plans are not sufficiently policy or action oriented.

D. <u>The realities of restrictions on agricultural trade should be taken into account</u>. No one disputes this. But neither is there evidence that efficient production of agricultural products for exports does not support development - despite restrictions. Ivory Coast growth was solidly based on agriculture. Clearly, what is appropriate for one country may not be for another - it depends on climate, soil, skills, marketing and distribution facilities, etc. That the country specific situation should define policy applies to the "gospel" of comparative advantage as well as the "gospel" of food self-sufficiency. It would be notoriously bad general advice to the African countries to aim for foodgrain self-sufficiency. Production of good at high prices does <u>not</u> help development. The focus should be in each case, on increasing agricultural productivity and raising yields as quickly as possible - for foodgrains as well as other crops. What the best cropping pattern is for anyone country has to be assessed individually - taking account of long-term price prospects, physical limitations, human resources and the international trading framework - and such cropping patterns will change over time. But this involves a very different set of policies - on prices, marketing monopolies, distribution of inputs, research - than most governments now pursue.

E. There is no disagreement with the conclusion - that sensible national food sector policies should be supported, that price volatility at the local level should be reduced and that greater self-reliance (which is very different from the objective of self-sufficiency) should be promoted.

Attachment

ES:dpw

FOOD SECURITY BRIEFING NOTE

The issue of food security is one which has become emotional and politicized in recent years, and because it has taken on these attributes the issue tends to generate simplistic remedies. It is important to be aware that many of the developing countries (although generally not those who are exporters of grain such as Thailand) and the World Food Council Secretariat and its Executive Director Mr. Maurice Williams strongly endorse a buffer stock policy to reduce the risk of food shortages. This policy calls for an international buffer stock reserve scattered throughout those developing countries which are most prone to food crop failures, with the storage facilities for these stocks financed by the Bank and other donor agencies and the purchase of the stocks financed through the Fund's special facility for commodity reserve purposes.

Research and studies undertaken by the Bank over the past several years have provided a body of evidence which tends to show that the buffer stock approach is expensive and largely unnecessary. A draft policy paper on food security is about ready for review and discussion within the Bank, and it will offer a constructive and more efficient alternative to buffer stocks as the major insurance against food crises. While the briefing notes which follow contain the main elements of this emerging food security policy, it should be noted that these have not appeared publicly as Bank policy. Because the draft policy paper looks to the interdependence of nations and the contributions which international markets can make to food security, it will be a contentious policy with those who support the seemingly more autarkic, self-sufficient, and autonomous buffer stock approach.

<u>An Overview of the Food Situation</u>

... Food security, which may be defined as ensuring the availability of adequate food supplies at acceptable cost, is a compelling need and a politically sensitive issue. This is true for the people and governments of both developed and developing countries, since all are faced with risks relating to food supplies and their costs, whatever their circumstances or ideology.

... A large number of people, numbering possibly one billion, rely principally on subsistence agriculture for most of their food. For them, food security depends upon access to resources and the reliability of production systems which are extremely sensitive to weather.

... A second, and much larger, group -- numbering well above three billion -- relies heavily upon a food distribution system which is ultimately international. These people are as dependent on the physical capacity to move food from farm field to consumer's table as on the size of local harvests.

... A group of perhaps 100-200 million has neither access to the resources which would provide self-generated subsistence nor sufficient income to permit purchases from the commercialized system.

Food Supplies and Demand Factor

... Growth in world food supplies has consistently outstripped population for a hundred years. Because of increased farm productivity, real grain prices are less than half their level a century ago.

... Food production has grown faster in developing countries than in developed countries over the last 30 years, and on a global per capita basis is 25 percent higher today than in 1950.

... Stability of global output has also steadily increased and was more stable in the 1970s than in any previous period. Major regional shortfalls that did occur were caused largely by the unexpectedly heavy demand from the Soviet Union -- not from developing countries.

... Increased food imports in much of the world outside Sub-Saharan Africa are related to higher per capita incomes and the resultant growth in the consumption of livestock products in middle-income countries -- not population growth or sluggish farm sector performance. Self-sufficiency ratios have actually increased in low-income developing countries since the 1960s.

... For the middle-income countries as a whole, approximately 250 million more people are now living in cities than in the 1960s. About half the total of cereal consumption in these cities is now imported. The middle-income countries have met the income-induced demand for food through increased imports rather than by increased domestic production.

... Exceptions to the above overall consumption pattern are the low-income countries of Sub-Saharan Africa and Southeast Asia (Vietnam, Laos, Kampuchea) where per capita output (and incomes) declined in the 1970s. Causes included the aftermath of war and inappropriate government policies. Poor weather, although sometimes important, was less a factor than often suggested.

... About 650 million tons of cereals are annually fed to livestock. Some portion of this could be diverted to human consumption if needed (in 1973-74, grain released from U.S. feed economy by the effect of rising prices was greater than the world shortfall). This large volume of cereals thus constitutes a ready "global reserve" whenever needed.

... Continued agricultural trade protectionism constitutes a threat to the ready movement of food grains internationally to maintain food security. If internal prices are insulated from the impact of world shortages (as in the USSR, EEC, and Japan), the use of grain for livestock is kept artificially stable and supplies are not freed to enter the "global reserve" cited above.

## The Situation in Developing Countries

... Although the import bill in developing countries has increased in absolute terms, the foreign exchange burden of foodgrain imports, when compared to export earnings, has declined since the 1960s for low-income and middle-income countries. Almost all developing countries -- even the poorest -- run positive balances on their agricultural trade accounts. In short, shifting to more domestic food production might reduce export earnings and worsen balance of payments positions.

... The new IMF CFF facility minimizes the risk of a country being unable to afford needed supplies. On the other hand, inability to handle additional imports has frequently been a limiting factor in many countries in the past.

... Frequently, it pays to make up for domestic shortfalls through imports. Buffer stocks are far more expensive -- in the Sahel, using a ton of grain from a buffer stock is estimated to cost $500 compared with world c.i.f. prices of $200.

## The Food Crops vs. Cash Crops Argument

... The view that an alleged bias within agriculture in developing countries exists, whereby food crops are sacrificed to promote "cash crops" for exports, is not warranted. The argument that food should be the first priority until hunger is eliminated, after which diversification into cash crops can be permitted, has an emotional appeal. The appropriate balance of crops has several dimensions in addition to the apparently simple question of whether all farm households are producing their own food first. Bank research has shown that while the aggregate amount of food available plays a role, whether a country's own supply or the worldwide supply, the more decisive determinant of whether people or countries get enough food is their ability to pay for it. For the hungry, what matters is their income and the prices they pay for food. The supply of food in poor countries is more likely to be stabilized by providing them financial assistance for food imports than by stabilizing global supplies of food.

... Several industrial crops are needed as industrial inputs to create more and higher-paying jobs in the industrial sector. This is a major factor in the social profitability of growing them. Farmers whose incomes are increased by growing cotton may be worse off if forced to grow corn, and the greater home production of food may not nearly offset the worsened poverty.

Sub-Saharan Africa

... In Africa, both exports of agricultural output and food crop production have declined. With regard to export crops, i.e., coffee, cocoa, tea, sugar and cotton, Africa's share of world trade declined for most of these commodities. In constant prices, the growth rates of exports from Africa during the last two decades were zero (in volume) and 1.8 percent (in value). With regard to food crops, while in the 1960s food production of major crops rose by about 2 percent a year, in the 1970s it only averaged 1.5 percent. What is significant is that this decline occurred over a period when the various governments and external sources of funds focused more strongly on food production projects than ever before. Between 1973 and 1980, about $5 billion in aid flowed into agriculture, $2.4 billion of which was from the Bank, and most of which was for food production.

... Slow agricultural growth has been attributed to disruptions caused by wars and civil strife, drought and poor rainfall patterns during the 1970s, and rapid population growth, which pushed cultivation into less productive areas. But of equal, or greater, importance were the low levels of agricultural investment, its misallocation in favor of large-scale, government-operated schemes, inappropriate pricing policies, insufficient marketing systems, irregular input supply, and poor farmer incentives.

... Food imports have not grown because of an implicit bias in favor of export crops. Imported wheat and rice have become steadily cheaper than domestic staples because of the overvaluation of many African currencies. Moreover, intent on keeping urban food prices low, many goverments have had recourse to massive food imports, causing sharp reductions in food prices. These policies, which stimulate wheat and rice consumption, discourage producers of substitutable local cereals. The whole trend has been reinforced by food aid maintained at consistently high levels.

Emerging World Bank Views

... The first priority for food security will remain increasing food production, particularly by small farmers, in order to reduce food insecurity at its most basic level by providing vulnerable households the wherewithall to protect their own interests. To this end, since 1976 the Bank has committed about $20 billion for agriculture. The program is predominantly in support of food crop production -- 80 percent of the benefits of all agricultural lending is in the form of increased food output. Projected incremental production represents an annual increment of about 3 million metric tons of grain per year, or about enough to sustain 25 to 30 million people.

... A new priority will be to assist in using world markets more effectively, which would include efforts to make developing countries more efficient buyers (or sellers) of agricultural commodities, adoption of price risk management strategies (such as the use of futures markets), and development of needed port of entry infrastructure.

... Direct aid -- through project lending, structural adjustment programs and sector work -- for making domestic food distribution and marketing pipelines more reliable and efficient. This would include:

(a) improved communciations systems for collecting and disseminating crop reports, and rural transport capacity to reduce unit costs of throughput and strengthen the ability to meet emergencies. During FY74 to FY82, agriculture and rural development projects have financed over $2.2 billion in farm-to-market roads;

(b) local storage -- especially on-farm and by small merchants -- including attention to the incentives and financial framework needed for rational stockholding by the private sector. Indonesia, the world's largest rice importer, has a parastatal grain marketing agency but uses the private sector for most of its storage needs. This pattern deserves replication elsewhere. During FY74 to FY82, the Bank has financed storage to the order of $2.4 billion;

(c) processing and market development to exploit value-adding and employment-generating opportunities after commodities leave the farm (where economic growth will be greater than in production itself). In the last four years, the Bank has invested in a range of agribusinesses; during FY74 to FY82, agriculture and rural development projects have lent nearly $2 billion for such purposes;

(d) better institutional performance -- public institutions have a role in providing the framework required for individual households to effectively manage their food security risks in normal circumstances as well as in emergencies. They cannot eliminate the uncertainties inherent in agricultural production but they can assure that markets work efficiently and

and that the vulnerable are protected. But these are two quite different objectives. The first requires adequate infrastructure for marketing, reliable reports about crops and total stockholding developments, as well as enforcement of legal codes guaranteeing quality and quantity standards, contract enforcement and free-market conditions. The second function is at least as important and relates to dealing with welfare problems which require public re-allocation of resources. The Bank/Country policy dialogue on food security has been proceeding through sector work and structural adjustment lending. For example, the SALs for Senegal, Ivory Coast, Kenya, and Thailand strongly focus on commodity marketing and structural reforms, while the SALs for Malawi and Tanzania focus on public and private sector involvement in food distribution issues as well as improving pricing policies.

Mr. A.W. Clausen September 2, 1982

Ernest Stern

Indonesia Credit Guarantee Fund

Mr. Witteveen has sent you the attached proposal for an Indonesian Credit Guarantee Fund and asked for time to discuss it with you at the Annual Meeting. I suggest you tell Mr. Witteveen that it would be more convenient, and there would be more time, to discuss it during the G-30 meeting. It involves principally the IFC. I have given Wuttke a copy and asked him to talk to you before the G-30 meeting.

The essence of the proposal is simple: domestic Indonesian banks, foreign banks (including those that have only representatives) and the IFC would be shareholders in a fund which would

- insure up to 75% of the loan financing for a private investment,

- insure 75% of the value of exports, either if financing is on a short-term basis (less than 1 year) or long-term (5-10 years).

Shareholder equity is proposed at $200 million, of which 25% is to be paid in. IFC is offered a 1% share of the equity and is to be the Managing Director, located in Jakarta.

Although the paper refers in several places to a World Bank/IFC role I believe the intention is to involve only the IFC.

As a piece of free advice, I think the proposal poorly conceived. Why should commercial banks be insured against all project risks (including bad management). It will be a disincentive to their strengthening their project appraisal capacity. Nor is it clear why, if the banks wish to pool their risks, it requires involvement by the Government (50% of the equity will be for the Bank Indonesia) or the IFC. Similarly, on the export side, it would be as easy to mount a Bladex type operation, either based on Indonesia OR for ASEAN as a whole. The volume of capital good exports from Indonesia which require medium-term financing is still very modest. The assumptions set out in the first few pages include a number which should not be accepted automatically and the benefits claimed are overstated. It also seems that too much of the decision-making on the basic commercial and economic merits of the investments is transferred to the insurer. This is not good practice. Although not fully spelled out it seems as if the insurer (essentially IFC staff) would be expected to do detail project appraisal.

For the World Bank, as distinguished from the IFC, this would not be an acceptable arrangement. However, I would incourage the Indonesian Government to pursue an export credit financing scheme, along the lines of Bladex, either based on Indonesian banks or on ASEAN. The IFC, or we, could be helpful in establishing it.

Attachment

ES:dpw

Mr. A. W. Clausen August 31, 1982

Ernest Stern

Objectives for Operations in FY1983

Attached is my statement of objectives for Operations in FY1983. I would appreciate an opportunity to discuss this after you have had a chance to review it. We never did get around to talking about the January 26 statement for the rest of FY1982. But I will need your input before this can serve as a guide to the Operationsl Vice Presidents in the preparation of their own statements.

Attachment

ES:dpw

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen DATE: August 26, 1982

FROM: Ernest Stern, SVP, Operations ES.

SUBJECT: FY1983 Objectives of the Operational Complex

Introduction

1. The fundamental objectives of the Operational complex in FY1983 remain unchanged from previous years, namely: to provide technical advice and professional services to member countries to assist them in formulating appropriate development strategies; to translate these strategies into effective investment and development programs; and to provide financing in support of those strategies in sectors in which the Bank has an operational capacity.

2. These basic objectives must be applied in FY1983 in the context of the present difficult global economic and political environment in which we operate. Our borrowers are faced with severe--and in many cases increasing--economic pressures at the same time as they must adjust to the prospect of reduced concessional resources for the foreseeable future. The current political context is highly volatile; the economic climate difficult and uncertain. Borrowers are increasingly heterogeneous in their needs, and we must increasingly develop individually tailored approaches to deal with the problems faced by particular borrowers. The Bank must emphasize the formulation and implementation of appropriate adjustment policies, provide assistance in this effort and help to translate these policies into specific implementation action. Emphasis on putting in place an appropriate policy framework also will require more attention to developing local capabilities, both in terms of trained manpower, and institutional capacities.

3. This will require conscious efforts to upgrade the level of intellectual leadership provided by the Bank's highly trained professional staff, which is fundamental to productive relationships with our borrowers, and to focus this capacity on priority development issues in a way relevant to decision makers. It also will require enhanced flexibility and responsiveness to changing country conditions. We can only achieve this if we continue to increase delegation of authority to line managers, in the context of improved but streamlined monitoring procedures which will ensure standards of quality and consistency in treatment of borrowers. Line managers must be weaned from their preoccupation with their technical expertise and be gotten to deal with their full range of managerial responsibilities.

4. The structure and allocation of our lending program too will require particular attention this year. The variability of IDA resources for both FY1983 and FY1984 is still great and this involves difficult planning questions for operational managers as well as uncertainty in the

borrowers as to which high priority development projects to prepare for Bank financing and for which to begin the search for alternative sources or postpone them. In view of the difficult international capital markets we also will face strong pressures on the Bank side. Conversely, the number of country problems is increasing--both in IDA and Bank countries--and we may not be able to reach our lending objectives without very large changes in country allocations. Even if we were prepared to consider such changes on financial grounds they would involve serious staffing and managerial problems. The sectoral distribution of our lending program also needs attention. The share to agriculture and, to a lesser extent, the social sectors is under pressure. Some of it is explained by changing borrower priorities but some may be due to inappropriate managerial and staff attitudes.

5. FY1982 was a successful year for cofinancing and we hope to do better in FY1983. Approval for all, or most of the options presented to the Board will be an important step.

6. Communication remains a problem. A number of steps have been taken to strengthen communications within Operations but the supply of information on broader issues is too limited, too restricted or too late. This area will require structural attention in FY1983.

7. Progress on other management issues - such as data administration, cost effectiveness measures, improved budgetting and strengthening the responsibility of line managers, will continue in FY1983. Details on these objectives are outlined in the section below.

8. In addition to these matters there are two broader issues which will require attention in FY1983 - new substantive initiatives and improved aid coordination.

9. As regards major initiatives we will, during FY1983, prepare an assessment of the follow-up to the Sub-Saharan Africa study. Now that we are at the stage of implementation at the country level, a regular review of progress is essential to keep an overview and to adjust our approach as necessary. Secondly, we have initiated work on a major review of our energy program, including a look at the future. I think this will be an important basis for our own thinking about additional financing mechanisms, for discussion with the Board and for shaping our program for the next several years. The paper will be ready early in 1983.

10. I also anticipate that we will start work on two other topics. One is a review of large-scale hydroelectric power sites which require regional markets for their utilization. This will become a basis for discussion with cofinanciers, particularly in Africa, and for helping to set priorities. The other is an analysis of water resources and their use

in the developing countries over the next quarter century. With increasing industrialization, expansion of irrigation and growing personal consumption, I believe water will become a much scarcer resource than now generally thought and its availability (at reasonable cost) may become a serious constraint to growth in particular localities or for entire regions and countries.

11. On aid coordination, we need to expand our activities, involve private creditors more actively and strengthen the role of consultative groups. There is a real danger that these will reach agreement at the rhetorical level but add nothing to resource flows nor help to avoid allocation of scarce resources to low priority investment projects. In the process they may well erode the pressure for policy change.

Economic and Sector Work

12. Our policy dialogue with member countries continues to be based on a large volume of economic and sector work which enables us to develop an appropriate policy framework for member countries and provides the basis for judgments as to the size and composition of our lending program.

13. FY1982 CESW Results: In support of the Bank's ongoing policy dialogue with borrowers, an economic and sector work program for FY1982 allocated about 275 staff years to economic and sector work at a cost of about $55 million. The actual economic and sector work program exceeded the planned level by about 4% on account of increases in CESW by field officers in the South Asia region and the need for increased effort in support of structural adjustment, particularly SAL operations in West Africa. In addition, increased sector work was undertaken by the Population, Health and Nutrition Department and by the Energy Department - both areas in which we are trying to strengthen our sectoral knowledge as a foundation for expanded lending. This resulted in an expenditure of almost 290 staff years on Economic and Sector Work in FY1982 with the delivery of over 150 economic and sector reports versus about 140 originally planned.

14. In addition, a major reorganization affecting economic and sector work was carried out and completed in FY1982. The reorganization of DPS/CPS into the new Operational Policy Staff has created a central unit to help provide better support and review for CESW. This reorganization also resulted in the movement of about 20 additional economists onto the line and out of advisory positions. It is expected that these moves will strengthen the links between economic and sector work and the formulation of our lending programs, as well as providing the basis for improved dialogue with borrowers.

15. FY1983 Objectives: A significant increase in Country Economic and Sector Work is planned in FY1983 - about a 12% increase over the FY1982 budget plans and 8% above actual FY1982 results. In the environment of reduced growth in lending and rapidly growing economic difficulties, these increases are necessary to improve the underpinnings of our overall economic and policy dialogue with member governments. The increase is part of our effort to focus on asssisting borrowers in formulating and implementing appropriate adjustment policies geared to individual country needs. The major increase planned for Sub-Saharan Africa would bring the share of Sub-Saharan Africa to about one-third of the Bank's total FY1983 CESW.

16. Sector work by the Energy and Industry Departments is planned at a level more than double that of FY1982, with Energy and Industry together accounting for 40% of total sector work in FY1983.

17. The reorganized Industry Department has been asked to work closely with the Regions to begin to develop industrial sector strategies for major countries where we expect to be lending for industry. The Bank has done little industrial sector work in the past and this constitutes a major gap in our ability to advise our clients which have an increasing industrial capacity and a growing industrial investment program. We expect to complete 6-8 of such sector strategies in FY1983. The third area of major expansion in FY1983 will be for work on poverty-related issues with work on poverty incidence, employment, income distribution and basic needs. Sector work on agriculture and rural development is also planned to increase by about 17% in FY1983.

18. A Task Force has been established to examine our economic and sector work program, drawing upon a number of specific studies undertaken in the Regions and in DPS in recent years, and in connection with the CPS/DPS reorganization. The Task Force will focus on the relevance and timeliness of CESW to member country needs, on its effectiveness in influencing macroeconomic and sector policy making in borrowing countries, and on the quality control and efficiency provided by our review processes and procedures. The report of the Task Force will be reviewed by a specially selected panel of senior staff. The final report and recommendations of the Task Force are expected in 1983.

## Lending Program: FY1982 Results and FY1983 Objectives

19. FY1982: The original FY1982 Lending Program called for a total of 268 projects amounting to $1,017 billion, including 107 IDA projects for a total of $4.1 billion and 161 IBRD projects for a total of $9.6 billion. The massive shortfall of $1.5 billion in IDA availability midway through the fiscal year required a major reprogramming to bring our lending program in line with reduced resource availability. The revised

program provided for about 245 operations for a total of $2.6 billion IDA and $10.4 billion IBRD. Revised program figures were discussed extensively with the affected borrowers immediately following the reprogramming exercise. The completed FY1982 lending program was consistent with allocations determined at the mid-year review. The program consisted of 247 operations and a total lending program of $13 billion, (about $10.3 billion Bank and about $2.7 billion IDA) Within the reduced IDA availability, the share for the least developed countries was 37.8% compared with 32.1% the preceding year. The share in IDA for Sub-Saharan Africa was 31.3%. Key sectoral allocations included 25% for agriculture, 25.8% for energy and 9.5% for non-project lending.

20. In the circumstances of reduced resources, we made a special effort to increase the use of Bank projects to leverage additional resources. We succeeded in substantially increasing our cofinancing operations, particularly with commercial banks. In FY1982 the total volume of cofinancing reached $7.4 billion, compared with $4.1 billion in FY1981, and the number of cofinanced operations rose from 81 to 99 -- 40% of all projects. Cofinancing with commercial banks totalled $3.3 billion in FY1982, a significant increase over the $1.4 billion in cofinancing the previous year ($1.1 billion of the commercial cofinancing was provided in a single loan to the Ivory Coast).

21. The other special initiative undertaken in FY1982 was to increase assistance to borrowers in the structural adjustment process. This was accomplished through our structural adjustment lending program (9.5% of total lending) and through an increased emphasis on using the total project lending program to leverage increased sector policy change or changes in the general incentive framework.

22. FY1983: The proposed lending program for this year consists of over 250 operations totalling $13.6 billion of which $10.5 billion is Bank lending and $3.1 billion represent IDA credits. Within this lending program assistance to least developed countries has been protected to the extent feasible, with a significant increase in the share of lending to Group 1 (per capita income below $410) countries as well as smaller increases for Groups 2 and 3. These increased shares are offset by sharp declines in projected lending to countries in Group 4 and Group 5. Sub-Saharan African countries would receive 36.7% of total IDA commitments according to current plans. A major increase in non-financial technical assistance is planned and for this purpose, 20 positions have been allocated in the administrative budget to provide for secondment of Bank staff in high-priority technical advisory positions primarily in Sub-Saharan Africa.

23. While the technical work for the lending program is on target, an increasing number of countries (Mexico, Philippines, Kenya, Yugoslavia, Bangladesh), in all income groups, face severe economic difficulties which

may require substantial reductions in their investment programs. Creditworthiness problems also are increasing. This, in turn, may reduce the number of new projects to be started, including high priority ones supported by the Bank. While some restructuring of our lending program may help, we face the prospect of not being able to meet our lending objectives this year. We will review the matter in detail prior to the mid-year review.

24. We plan in FY1983 to continue and further expand our program of cofinancing both with official and commercial sources. We have increased the central staff unit devoted to full-time cofinancing activities, as approved by the Managing Committee and have strengthened Regional staff responsibility for cofinancing. While we expect a further increase in the number and percentage of cofinanced operations current conditions in the financial markets and increasing budget difficulties for bilateral aid agencies make projections very uncertain.

## Management Issues

### Communications

25. FY1982: In the face of an unusually turbulent year with difficult internal and external circumstances, it was planned in FY1982 to give special attention to management issues, to effective communications with staff, and to special measures designed to enhance collegiality.

26. The regular weekly meetings of the Operational Vice Presidents were supplemented by meetings of the Operations Policy Sub-Committee which met about twice monthly, as necessary, to discuss issues having substantive policy implications for operations. These formal meetings were supplemented by other more informal meetings, including quarterly luncheon meetings and discussions among Operational Vice Presidents, similar luncheon discussions with Programs and Projects Directors, and with groups of Assistant Directors and Division Chiefs. All managers were included during the course of the year in small group discussions providing substantially increased scope for communications, personal contact and feedback. The annual Senior Operational Managers' retreat, held in April of this year, was again successful and other operational units have been encouraged to undertake retreats of their own. These have now been held in almost all regions and departments. They have resulted in clearly improved working relationships, and have generated internal initiatives aimed at improving the quality and efficiency of our work. In addition, I have undertaken to meet with staff at all levels in departmental and other special groups to provide direct access and a forum for discussion at all levels. The Operational Managers' Review Group has continued its role in assuring participation of all Senior Operational Managers in Personnel

decisions and these meetings have been supplemented, where necessary, by special panels.

27. FY1983: In addition to continuing the activities described above, we intend, in the coming year, to expand and deepen efforts to improve communications, particularly with respect to feedback from staff. All of the special, small group meetings with managers which were started last year on an experimental basis will be continued on a systematic basis. The meetings with staff, also undertaken on a trial basis in FY1982 will be continued. One major objective for this year will be to improve the openness of communications. While the Bank does not lack for meetings and discussions, the information provided, particularly in personnel assessments, does not always cover all concerns adequately. There also is a dangerous habit growing of not commenting adversely or critically on someone else's work because "we've got to live with him". This must be nipped in the bud or it will erode our professional credibility.

28. We also plan to continue our increased attention to external communications, coordinating with IPA and Finance to ensure consistent and coordinated support from senior operational managers for public speaking in support of the Bank and its policies, and adequate contributions to the Bank's World.

29. Another important initiative to be implemented in FY1983 is a change in the review process for CPPs. All CPPs will be reviewed in the Operations Policy Subcommittee - thus creating participation by all Operations Managers in the review of these strategy documents. CPPs for major borrowers will be sent on to the Managing Committee, assuring participation by the full senior management.

Data Management

30. Effective data management and dissemination remains a problem in the Bank, with inadequate control over statistical integrity and consistency and a proliferation of systems. The reorganization of the IMCC and the Computer Activities Department are important initiatives by VPA which will help resolve these problems. In Operations we have appointed a Data Administrator, as requested, to serve as the central contact point for the development of the new approach. We were successful in FY1982 in finally getting agreement on a standardized set of balance of payments tables for economic reports. The next steps are similar tables for the other elements of the national account. Basic data and information for line managers have been reviewed and alternative systems are being piloted. The present reporting system was developed starting with the requirements for top management. As a consequence data required by subordinate managers, particularly Division Chiefs, often was not available except through a laborious process of manual compilation. In addition, the

submission of data from the Divisions was on a manual basis with heavy costs in stafftime and inaccuracies. The new system will provide all managers access to data needed to discharge their responsibility, be capable of aggregation for reporting to senior management and permit electronic submission of data by reporting units thus reducing staff costs and increasing reliability. Work on developing such a system for Division Chiefs was carried out in the course of FY1982, and a system will now be implemented on a pilot basis in FY1983.

31. These changes and, generally, the improvement in our data and reporting systems, will require more attention by our managers to data management - a subject which many have neglected in the past.

Personnel Management

32. In the course of FY1982 Operational staff contributed substantially to the effort to improve our system for evaluating managers. Following the decision of the Managing Committee, the work of the Operational Task Force on performance evaluation and selection of managers was turned over to PMD for extension Bank-wide. To this has been added the management by objective component so that we will have a system which provides a firm base for both accountability and rewards. The introduction of the system in FY1983, will require extensive training efforts with managers and staff to assure the purposes of the system are fully supported and understood, so that the new evaluation system does not become as intellectually inadequate as our present one.

33. The work of the Operations Manager Review Group continues to evolve satisfactorily with consistently improving support from PMD. Management appointments within Operations are now jointly decided by the Operational Vice Presidents and take into account career development objectives as well as personal preferences. During FY1982 the scope of the group's responsibility was broadened to include all appointments to "N" level positions, the review of candidates for promotion by functional categories and the reassignment of managers to enhance career development. Most recently the group also took on the responsibility for the recommendations on senior position planning in Operations.

Budget Process

34. Our budget process continues to be cumbersome, complex and rigid. It is neither understood by staff nor believed to reflect operational realities. This remains true despite much progress in decentralizing the process and increasing the flexibility of managers to shift

resources between budget categories. Moreover, since the budget is essentially a manpower budget it does not generate cost consciousness. Consequently, PAB in cooperation with Regional staff, has been asked to explore the possibility of introducing dollar budgeting. We hope to have some conclusions in time to be incorporated in the FY84 budget cycle. Even if we cannot move fully to a dollar-based budgeting approach for the whole system, we intend to expand the number of operational units which now attach dollar budgets, in addition to manpower budgets, to specific tasks.

## Quality Control

35. A number of the organizational and administrative initiatives undertaken in FY1982 were aimed at improving quality control. The impact of these changes will begin to take effect in FY1983. The reorganization of CPS into the Operational Policy Staff will provide better and more timely advice to staff in carrying out economic and sector work, and the new system will be monitored continuously in the course of the year to ensure that the intended results do, in fact, materialize. In FY1983, a system of issuing periodic interim guidelines to staff will be introduced whereby recurring quality control or procedural problem areas are identified, and guidelines and clarifications provided regularly to assist staff in ensuring a continued high level of quality for both lending and economic and sector work. The addition of a second Senior Operational Adviser in the office of SVPOP and the various communications efforts referred to in the previous paragraphs, provide additional channels for timely transmittal of information to staff with respect to adherence to standards and guidelines and achievement of consistency in treatment of members. The work of the various Task Force studies referred to above is expected to result in further improvements in quality as well as efficiency.

## Efficiency

36. In addition to the efficiency gains resulting from the DPS/CPS reorganization in the course of FY1982, operational line managers have been charged with the responsibility for improving efficiency, and a number of initiatives have been undertaken by regional and other operational units to streamline and improve their own work processes. Systematic reviews were undertaken in most of the regions in the course of FY1982 and in all cases analyses have been completed and reports prepared for consideration. Numerous small improvements, such as streamlining paper work and reducing reporting requirements, were undertaken while more substantial administrative or organizational realignment are expected to be implemented during the course of FY1983. This program is ongoing and continues to be monitored by OPD. The first phase of our program to improve computer support for economic and sector work has been completed

and it is expected that the initial phases of implementation will take place in FY1983. Work on development of operations-wide management information systems, reported above as a major communications initiative, is expected to result in substantial efficiency improvements as well.

Coordination with the IMF

37. We strengthened our coordination with the IMF substantially in FY1982 both at the senior management and staff levels. This involved joint training seminars, joint field appraisals and improved arrangements for sharing data and information. This will continue in FY1983. But it is important that we further develop this relationship in light of the very difficult economic environment, the acute problems many countries face and the increased resource flow from the IMF. All these factors may sharpen potential differences of view and the extent and timing of needed policy changes.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: September 26, 1982

FROM: Ernest Stern, SVP, Operations ES.

SUBJECT: FY1983 Objectives of the Operational Complex

## Introduction

1. The fundamental objectives of the Operational complex in FY1983 remain unchanged from previous years, namely: to provide technical advice and professional services to member countries to assist them in formulating appropriate development strategies; to translate these strategies into effective investment and development programs; and to provide financing in support of those strategies in sectors in which the Bank has an operational capacity.

2. These basic objectives must be applied in FY1983 in the context of the present difficult global economic and political environment in which we operate. Our borrowers are faced with severe--and in many cases increasing--economic pressures at the same time as they must adjust to the prospect of reduced concessional resources for the foreseeable future. The current political context is highly volatile; the economic climate difficult and uncertain. Borrowers are increasingly heterogeneous in their needs, and we must increasingly develop individually tailored approaches to deal with the problems faced by particular borrowers. The Bank must emphasize the formulation and implementation of appropriate adjustment policies, provide assistance in this effort and help to translate these policies into specific implementation action. Emphasis on putting in place an appropriate policy framework also will require more attention to developing local capabilities, both in terms of trained manpower, and institutional capacities.

3. This will require conscious efforts to upgrade the level of intellectual leadership provided by the Bank's highly trained professional staff, which is fundamental to productive relationships with our borrowers, and to focus this capacity on priority development issues in a way relevant to decision makers. It also will require enhanced flexibility and responsiveness to changing country conditions. We can only achieve this if we continue to increase delegation of authority to line managers, in the context of improved but streamlined monitoring procedures which will ensure standards of quality and consistency in treatment of borrowers. Line managers must be weaned from their preoccupation with their technical expertise and be gotten to deal with their full range of managerial responsibilities.

4. The structure and allocation of our lending program too will require particular attention this year. The variability of IDA resources for both FY1983 and FY1984 is still great and this involves difficult planning questions for operational managers as well as uncertainty in the

borrowers as to which high priority development projects to prepare for Bank financing and for which to begin the search for alternative sources or postpone them. In view of the difficult international capital markets we also will face strong pressures on the Bank side. Conversely, the number of country problems is increasing--both in IDA and Bank countries--and we may not be able to reach our lending objectives without very large changes in country allocations. Even if we were prepared to consider such changes on financial grounds they would involve serious staffing and managerial problems. The sectoral distribution of our lending program also needs attention. The share to agriculture and, to a lesser extent, the social sectors is under pressure. Some of it is explained by changing borrower priorities but some may be due to inappropriate managerial and staff attitudes.

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18. A Task Force has been established to examine our economic and sector work program, drawing upon a number of specific studies undertaken in the Regions and in DPS in recent years, and in connection with the CPS/DPS reorganization. The Task Force will focus on the relevance and timeliness of CESW to member country needs, on its effectiveness in influencing macroeconomic and sector policy making in borrowing countries, and on the quality control and efficiency provided by our review processes and procedures. The report of the Task Force will be reviewed by a specially selected panel of senior staff. The final report and recommendations of the Task Force are expected in 1983.

## Lending Program: FY1982 Results and FY1983 Objectives

19. FY1982: The original FY1982 Lending Program called for a total of 268 projects amounting to $1,017 billion, including 107 IDA projects for a total of $4.1 billion and 161 IBRD projects for a total of $9.6 billion. The massive shortfall of $1.5 billion in IDA availability midway through the fiscal year required a major reprogramming to bring our lending program in line with reduced resource availability. The revised

program provided for about 245 operations for a total of $2.6 billion IDA and $10.4 billion IBRD. Revised program figures were discussed extensively with the affected borrowers immediately following the reprogramming exercise. The completed FY1982 lending program was consistent with allocations determined at the mid-year review. The program consisted of 247 operations and a total lending program of $13 billion, (about $10.3 billion Bank and about $2.7 billion IDA) Within the reduced IDA availability, the share for the least developed countries was 37.8% compared with 32.1% the preceding year. The share in IDA for Sub-Saharan Africa was 31.3%. Key sectoral allocations included 25% for agriculture, 25.8% for energy and 9.5% for non-project lending.

20. In the circumstances of reduced resources, we made a special effort to increase the use of Bank projects to leverage additional resources. We succeeded in substantially increasing our cofinancing operations, particularly with commercial banks. In FY1982 the total volume of cofinancing reached $7.4 billion, compared with $4.1 billion in FY1981, and the number of cofinanced operations rose from 81 to 99 -- 40% of all projects. Cofinancing with commercial banks totalled $3.3 billion in FY1982, a significant increase over the $1.4 billion in cofinancing the previous year ($1.1 billion of the commercial cofinancing was provided in a single loan to the Ivory Coast).

21. The other special initiative undertaken in FY1982 was to increase assistance to borrowers in the structural adjustment process. This was accomplished through our structural adjustment lending program (9.5% of total lending) and through an increased emphasis on using the total project lending program to leverage increased sector policy change or changes in the general incentive framework.

22. FY1983: The proposed lending program for this year consists of over 250 operations totalling $13.6 billion of which $10.5 billion is Bank lending and $3.1 billion represent IDA credits. Within this lending program assistance to least developed countries has been protected to the extent feasible, with a significant increase in the share of lending to Group 1 (per capita income below $410) countries as well as smaller increases for Groups 2 and 3. These increased shares are offset by sharp declines in projected lending to countries in Group 4 and Group 5. Sub-Saharan African countries would receive 36.7% of total IDA commitments according to current plans. A major increase in non-financial technical assistance is planned and for this purpose, 20 positions have been allocated in the administrative budget to provide for secondment of Bank staff in high-priority technical advisory positions primarily in Sub-Saharan Africa.

23. While the technical work for the lending program is on target, an increasing number of countries (Mexico, Philippines, Kenya, Yugoslavia, Bangladesh), in all income groups, face severe economic difficulties which

may require substantial reductions in their investment programs. Credit-worthiness problems also are increasing. This, in turn, may reduce the number of new projects to be started, including high priority ones supported by the Bank. While some restructuring of our lending program may help, we face the prospect of not being able to meet our lending objectives this year. We will review the matter in detail prior to the mid-year review.

24. We plan in FY1983 to continue and further expand our program of cofinancing both with official and commercial sources. We have increased the central staff unit devoted to full-time cofinancing activities, as approved by the Managing Committee and have strengthened Regional staff responsibility for cofinancing. While we expect a further increase in the number and percentage of cofinanced operations current conditions in the financial markets and increasing budget difficulties for bilateral aid agencies make projections very uncertain.

## Management Issues

### Communications

25. FY1982: In the face of an unusually turbulent year with difficult internal and external circumstances, it was planned in FY1982 to give special attention to management issues, to effective communications with staff, and to special measures designed to enhance collegiality.

26. The regular weekly meetings of the Operational Vice Presidents were supplemented by meetings of the Operations Policy Sub-Committee which met about twice monthly, as necessary, to discuss issues having substantive policy implications for operations. These formal meetings were supplemented by other more informal meetings, including quarterly luncheon meetings and discussions among Operational Vice Presidents, similar luncheon discussions with Programs and Projects Directors, and with groups of Assistant Directors and Division Chiefs. All managers were included during the course of the year in small group discussions providing substantially increased scope for communications, personal contact and feedback. The annual Senior Operational Managers' retreat, held in April of this year, was again successful and other operational units have been encouraged to undertake retreats of their own. These have now been held in almost all regions and departments. They have resulted in clearly improved working relationships, and have generated internal initiatives aimed at improving the quality and efficiency of our work. In addition, I have undertaken to meet with staff at all levels in departmental and other special groups to provide direct access and a forum for discussion at all levels. The Operational Managers' Review Group has continued its role in assuring participation of all Senior Operational Managers in Personnel

decisions and these meetings have been supplemented, where necessary, by special panels.

27. <u>FY1983</u>: In addition to continuing the activities described above, we intend, in the coming year, to expand and deepen efforts to improve communications, particularly with respect to feedback from staff. All of the special, small group meetings with managers which were started last year on an experimental basis will be continued on a systematic basis. The meetings with staff, also undertaken on a trial basis in FY1982 will be continued. One major objective for this year will be to improve the openness of communications. While the Bank does not lack for meetings and discussions, the information provided, particularly in personnel assessments, does not always cover all concerns adequately. There also is a dangerous habit growing of not commenting adversely or critically on someone else's work because "we've got to live with him". This must be nipped in the bud or it will erode our professional credibility.

28. We also plan to continue our increased attention to external communications, coordinating with IPA and Finance to ensure consistent and coordinated support from senior operational managers for public speaking in support of the Bank and its policies, and adequate contributions to the Bank's World.

29. Another important initiative to be implemented in FY1983 is a change in the review process for CPPs. All CPPs will be reviewed in the Operations Policy Subcommittee - thus creating participation by all Operations Managers in the review of these strategy documents. CPPs for major borrowers will be sent on to the Managing Committee, assuring participation by the full senior management.

<u>Data Management</u>

30. Effective data management and dissemination remains a problem in the Bank, with inadequate control over statistical integrity and consistency and a proliferation of systems. The reorganization of the IMCC and the Computer Activities Department are important initiatives by VPA which will help resolve these problems. In Operations we have appointed a Data Administrator, as requested, to serve as the central contact point for the development of the new approach. We were successful in FY1982 in finally getting agreement on a standardized set of balance of payments tables for economic reports. The next steps are similar tables for the other elements of the national account. Basic data and information for line managers have been reviewed and alternative systems are being piloted. The present reporting system was developed starting with the requirements for top management. As a consequence data required by subordinate managers, particularly Division Chiefs, often was not available except through a laborious process of manual compilation. In addition, the

submission of data from the Divisions was on a manual basis with heavy costs in stafftime and inaccuracies. The new system will provide all managers access to data needed to discharge their responsibility, be capable of aggregation for reporting to senior management and permit electronic submission of data by reporting units thus reducing staff costs and increasing reliability. Work on developing such a system for Division Chiefs was carried out in the course of FY1982, and a system will now be implemented on a pilot basis in FY1983.

31. These changes and, generally, the improvement in our data and reporting systems, will require more attention by our managers to data management - a subject which many have neglected in the past.

## Personnel Management

32. In the course of FY1982 Operational staff contributed substantially to the effort to improve our system for evaluating managers. Following the decision of the Managing Committee, the work of the Operational Task Force on performance evaluation and selection of managers was turned over to PMD for extension Bank-wide. To this has been added the management by objective component so that we will have a system which provides a firm base for both accountability and rewards. The introduction of the system in FY1983, will require extensive training efforts with managers and staff to assure the purposes of the system are fully supported and understood, so that the new evaluation system does not become as intellectually inadequate as our present one.

33. The work of the Operations Manager Review Group continues to evolve satisfactorily with consistently improving support from PMD. Management appointments within Operations are now jointly decided by the Operational Vice Presidents and take into account career development objectives as well as personal preferences. During FY1982 the scope of the group's responsibility was broadened to include all appointments to "N" level positions, the review of candidates for promotion by functional categories and the reassignment of managers to enhance career development. Most recently the group also took on the responsibility for the recommendations on senior position planning in Operations.

## Budget Process

34. Our budget process continues to be cumbersome, complex and rigid. It is neither understood by staff nor believed to reflect operational realities. This remains true despite much progress in decentralizing the process and increasing the flexibility of managers to shift

resources between budget categories. Moreover, since the budget is essentially a manpower budget it does not generate cost consciousness. Consequently, PAB in cooperation with Regional staff, has been asked to explore the possibility of introducing dollar budgeting. We hope to have some conclusions in time to be incorporated in the FY84 budget cycle. Even if we cannot move fully to a dollar-based budgeting approach for the whole system, we intend to expand the number of operational units which now attach dollar budgets, in addition to manpower budgets, to specific tasks.

## Quality Control

35. A number of the organizational and administrative initiatives undertaken in FY1982 were aimed at improving quality control. The impact of these changes will begin to take effect in FY1983. The reorganization of CPS into the Operational Policy Staff will provide better and more timely advice to staff in carrying out economic and sector work, and the new system will be monitored continuously in the course of the year to ensure that the intended results do, in fact, materialize. In FY1983, a system of issuing periodic interim guidelines to staff will be introduced whereby recurring quality control or procedural problem areas are identified, and guidelines and clarifications provided regularly to assist staff in ensuring a continued high level of quality for both lending and economic and sector work. The addition of a second Senior Operational Adviser in the office of SVPOP and the various communications efforts referred to in the previous paragraphs, provide additional channels for timely transmittal of information to staff with respect to adherence to standards and guidelines and achievement of consistency in treatment of members. The work of the various Task Force studies referred to above is expected to result in further improvements in quality as well as efficiency.

## Efficiency

36. In addition to the efficiency gains resulting from the DPS/CPS reorganization in the course of FY1982, operational line managers have been charged with the responsibility for improving efficiency, and a number of initiatives have been undertaken by regional and other operational units to streamline and improve their own work processes. Systematic reviews were undertaken in most of the regions in the course of FY1982 and in all cases analyses have been completed and reports prepared for consideration. Numerous small improvements, such as streamlining paper work and reducing reporting requirements, were undertaken while more substantial administrative or organizational realignment are expected to be implemented during the course of FY1983. This program is ongoing and continues to be monitored by OPD. The first phase of our program to improve computer support for economic and sector work has been completed

and it is expected that the initial phases of implementation will take place in FY1983. Work on development of operations-wide management information systems, reported above as a major communications initiative, is expected to result in substantial efficiency improvements as well.

Coordination with the IMF

37. We strengthened our coordination with the IMF substantially in FY1982 both at the senior management and staff levels. This involved joint training seminars, joint field appraisals and improved arrangements for sharing data and information. This will continue in FY1983. But it is important that we further develop this relationship in light of the very difficult economic environment, the acute problems many countries face and the increased resource flow from the IMF. All these factors may sharpen potential differences of view and the extent and timing of needed policy changes.

August 9, 1982

Tom:

I have now read the attached.

I think the basic paper (i.e., not the two letters) is a suitable basis for a Managing Committee discussion. We should focus on a) the need and opportunity; b) whether the Bank should take the initiative; c) if so, where should responsibility be assigned. If we decide to take the lead we must recognize it will be a long and hard slog, involving lots of analytical work and much negotiations. We are not now staffed up anywhere to undertake such an effort seriously.

Ernie

Attachment

ES:dpw

Mr. A. W. Clausen August 5, 1982

Ernest Stern

Multilateral Insurance Investment Scheme

At yesterday's Operational Vice Presidents' meeting we discussed the Board paper on the Multilateral Insurance Investment Scheme. Mr. Golsong made the presentation. You should be aware of the very strong reservations expressed by the senior operational staff regarding the potential link between the proposed insurance agency and the Bank. As you know, from recent experience, expropriation issues which involve the IFC took on a special character because it is a sister agency. In the proposed insurance arrangements not only expropriations of companies with which the World Bank Group has no contact would be covered but, more importantly, the effects of governmental action or inaction on such routine matters as the issuance of import licences, conversion of currency, the issuance of visas for technical staff and many other matters would be insured. We believe there is a great risk that the Bank will be drawn into disputes on these matters even before a claim is filed if there is a link between the insurance agency and the Bank. The risk will be particularly great if the insurance agency is to be advertised to the reinsurance markets as having a special advantage because of its association with the Bank. At the time claims are filed there is a substantial risk that the Bank will be called upon to exercise its sanctions if the resolution of the claim is not handled expeditiously or satisfactorily.

There also was serious concern that the proposed coverage is so broad that it would be quite easy to be in conflict with policy recommendations that the Bank might make in the normal course of its business. For instance, important liberalisation, tariff reform, elimination of subsidies, are all matters which could adversely affect the profitability of a private investment.

The greater the success of the insurance agency in providing coverage to a wide array of investors in a broad range of countries, the greater the risk that the already thinly stretched capacity of the Bank to influence such matters will be burdened further. We believe there is a serious danger that this would adversely affect our basic purpose of an effective policy dialogue with member countries firmly based on their belief that we are neutral analysts, not advocates of any particular interest group.

ES:dpw

# Record Removal Notice



| File Title | | Barcode No. |
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**Correspondents / Participants**
From: Ernest Stern
To: A.W. Clausen, Moeen Qureshi, Martijn Paijmans

**Subject / Title**
Meeting with Mr. Jurgensen on July 23, 1982

**Exception(s)**
Corporate Administrative Matters

**Additional Comments**

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

| Withdrawn by | Date |
|---|---|
| A.May | November 03, 2021 |

August 2, 1982

Tom:

I have put a number of comments in the margin and you might want to look at them. Since you mentioned that the translation deadline is near at hand, and this seems to be the eighth draft, I assume you have reviewed a previous version but as you can see from my comments I believe the speech still is relatively weak. There are four basic structural problems:

1. The discussion of the economic crisis is very weak and provides no under-pinning for the argumentatoion later that the Bank needs additional resources to respond to the growing needs of its members.

2. There is too much looking backwards and defending past actions instead of defining the challenges for the future and the issues which must be addressed.

3. No message emerges.

4. The treatment of the financial issues, both on the Bank side and on IDA, is confusing. For instance, on the IDA side, while referring several times to the cut in IDA 6, the only action called for relates to an early start of the IDA 7 negotiations.

If you get a chance to look at this tonight, perhaps we can discuss it after the Board tomorrow. My advice would be to get two or three people -- such as Joe Wood on the Finance side -- and get them to re-write the ecomomic and financial sections before getting the speech-writers to have another go at it. The deficiencies are in the substance not in the style.

Ernie

Future WDRs

file

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

June 22, 1982

Mr. Clausen

Tom:

I have checked on the arrangements for the 1983 WDR. It has been agreed, by Hollis and Anne Krueger, to have Helen Hughes be responsible for Part I of the WDR and Pierre Landell-Mills be responsible for Part II. Since Anne has agreed to this, and seems to be in contact with Helen on the model revisions planned, there is nothing that I can do now. I suggest we get together with Anne when she and Hollis are in town.

Ernest Stern

cc: Mr. Benjenk

ES:ct

May 18, 1982

Mr. Clausen

Tom:

I am sorry that I won't be at most of the WDR discussion tomorrow morning. As you know, we have the cofinancing seminar with the foreign commercial banks and I open the session at 9 am. I will join you as soon as I can. There are, in my view, problems with the WDR both of substance and style, but I will give my comments to Hollis.

Ernie

Mr. A.W. Clausen May 14, 1982

Ernest Stern

Ditchley Conference

I attended the meeting of the International Financial Group at Ditchley. The list of participants is attached (A) as is the agenda (B).

The meeting was, on the whole, disappointing. It was not well prepared and the participants had done little advance thinking. The principal points can be summarized as follows:

— The banks consider themselves heavily exposed in the LDCs and would like to slow down the rate of expansion of lending to them.

— Unrealistic as it may sound, there was extended discussion of "pulling out" from lending to LDCs before they finally concluded this was not realistic.

— Although no one liked it, there was broad agreement that the non-0il LDC deficit to be financed annually in the next several years was on the order of $60-80 billion.

— While there was considerable discussion of internal constraints in the banks (slow growth of their capital base) most thought this would not be a long-term constraint.

— Broad agreement that spreads were too thin.

— Much discussion of the need for early warning systems but no interest whatsoever in looking at longer term, basic issues affecting creditworthiness. The focus remained firmly on short-term developments (3-6 months).

— A suggestion was made for the banks to establish an "institute" which might retain retired senior bank executives to forge joint policy-oriented conditions for lending to LDCs and annual policy reviews with borrowers. I offered our services. The idea was widely supported.

— General agreement that debt reschedulings were unfortunate, messy but here tosstay. Suggestions for a general code ran into much skepticism. Citibank (Clark) made a big play about opposition to reschedulings on the grounds that "a contract is a contract" but it turned out that all he had in mind was new loans equal to the maturities due - merely a preference for different semantics and bookkeeping.

— A desire for more, and more timely, information from the IMF but de Larosiere made it clear that the release of specific country data depended on the consent of the country concerned.

On the whole it seemed clear that while everyone thogght the strong competition had unfortunate results (excessively low spreads, some imprudent lending, inability to get tough with borrowers), no one really expected much change.

Director of Attendees
International Financial Group
Ditchley Park, England
May 7-9, 1982

## Co-Chairmen

PETER LESLIE
Senior General Manager
Barclays Bank International Ltd.
54 Lombard Street
London, EC3 England

WILLIAM S. OGDEN
Vice Chairman and Chief
Financial Officer
The Chase Manhattan Bank,
One Chase Manhattan Plaza
New York, N.Y. 10015
(212) 552-4521

## CANADA

GRANT L. REUBER
Deputy Chairman
Bank of Montreal
129 St. James St., West
Montreal, P.Q.
Canada H2Y 1L6

R. A. UTTING
Vice Chairman
Royal Bank of Canada
1 Place Ville Marie
Montreal, P.Q.
Canada H3C 3A9

## GERMANY

WERNER BLESSING
General Manager
Deutsche Bank, A.G.
Junghoffstr. 5-11
6000 Franfurt/Main 1
West Germany

AXEL KOLLAR
Member of the Board
West Deutsche Landesbank, A.G.
Friedrichstrasse 56
D-4000 Duesseldorf 1
West Germany

WINFRIED SPAEH
General Manager
Dresdner Bank, A.G.
Gallusanlage 7-8
6000 Franfurt A.M. 1
West Germany

GREAT BRITAIN

A. R. BARBER
Assistant General Manager
Midland Bank Limited
30 St. Swithins Lane
London EC4 England

PETER COOKE
Associate Director and Head
of Banking Supervision
Bank of England
London EC2 England
01-601-4444

T. A. GREEN
Assistant General Manager,
International Banking
National Westminister Bank
Natwest Tower
25 Old Broad Street
London, EC3 England

CLEMENT REDESDALE
Vice President
Chase Manhattan Bank
Woolgate House, Coleman St.
London EC2P 28D England

HAROLD B. ROSE
Group Economic Advisor
Barclays Bank Limited
54 Lombard Street
London EC3P 3AH England
01-626-1567

ERIC WHITTLE
Chief Executive
Lloyds Bank International Ltd.
40 Queen Victoria Street
London, EC4 England

JAPAN

TAKEO KANI
General Manager
International Department
Industrial Bank of Japan
1-3-3 Marunouchi
Chiyoda-ku 22
Tokyo, Japan

EIICHI MATSUMOTO
Director,
International Finance
Bank of Tokyo
1-6-3 Hongoku-cho,
Nihonbashi
Chuo-ku 4
Tokyo, Japan

KAZUO NAKAMURA
General Manager,
International Division
Mitsubishi Bank
2-7-1 Marunouchi
Chiyoda-ku 32
Tokyo, Japan

SHIJURO OGATA
Executive Director
The Bank of Japan
CPO Box 203
Tokyo, 100-91 Japan

MULTILATERAL

J. de LAROSIÈRE
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
(202) 477-3057

PAUL MENTRÉ DE LOYE
Special Adviser
International Monetary Fund
64-66 Avenue de IENA
75116 Paris, France

C. DAVID FINCH
Director, Exchange
and Trade Relations
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
(202) 477-2961

ERNEST STERN
Senior Vice President,
Operations
World Bank
1818 H Street, N.W.
Washington, D.C. 20433
(202) 477-2004

NETHERLANDS

AEJM BLANK
General Manager
Algemene Bank Nederland
32 Vijzelstraat
P.O. Box 669
Amsterdam, The Netherlands

H. O. RUDING
Managing Director
Amsterdam Rotterdam Bank
Herengracht 595
P.O. Box 1220
Amsterdam, The Netherlands

UNITED STATES

GEORGE J. CLARK
Executive Vice President
Citibank, N.A.
399 Park Avenue
New York, N.Y. 10045
(212) 559-1300

JAMES R. GREENE
President
American Express International
Banking Corporation
American Express Plaza
New York, New York 10004
(212) 323-4673

C. T. CONOVER
Comptroller of the Currency
490 L'Enfant Plaza, S.W.
Washington, D.C. 20219
(202) 447-1750

WILLIAM HAWLEY
Vice President
Citibank, N.A.
399 Park Avenue
New York, N.Y. 10045

UNITED STATES (Continued)

FRANCIS L. MASON
Senior Vice President
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, N.Y. 10015
(212) 552-5781

DONALD McCOUCH
Senior Vice President
Manufacturers Hanover Trust
Company
350 Park Avenue
New York, N.Y. 10022

WILLIAM J. McDONOUGH
Chairman, Asset and Liability
Management Committee
First National Bank of Chicago
One First National Plaza
Chicago, IL. 60670
(312) 732-3804

NEIL J. McMULLEN
Executive Vice President
National Planning Association
1606 New Hampshire Avenue, N.W.
Washington, D.C. 20009
(202) 265-7685

ALFRED F. MIOSSI
Executive Vice President
Continental Illinois
National Bank & Trust Company
231 South LaSalle Street
Chicago, IL. 60693
(312) 828-2710

DAVID O. NORDBY
Senior Vice President
Mellon Bank
Mellon Square
Pittsburg, PA. 15230

WERNER STANGE
Senior Vice President
Morgan Guaranty Trust
Company of New York
23 Wall Street
New York, N.Y. 10015

WALTER S. SURREY
Senior Partner
Surrey and Morse
1156 15th Street, N.W.
Washington, D.C. 20005
(202) 331-4040

ALEXANDER C. TOMLINSON
President
National Planning Association
1606 New Hampshire Avenue, N.W.
Washington, D.C. 20009
(202) 265-7685

national planning association
1606 NEW HAMPSHIRE AVE. NW • WASHINGTON DC 20009 • (202) 265-7685

# INTERNATIONAL FINANCIAL GROUP

Ditchley Park Meeting
May 7-9, 1982

## PREAMBLE TO AGENDA

The purpose of this conference is to review and discuss the international financial picture for the next few years. In particular, emphasis is to be placed on the interrelated complex of issues dealing with the financing of economic growth and development in the context of the existing level of country indebtedness and slow growth in the world economy.

## AGENDA

### Friday, May 7, 1982

11:00 a.m. Participants begin to arrive

*1:00 p.m.* *LUNCH*

2:30 p.m. SESSION I: The Current Economic Situation and the Outlook for 1983

A presentation of the data base and likely prospects regarding

- Country growth rates
- LIBOR trends
- Energy and other key prices

4:30 p.m. SESSION II: Views as to the Important Issues

Short presentation by 4 or 5 participants on their perceptions of the most important issues in country debt finance during the 1982-1983 period

*7:00 p.m.* *COCKTAILS and DINNER*

Saturday, May 8, 1982

| | | |
|---|---|---|
| *8:30 a.m.* | *BREAKFAST* |
| 9:30 a.m. | SESSION III: Early Warning Issues |

A discussion of ways in which the monitoring of countries and the early perception of possible problems can be improved

- data issues and country risk analyses
- formation of groups to informally track particular country situations with the IMF/IBRD

11:15 a.m. SESSION IV: Preventive Policies and Institutional Coordination Issues

A discussion of issues concerning the timely adjustment of countries policies and the coordination of the programs of private and multilateral institutions.

- strategies for pre-crisis negotiations
- need to maintain separate roles of government creditors, international financial institutions and private banks.
- co-financing strategies and policies

*1:00 p.m.* *LUNCH*

2:30 p.m. Address by Managing Director of the International Monetary Fund

*3:45 p.m.* *AFTERNOON TEA*

4:00 p.m. SESSION V: Renegotiation Issues

A discussion of issues concerning renegotiation procedures and alternatives

- options available within the renegotiation process
- comparability of treatment within the Paris Club
- alternatives to automatic restructuring
- role played by advisors

*7:00 p.m.* *COCKTAILS and DINNER*

Sunday, May 9, 1982

| | |
|---|---|
| 10:00 a.m. | SESSION VI: Renegotiation Issues (continued) |
| 11:15 a.m. | SESSION VII: Concluding Issues, Recommendations and Future Action<br><br>A review of the conference findings, consideration of possible recommendations and future meetings. |
| *12:30 p.m.* | *LUNCH* |

DITCHLEY PARK

CUSTOMARY DAILY SCHEDULE

| | |
|---|---|
| Breakfast | 8:30 - 9:15 a.m. |
| First Morning Session | 9:30 - 11:00 a.m. |
| Coffee | 11:00 - 11:15 a.m. |
| Second Morning Session | 11:15 - 12:30 p.m. |
| Lunch | 1:00 - 2:00 p.m. |
| First Afternoon Session | 2:30 - 4:00 p.m. |
| Afternoon Tea | 4:00 - 4:30 p.m. |
| Second Afternoon Session | 4:30 - 6:00 p.m. |
| Cocktails | 7:00 - 8:00 p.m. |
| Dinner | 8:00 - 9:30 p.m. |
| Drinks | 9:30 |

Mr. A. W. Clausen May 14, 1982

Ernest Stern

INDIA - IDA Availability for FY82

1. I had understood from Munir's phone call that you wanted the IDA allocation for India increased for FY82. Your subsequent cable however says to increase India's availability to a "maximum of one third". To date, we have approved $840 million in credits to India, which is 32.3% of the total IDA program for the year. One third would be $858 million. An additional $18 million would make India's share equal to exactly one third, but such a small increase could not be of much significance to India given that total World Bank lending this year will be $2,080 million.

2. The factors which bear on the decision are:

(i) As of May 11, according to Finance (copy attached), total available commitment authority was only $2,555 million, which includes the full U.K. contribution. Of the listing of prospective additional commitment authority, the only firm commitment releases are those of Italy and Austria which together just barely bring the level up to the $2.6 billion program which we are planning on (if the reference in your cable is to a $120 million in addition to the U.K.'s $120 million, this will help, but total availability will depend on further exchange rate changes);

(ii) The last date on which I can send projects to the Board for consideration is June 4, unless we wish to utilize June 29] for which at the moment no projects are planned; in that case the India project could be issued on June 10. Clearly we would have to have the additional commitment authority by then; and

(iii) Assuming we can commit $2,600 million, India's 32.3% share of IDA in FY82 has been more than offset by Bank lending.

3. While I understand that Mrs. Ghandi would like to see some direct results of her efforts with Mrs. Thatcher, and we would like very much to give some tangible expression of our appreciation for her efforts, it is also important that she, and the Government, understand the issue. Getting the full Second Tranche released by the U.K. helped to break the deadlock on procedure and created a substantially different climate in which discussions on additional resources are now possible. However, until a supplementary package is agreed upon, the IDA VI total is all we have through fiscal 84. We cannot therefore consider commitments

in any one fiscal year without considering the total -- what we commit in FY82 we won't have in FY83. The U.K. decision has not yet led to the creation of additional commitment authority for the whole IDA VI period.

4. What I had arranged before your messages - and still plan on - is to have ready for Board circulation one standby project for India, which I propose to blend with up to $40 million of IDA but <u>only</u> if available commitment authority exceeds $2,600 million by June 4. The only way to increase the India total in the absence of such an increase in commitment authority would be to pull one or more of the projects for Africa or the least developed countries out of the schedule to accommodate the increase for India, and that not only would be <u>politically suicidal</u> but also could not be justified on economic grounds.

Attachment

ES:dpw

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Ms. Jane Pratt, SVPOP

DATE: May 13, 1982

FROM: Pina De Santis P. De Santis

SUBJECT: IDA6 Commitment Authority

The table below indicates the status of IDA6 commitment authority as of May 11, 1982. As shown, total resources currently available for FY82 credits amount to SDR 2262 million ($2555 million). Please note that these figures include the remainder of the United Kingdom's second installment but exclude additional potential resources of SDR 331 million ($375 million). The latter comprises the full release of 11 other donors' second installments as well as Japan's "relaxed pro rata" release (see Attachment 1 for details).

FY82: IDA Commitment Authority

| | SDR million | $ million |
|---|---|---|
| Available Resources as of May 11, 1982 a/: | | |
| Total Resources | 4981 | 5627 |
| Less: FY81 Commitments | 2719 | 3072 a/ |
| Total currently available for FY82 credits | 2262 | 2555 |
| FY82 credits approved through May 11, 1982 | 1601 | 1809 a/ |
| Balance currently available for approval of additional credits | 661 | 746 |

a/ Valued at April 30, 1982 exchange rates.

Attachments

cc: Messrs. Gabriel, Vergin (FPA)
Mistry (SVPFI)
Gillette, Ikram, Wood (FPA)

PDS:eok

# IDA6 COMMITMENT AUTHORITY

| | SDR million | $ million |
|---|---|---|
| **Available Resources as of May 11, 1982 a/** | | |
| Donor contributions released to date b/ | 4638.9 | 5240.5 |
| Other resources | 341.7 | 386.0 |
| | 4980.6 | 5626.5 |
| Less: FY81 commitments | 2719.0 | 3071.6 a/ |
| Total currently available for FY82 commit. | 2261.6 | 2554.9 |
| FY82 credits approved through May 11, 1982 | 1601.4 | 1809.1 a/ |
| Balance currently available for approval of additional credits | 660.2 | 745.8 |
| **Prospective Additional Commitment Authority a/** | | |
| (a) Balance carried forward | 2261.6 | 2554.9 |
| (b) Balance of first and second installments once (original) waiver notifications have been received | | |
| Colombia | 0.9 | 1.9 |
| Greece | 0.5 | 0.5 |
| Mexico | 1.1 | 1.3 |
| Netherlands | 30.9 | 35.0 |
| United Arab Emirates | 9.5 | 10.7 |
| | 42.9 | 49.4 |
| (c) First and second installments from donors who have not yet notified their participation in IDA6 (assuming release of at least 50.6%): | | |
| Portugal | 2.2 | 2.5 |
| Spain | 14.3 | 16.1 |
| Venezuela | 9.0 | 10.1 |
| | 25.5 | 28.7 |

| | SDR million | $ million |
|---|---|---|
| (d) Releases based on positions taken at the April meeting of Deputies: | | |
| (i) remainder of second installment: | | |
| - Firm Releases | | |
| Austria | 6.5 | 7.4 |
| Italy | 30.2 | 34.1 |
| | 36.7 | 41.5 |
| - Potential releases | | |
| Australia | 22.4 | 25.3 |
| Belgium | 13.5 | 15.3 |
| Greece | 0.4 | 0.4 |
| Kuwait | 20.0 | 22.6 |
| Luxembourg | 0.2 | 0.3 |
| Netherlands | 28.7 | 32.4 |
| Saudi Arabia | 42.4 | 47.9 |
| Spain | 3.2 | 3.6 |
| United Arab Emirates | 8.6 | 9.8 |
| | 139.4 | 157.6 |
| (ii) "relaxed" pro-rata: Japan | 86.8 | 98.1 |
| (e) Total additional commitment authority in FY82 | 331.3 | 375.3 |
| Total for FY82 commitments | 2592.9 | 2930.2 |

a/ Valued at April 30, 1982 exchange rates.
b/ Includes the remainder of the United Kingdom's second installment.

FPAFA
5/13/82

Mr. Clausen May 3, 1982

Ernest Stern

Energy

In your discussions in Paris you should try to get the French Government

a) to take a leadership role in Helsinki, and afterwards, in raising additional resources for energy lending;

b) to accept the proposition that an acceptable Energy Affiliate cannot be formulated in the near future; and therefore,

c) to help focus the political decisions on acceptable interim solutions.

The Bank's paper for the Development Committee, attached, concludes that there are two basic approaches:

a) an increase in the Bank lending program earmarked for energy;

b) supplementary bilateral funds (concessional and supplier credits) to be provided either through a general agreement among like-minded countries (e.g., a Special Fund) or through a series of bilateral agreements.

The basic point is that we cannot staff up further to identify additional energy investments and formulate projects unless we have an assured source of financing for at least three years. Should we get such assurance we have estimated (roughly) that we could add \$500 million of energy projects in the first year, rising to \$1 billion in the third year. Assuming we can continue to leverage our funds for energy development projects about 5:1 this would involve additional energy investments of about \$11 billion over the three year period.

Obviously an expansion of the Bank lending program would be easiest administratively. But you are aware of the problems in this area. They involve our borrowing capacity (and consequently our lending policy) and the time by which we reach our sustainable lending level. With the presently proposed lending program and current exchange rates the sustainable lending level will be reached in about two years. Adding additional lending for energy would bring us to that level even sooner -- requiring the start of discussions of the next capital increase. Undoubtedly such a proposal would run into strong opposition from the U.S., Germany, and probably the U.K. and Japan.

The alternative approach is more complex and can only be achieved if there is a strong push by a lead country (France). If led positively, there is a reasonable prospect that some others -- e.g., Canada, the Nordics, Netherlands, Italy and possibly Japan would join in. Of course, timing is important since this should not detract from the efforts to generate additional funds for IDA.

What we must resist is requests to spell out administrative and legal details before we have a clear indication of a political commitment to make funds available, since in the absence of a political decision we would be spinning our wheels developing the almost infinite variations of the legal, organizational and administrative arrangements.

Attachment: World Bank Energy Program: A Status Report (R82-81)

cc: Mr. Benjenk
Mr. Qureshi

ES:ct

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WBG ARCHIVES

May 5, 1982

Tom:

I won't be at the MC since I am off to Ditchley. I have spoken to Moeen about the issues he wants to raise at the meeting tomorrow, but I also wanted to give you my thoughts.

I understand there are three points for discussion:

1) Our liquidity position

2) Revised net income projections

3) Sustainable levels

The latter is, of course, driven mostly by the exchange rates which are very hard to predict for the longer term. While we must give the Board our best guess our estimate should include a reasonable shift against the dollar from its present high levels.

But in the context of these issues, the proposed $11.2 billion lending level may also come up. What we decided last Monday is correct, namely, that we should stick with our proposal. I realize you would have preferred an $11 billion estimate but:

a) that is water over the dam;

b) it would have spooked the same troops just as much. It is not the amount -- it is the principle they are objecting to that we are going above a figure set tentatively some years ago.

There are three reasons for sticking with our decision:

-- It is important that management retain the flexibility to adjust numbers in light of events.

-- If we change it will reinforce the perception that the budget is subject to Board review before it is issued by management.

-- Management must be seen to respond to increased demand by our borrowers. A stagnant Bank is highly inappropriate in current circumstances. Eventually we will need to face capital increase any way and six months sooner or later doesn't matter.

Two other points are relevant. In the last two years we have cancelled at least $500 million in Bank loans ($250 million for the India Fertilizer project and about $250 million in Algeria for various projects). These cancellations do not show up in the annual lending levels which are not retroactively adjusted. We may want to go into this in detail but if we look at it on a net basis we are in fact adding nothing in fiscal 83 to the announced aggregate lending levels previously agreed on. Secondly, our borrowers have had to accept higher interest rates and a front-end fee in the last year and we now seek approval for a variable lending rate. Some offetting d~~ividends~~ fundings are due.

If we run into difficulty at the time of the Board discussion, our fall-back position is an easy one, namely, that we will keep the issues of concern to the Directors under careful review and should fears materialize we will make sure that the lending level will be somewhat lower than the objective proposed.

Ernie

(Dictated over the telephone
from Airport)

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. Clausen DATE: April 28, 1982

FROM: Ernest Stern ES.

SUBJECT: Invitation to Address 1983 Seminar - Energy Policy Foundation of Norway

As I mentioned to you yesterday, Mr. Thulin, Executive Vice President of the Den norske Creditbank, brought a "draft" invitation for you to address the 1983 seminar of the Energy Policy Foundation of Norway. The seminar will be held from February 1 (Tuesday) through lunch on February 5 (Saturday). You could speak on February 2,3, or 4, at either the morning or afternoon sessions. The seminar site is about 2½ hours' drive from Oslo.

The Energy Policy Seminar has a good reputation and is attended by about 60 people in senior corporate or official positions dealing with various aspects of energy. There are four presentations per day, of about 30-45 minutes, followed by questions and discussion. The focus is on quite specific issues relating to national energy policies or investments or to corporate investment strategy. This year's theme is <u>Energy Prices and Economic Development</u> -- meaning mostly growth in the OECD countries but also including LDCs. Your presentation would be expected to focus on the developing country aspect of the topic.

Should you accept the invitation, the Foreign Ministry will extend a parallel, official invitation. This would provide the opportunity for official discussions in Oslo.

You were concerned about recently having turned down an invitation from the DnC. I have checked, and that was an invitation to attend their 125th anniversary. Should you wish to accept the Energy Foundation invitation it would be easy to make the distinction between attending an official celebration of a specific commercial bank and participation in policy discussion on a subject of great interest to us.

You will want to consult with Munir Benjenk on the timing of any Nordic visit. You will be in Helsinki this May and next February might be too soon. If you went to Oslo I would think you could not easily skip Stockholm. From my perspective, while the Energy Policy Foundation seminar is a very respectable forum, it offers too small an audience for you; it is not sufficiently prestigious internationally; it is a private meeting which offers limited media exposure to our views on energy; and the other participants, though senior people, do not include a sufficient number of decision makers that you need to influence.

Therefore, unless other factors indicate a trip to Scandinavia early next year, I recommend you let me advise Mr. Thulin that you could not accept their invitation. They will invite someone else from the Bank (perhaps the new VP-Energy and Industry) so that our program and views will be presented.

cc: Mr. Benjenk

EStern:ct

April 23, 9982

Tom:

Attached is a draft opening statement for the Helsinki meeting. I have sent copies to Munir so that they can start to work on it. I am sending you a copy now so that you can give them your guidance next week.

You remember from last September's meeting that these opening remarks are not a formal speech. They are intended to give the Ministers your views on the principal agenda items of interest to us. You can intervene in the discussion of individual items if the need arises -- i.e., if Ministers seem to be headed toward the wrong conclusions.

Ernie

Attachment

PERSONAL

Mr. A.W. Clausen



April 23, 1982

Ernest Stern

Events During Your Absence

This is just to report to you on a few of the more important points which came up during your trip:

a) Hungary - The discussions on Hungarian membership have not turned out to be as clean and straightforward as we had hoped. I have therefore asked that this item be placed on the Agenda for our Monday meeting. Despite our decision at last Monday's meeting that Management wanted to make it very clear it intended to issue a resolution including 4,000 shares of additional capital if there was no agreement on an alternative, the discussions with the Executive Directors led to a quite different set of conclusions. First, it was agreed to postpone any action for a further 6 weeks. Second, the issue of settling Hungary's per capita GNP figure as part of the membership discussion was not put to rest, and third, no clear proposal for settling the share issue emerged. Alternatives being proposed by Executive Directors including limiting Hungary to 2,000 shares for a somewhat indefinite period or even bringing Hungary in as a member with only 250 shares, leaving its full shares to be determined at a later date. This latter approach, while technically legal, establishes in my view a very dangerous precedent. In any event, we will have an opportunity to discuss this further on Monday.

b) The WDR Seminar proceeded without a hitch and there was general agreement on using development administration as next year's topic. There were, however, a number of negative comments on the use of population for the 1984 WDR but not of sufficient volume to warrant a change.

c) The Poverty Seminar was very well received. The Board liked the paper and they were pleased that Management was addressing the issue. They would like the paper to be published with the Board's endorsement and we are in the process of arranging for that.

d) The Seminar on Structural Adjustment Lending was a love feast. Those who had opposed SAL at the outset, or had expressed strong concerns, said that their concerns had been allayed by experience although they, and others, stressed that this was still an experimental program. But there was unanimous agreement that Structural Adjustment Lending was an important tool for the Bank, that its use in present circumstances was warranted, that our collaboration with the IMF was in fine shape and that the guidelines for the content of SALs had developed reasonably. On this one I think we have turned an important corner.

e) The Board has authorized several borrowing operations in your absence and with their completion we will have about US$6.7 billion of the borrowing program in hand.

f) The lending program is on schedule, but the Board dates in May and June are heavily booked.

g) You might be interested to know that our decision regarding Yacyreta has now led to a counter-proposal of a joint venture between the two lowest bidders. If that materializes it will save us a lot of political flack. The prospect seemed real enough for the Argentines to have enquired whether we would accept such a proposal in principle, and we have told them that we would have no objection.

ES:dpw

AWC file

Mr. A. W. Clausen April 22, 1982

Ernest Stern

I checked on the comments Mr. Morse made to you. We have no evidence that any of our contracts were not awarded in conformance with our guidelines. But that does not prove, of course, that there is no corruption.

My recommendations remain the same: if Mr. Morse gets back to you, you should ask him to provide evidence to us. If he cannot do that against his own client, and if he is concerned about his client's practices, the obvious course would be to cancel the advisory contract.

EStern:tk

# Record Removal Notice

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| File Title | | Barcode No. |
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| General Correspondence - Memorandum to the President - 1981 - 1985 | | 30394929 |
| **Document Date** | **Document Type** | |
| 22 April, 1982 | Memorandum | |

**Correspondents / Participants**
From: Ernest Stern
To: A.W. Clausen

**Subject / Title**
Hungary

**Exception(s)**
Corporate Administrative Matters

**Additional Comments**

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

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A.W. Clausen  DATE: April 13, 1982
THRU: Mr. Ernest Stern, Senior Vice President, Operations
FROM: Frank Vibert, SVPOP F.V.

SUBJECT: Presentation of New Instruments for Co-financing with Commercial Banks

1. While it may be prudent that the new co-financing instruments should not be funded through variable rate borrowings until the time when the Board will have reviewed IBRD's overall financial practices, nevertheless, I would like to recommend that Bank staff and Management be authorized to make statements on the new instruments at a number of upcoming meetings:

- the banking community is well aware that we have been reviewing co-financing instruments and the image of the Bank as a slow moving bureaucracy will only be reinforced by delay in stating Management's endorsement of the new instruments;
- considerable momentum with the banking community on co-financing has been built up over the last year and this will be severely set back unless the greater range of instruments can be openly discussed;
- the reason for the delay in Board consideration (that our financial policies are in disarray and Treasurer's finds apparent difficulty in funding trial cases of new co-financed operations) is awkward to present and likely to be barely credible to the banking community in any event.

2. It would be desirable for Bank Management to describe the broader range of instruments 1/ at such meetings as:

- the Asian Development Bank meeting on co-financing (end April);
- the Ditchley Conference (early May);
- the Helsinki Meeting (mid-May);
- the next briefing session with commercial banks (May 19);
- the International Monetary Conference (Vancouver, May 25).

3. Any Bank statement would be prefaced by a remark to the effect that the Executive Directors would be considering the new instruments in the summer.

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1/ A brief authorized text on the range of instruments would also be made available to selected audiences.

FVibert:jcd

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: April 12, 1982

FROM: Ernest Stern ES.

SUBJECT: Cofinancing with Commercial Banks

The decision at the Managing Committee this morning regarding timing came unfortunately late in the process. I recognize the importance of getting approval for variable rate borrowing and the associated change in our lending policy and that this is a larger issue and requires priority over the new cofinancing tools if one believes discussion of the latter could endanger agreement on variable rate lending. Since we (including Moeen, Gene et al) knew from the outset of our explorations six months ago that the new approaches involved variable rate lending, it is unfortunate that the timing issue was surfaced so late in the game after so much public momentum was built up.

The purpose of this note is to alert you about the public aspects of the change in timing since the subject may arise in discussions on your West Afrcian trip and certainly will arise at Helsinki.

- The Board. After last weeks Managing Committee I checked with you on Tuesday as to your views on timing, which Moeen had raised in his note. You indicated then that you thought we ought to proceed with an informal discussion with the Board since there was no reason not to begin to get their reactions, even though a final decision would have to await action on the lending rate policy. Consequently, when asked at the Committee of the Whole on Wednesday, I indicated that a paper on Cofinancing was ready and would be issued shortly as a basis for a seminar. We will have to correct that statement to the Board.

- The Development Committee. At your suggestion we added a separate item to the agenda of the Development Committee on Cofinancing. This was intended to provide you an opportunity to report on progress in cofinancing and to outline the alternative techniques put before the Board for consideration. This assumed that the paper would be in the hands of the Board before Helsinki but not actually discussed by them. Without the paper I think it would not be wise for you to spell out the details of the options because none of the Ministers will have been briefed and we may get off-the-cuff negative reactions.

- Commercial Banks. We have, as I have reported to you, been in extensive and close discussions with the commercial banks and the paper reflects their advice and comments. These discussions started with last year's Annual Meetings and extended through February of this year. Interest in the proposals is high and we will have to explain to the banks, when asked, that there is likely to be a delay of several months before the paper can be issued for discussion in the Board. In your own conversations, you should provide them with that timeframe.

- Borrowers. We had identified three test cases which we had hoped to negotiate shortly. We will inform borrowers that we cannot proceed along the lines discussed.

- The Press. There has been some interest in the Press, including your own recent comments. Since the delay is of indefinite duration - although we hope we will have Board approval of the interest rate policy by July 1 - I think it is important that we not build further expectations in the Press of an imminent change in cofinancing techniques.

ES:dpw

March 4, 1982

Tom,

You should be aware that we are in the midst of discussions with Zaire about the denationalization of their major copper mine, Gecamines. There are, however, strong vested interests in the present structure, particularly on the part of Belgium. You may therefore hear from Mr. de Groote about this. Mr. Gue, the Department Director, is well informed and can brief you should that become necessary. If there are no further developments, we will send you a briefing paper towards the end of the month or early in April when further discussions are scheduled.

Ernie

AWC

March 3, 1982

Tom,

I spoke with Fred Bergsten about a brief paper on the international code of investment conduct. He would be pleased to do the paper and, as you know, he has worked on the subject before. In fact, he recently did some work on it for the U.S. Treasury.

He will prepare a brief outline. I told him to cover three broad issues:

a) what should such a code cover,

b) where are the political problems and what are the substantive ones,

c) what are the appropriate approaches and tactics.

Upon your return, he wants to talk to you before he drafts the paper, to discuss your own thinking. I told him that you would call him when you got back.

Ernie

Mr. A. W. Clausen February 25, 1982

Ernest Stern, SVP, Operations

Development Committee

The Executive Directors of the Group of Six asked to meet with me this morning to express their concern arising out of comments you had made during the meeting in the lounge regarding the Development Committee. They had received the impression that you wished to make the Committee an effective decision-making body, that you thought the past failings of the Committee were due to the management of the work program, and that you and Mr. Thahane would take the lead in this effort at reconstruction. While there is no disagreement that the Development Committee is not an effective body, there is no interest among these major shareholders to change that. The contraty is true. If they knew of a decent way to bury it, they would. The Development Committee is powerless as a decision-making body because it has been made powerless, not because, as is sometimes alleged, the work program is not sufficiently screened, the agenda is not properly prepared, or there is an inadequate supply of studies on any given subject. The Committee doesn't function because it has no purpose and never did have one; and the Finance Ministers of the industrialized countries do not have the slightest interest in negotiating sensitive issues in such a public forum.

While one or two of the G-6 members indicated that if they knew what to suggest, they might wish to take a more constructive line; they agreed unanimously that in the absence of any basic reorientation at the political level, they wished to see no increase in the activity of the Development Committee.

In regard to investment insurance, several of them urged that you take the opportunity to discuss this subject with them in some detail before it is placed on the agenda of the Development Committee. They recognize we would only be making a status report, but they claim that they have no information on what it is that you have in mind or which approach we are pursuing. The Development Committee agenda will be scheduled for discussion in the Board approximately on April 12. The papers would be circulated about two weeks in advance so that you should have a discussion with them, perhaps in one of your lunches, before then.

EStern/lms

AWC

February 23, 1982

Tom,

Attached is one of the better examples of how we go about programming our economic and sector work. This is one of the first steps in formulating the budget for this element of our work and you might want to take a look at the Introduction to the Regional Program on Pages 1-6 and then at two or three country summaries, in which case I would suggest Thailand, Indonesia and Korea. For each country, you will see a specific budget in staff time required for each economic or sector report which is planned to be issued. In addition to the amounts specifically programmed, most Regions have about 20% of their staff time unallocated to provide the necessary flexibility to deal with unanticipated requests for service either from borrowers or from within the Bank.

Ernie

Attachment - EAP 1983FY CESW submission

AWC

February 22, 1982

retu'd to AWC w/ this memo on 2/22/82.

Tom,

I have read the attached note from McKitterick. A few comments follow:

1. I always distrust papers, the summary of which I cannot understand. The summary on Page 30 is in that category. I don't understand the meaning of the first sentence since we have never attempted to be anything but an investment financing agency. The message of the second sentence is lost on me and, presumably, on the audience for which this paper is intended. To say "asking the right questions of management so the agency can better serve an investment program" does not seem operationally relevant. The last sentence I presume is simply a general call to virtue.

2. I agree with the sentence you underlined on Page 1. However, I do not understand why the distinction is being drawn so sharply between financing investments and transferring resources. Clearly merely to transfer resources is not our function but equally clearly financing investments transfers resources. But leaving that artificial distinction aside, there is no dispute about the need for a close relationship with the IMF and other aspects of the international financial system. Why IDA should be described as an extension of the work of the IMF is beyond me, since the IMF is not, nor ever has been, intended as an investment agendy. Moreover, the IMF has not extended facilities to most of the poorest countries. Of course there is no dispute that IDA is not, nor should it be, advertised as a humanitarian program.

3. Paragraph (a) on Page 21 is substantially correct, although not entirely so. The link between the statistical work of the Bank and the Fund is certainly not dependent on the reorganization, nor is the reorganization going to do anything to improve our liaison with commercial banks on debt analysis which already is pretty good. Nor, of course, is it correct to say that most of the DPS will be transferred to Operations.

4. The function of the reorganized Central Projects Staff is not accurately stated.

5. I am not sure what Paragraph (c) refers to since we have not established a new cofinancing office. Thus far, we have expanded it by one one secretary, although we are working a lot harder.

6. Since I am a polite fellow, I can only describe Paragraph 3.5 on Page 22 as uncharacteristic of reality.

7. There never was such a thing as an annual commitment "contract"; since I have been in this job, which covers the last two years of Mr. McNamara's tenure, the operational budget and associated lending program did not come to Mr. McNamara on a country-by-country basis. Moreover, we substantially relaxed the project number methodology which in any event never was on a country basis. The "magic" of the overall numbers was much simpler. It reflected Mr. McNamara's view that since the bulk of the administrative budget consisted of expenditures based on project work, Board approval of the level of staff and the related administrative expenditures created an obligation to produce the work for which the budget had been provided. This is not an inappropriate philosophy. Unfortunately, it was applied more mechanically than desirable, and interpreted by an excessively scared staff to mean that the <u>exact</u> number of projects for the Bank as a whole was an absolute essential. In any event, we have not striven for that degree of accuracy for some years.

8. McKitterick is distinctly wrong in saying that the work of projects divisions does not include services to borrowers during loan implementation. The supervision component includes services of this kind and our staff allowance for supervision varies greatly as between countries at various stages of development and by sector. Moreover, we built into our projects, as a matter of routine, consultants' services for implementation wherever we think that local capacity is inadequate.

9. Nonetheless, I do not disagree that we have to strengthen the role of loan officers. It is true that some five or six years ago, as part of a misguided personnel program, we recruited staff as loan officers which we would not have recruited for any other purpose. As a result, the quality of staff in this category decreased drastically and we are still suffering from this. However, we have moved to redress that damage and to make the loan officer perform some of the functions which were sucked upwards to the Division Chief because of the inadequate quality of loan officer staff.

10. I disagree with the analysis on Page 23. It starts our wrongly because the availability of appraisal reports is determined in the first placd by which projects we decide are suitable projects for financing - not the other way around. Both in the selection of projects and in the selection of sectors, we are very much guided by precisely the point which McKitterick suggests - namely, whether we make an effective contribution to institution building among the priority sectors. I cannot swear that no one ever cooked a rate of return calculation; and it is obvious nonsense for anyone to say that the only criteria for a good project is a well prepared appraisal report - but someone may have said it. It obviously is not our operating philosophy. But I would also suggest that in the absence of a well prepared appraisal report, it is hard to know whether a project is good or bad. His comments in Paragraph 3.7 on the rate of return I don't understand. Judgement is involved in all calculations, but a rate of return for an agricultural project is no more subject to judgement than a rate of return calculation for an industry project.

11. His charge in Paragraph 3.8 is, of course, a very serious one. I would be perfectly prepared to sit down with anyone and have him demonstrate to me that the selection of our projects, starting with the CPP process, is guided by considerations other than:

    a) The priorities of the borrower,

    b) The Bank's capacity to assist in these priority sectors,

    c) The technical or institution building contribution we can make, and

    d) The impact we expect to have on the policy environment.

12. His illustration of Yugoslavia is not a serious analysis. First of all, the six projects he lists are only a small portion of our potential long-term portfolio in Yugoslavia. Second, these projects, if all of them were to materialize, will be developed over five or six years. It is quite possible that it is desirable to do a power transmission project in this fiscal year and the mining project or the oil and gas project in FY84 and FY85. The provision of power and the major policy issues regarding energy pricing are areas in which the Bank can make an important non-financial contribution. His claim that we would finance these projects (Paragraph 3.12) before they were ready and the engineering completed and the policy issues resolved, is simply not factual. I do not know the details of these projects, but can provide them if you wish, but I would certainly disagree that we could make our most effective contribution with the steel project. Our experience with steel projects is not encouraging, and financing is available from supplier credits and technical assistance from operating companies. But whatever the merits of these projects, we very carefully watch the sectoral balance in our lending program precisely to avoid the problems which he suggests (in Paragraph 3.16). At the beginning of the planning cycle, each Regional Vice President, in consultation with the Central Projects Staff and myself, agree on the number of industrial or energy projects which are to be proposed by these units in the Regions; and the Regional Vice President establishes an appropriate balance in the lending program in line with the CPP strategy, which is discussed in the meetings with you or, for smaller countries, with me. Of course, it is true that in a tightly constrained budget some managers wish to expand their domain by developing more activities. To some extent this is a desirable dynamism, but obviously it would be undesirable if this were to drive the composition of the lending program. I can assure you it does not. I do not believe we would have any difficulty in effectively answering the questions that he suggests be asked by the U.S. Executive Director on Page 29.

Let me add that I do not know Mr. McKitterick personally (although we have been at a few meetings together). I am aware of the diverse views about him in the Bank, but these have had no bearing on my comments. I do not disagree in essence with what Mr. McKitterick says should be happening - I merely disagree with his assertion that barring the exceptional failures in the system, our approach is different from his model.

Ernie

MR. STERN



# OFFICE MEMORANDUM

TO: Files

DATE: February 16, 1982

FROM: Warren C. Baum

SUBJECT: Luncheon of Mr. Clausen with Messrs. Okita and Batista

1. Mr. Clausen and I had lunch today with Mr. Saburo Okita (a distinguished Japanese economist and former Minister of Foreign Affairs), and Mr. Eliezer Batista (President of the Brazilian Companhia Vale do Rio Doce). The principal purpose of the luncheon was to discuss a Japanese proposal for a Global Infrastructure Fund (GIF), prepared by Mr. Masaka Nakajima of the Mitsubishi Research Institute. The GIF calls for the mobilization of some $15 billion annually from OECD countries, OPEC and other developed countries to finance projects of global interest as a means of promoting the development of the world economy, overcoming the world recession without renewed inflation, relieving international tensions and the need for armaments etc. (Another source describing the Japanese proposal as entailing a $25 billion per annum fund.)

2. There was comparatively little discussion of the Global Fund as such. Mr. Okita is becoming aware of the inhospitable climate for new international funding initiatives. Mr. Clausen cited the Bank's experience with the Energy Affiliate and the difficulties with IDA replenishment. He used the occasion to urge greater Japanese support for the Bank group through borrowing operations and IDA contributions, and joined me in discussing the needs of the CGIAR.

3. There were three specific "global" initiatives that Messrs. Okita and Batista wished to bring to Mr. Clausen's attention, and which they see as linked in a global context. These are: (a) the development of the mineral, forestry, and agricultural potential of the Amazon region, of which the Carajas iron ore project is the first installment; (b) the construction of a new Panama Canal; and (c) the construction of an Asiatic port in Japan, for the handling of bulk cargoes.

4. The Carajas iron ore mining project, now under appraisal for a Bank loan of $300 million, was the subject of a subsequent meeting in the afternoon. It was cited at lunch as an example of a large infrastructure project involving extensive co-financing including the private sector. Mr. Batista mentioned that the Companhia Vale do Rio Doce held concessions for other areas in the Amazon region, and also considered that the region had a vast potential for forestry and food production (the latter based on more fertile soils that were now being discovered). He also believed that the Amazon held extensive gas and oil reserves, which were in the process of being discovered through new seismological techniques.

5. The natural market for the vast export potential of the Amazon region was said to be in the Far East. Hence the importance of the construction of another Panama Canal which could accommodate large ore carriers

and tankers and greatly reduce shipping costs. Discussions had been held by Japanese officials with the Carter Administration and recently with the Reagan Administration. (There was reference to an earlier "Anderson" report on a new canal, with which none of the participants was familiar). It was possible that, with the agreement of the Panamian Government, the United States and Japan would jointly finance and carry out a feasibility study for a second canal. A figure of $15 billion for the cost of the canal was mentioned.

6. The third link in this global chain would be an "Asiatic" port where large tankers and carriers could dock and where their cargoes could be broken up for transhipment. Japan was considered the natural location, because of its proximity to the major Asian markets (Japan, China, Korea). A port in South-East Asia (e.g. Singapore or Indonesia) would not serve as well. Plans for such a port are now being prepared.

7. Mr. Okita mentioned that there were another hundred such projects for which the GIF might be used. These three were being presented because of their interrelationship and because of the possible interest of the World Bank. Mr. Okita was apparently not aware that the Bank did not lend to developed countries such as Japan.

8. Mr. Clausen said that he found the ideas behind the Global Fund very interesting. He would be glad to be kept informed of its progress. Any Bank involvement would have to be determined on a case-by-case basis, in the light of the Bank's mandate to promote the economic growth of the developing world. Any such projects would, of course, be considered in the global framework that had been described.

cc: Mr. Clausen
Mr. Stern ✓
Mr. Qureshi
Mr. Ardito Barletta
Mr. Husain

WCBaum:mt

(1) Circ.
(2) File

February 10, 1982

Tom,

Below is a brief glossary of types of lending, other than straight project lending. I hope it illuminates this arcane subject. I would be glad to discuss it.

1. Structural Adjustment Lending. Provides financing for a general list of imports and is based on an agreed program of policy reform and institutional change designed to reduce an excessive current account deficit (measured as a percent of GNP) in a 3-5 year period. It is generally expected that there would be a series of such loans to a country before the policy reform and structural adjustment program is complete.

2. Program Lending. One form is like structural adjustment lending. It provides financing for an agreed list of imports. It can be associated with a program of policy reform, though it need not be. The payments deficit is not a temporary structural adjustment issue and the policy changes are not necessarily aimed at improving the current account. The only current example of such lending is in Bangladesh.

   A second form is to assist after emergencies, manmade or natural. Such program loans are usually a one-shot affair.

3. Sector SAL. This is a recent development, designed for countries where major policy and institutional changes are a prerequisite for lending but which do not have the political and/or administrative capacity to undertake economy-wide programs of reform. The loan may, for instance, finance inputs for agriculture and have associated with it an agreed program of policy reform for the agricultural sector. Recent examples are our agricultural rehabilitation loans to the Sudan and, in a different sector, our export rehabilitation credit in Tanzania.

4. Sector Lending. Loans made in support of a multi-year investment program in a sector or sub-sector. The overall investment program is reviewed by the Bank and individual projects are appraised by the borrowing agency on the basis of agreed criteria. Financing is for equipment and civil works associated with the specific investments. Such lending is feasible only with well developed institutions whose appraisal capacity is satisfactory.

5. <u>DFC Loans.</u> Loans to financial intermediaries are essentially a line of credit which the local institution lends for projects by individual investors. The Banknormally reviews the operational policy statement and broad allocation issues, including the allocation by size of enterprise. Appraisal of individual projects is left to the intermediary. Of course, one objective of such lending is to build up the intermediary institution.

6. <u>Time Slice.</u> Essentially project lending, but it permits fast disbursement. The loan finances a portion, usually 3-4 years, of a series of projects making up an investment program in a sector with long-term projects, such as irrigation dams. The projects constituting the investment program are appraised by the Bank. Although it is anticipated that the Bank will finance the second phase of the program, we obtain assurances from the Government that it will provide financing to complete all projects in the program.

Of the above categories, only structural adjustment and program lending are considered non-project lending, strictly defined. It is these two categories which are considered relevant to the 10% "ceiling." However, each of the other four categories have some element of non-project lending. SAL sector, DFC, and time-slice lending disburse relatively rapidly; SAL sector lending provides imports for general use in the sector, not directly related to specific projects; in sector and DFC lending the Bank does not appraise projects and the borrower has considerable flexibility within an agreed framework. Of the six types of loans listed, only time-slice financing involves the Bank directly in the design and appraisal of projects.

Ernie

Mr. A.W. Clausen January 21, 1982

Ernest Stern

Development Committee Meeting, May 1982

Attached for your information is a list of items on the Agenda for the Development Committee meeting in May. The preparatory work on the topics is in process and will be completed by mid-April.

The annotated Agenda will be ready for circulation to the Board by March 15.

ES:dpw

## Possible Items for the Agenda of the Development Committee Meeting in May, 1982 Helsinki, Finland

| Items | Preparation of Background Notes and/or Annotations for Board Discussion first-half of March |
|---|---|
| 1. Status of Lending Operations for M.D.I.s. | |
| i) Status of IDA VI | - For background, Board paper IDA/R81-143, scheduled for discussion on January 26, 1982. Chernick to prepare annotations. |
| ii) Status of IDA VII | - Background note and/or annotations to be prepared by P. Mistry. |
| iii) Additional Lending for Energy | - S. Chernick to coordinate. |
| iv) Regional Banks | - H. Kastoft to coordinate. |
| 2. Follow up on Sub-Saharan African Action Program | - Background note and/or annotations to be prepared by S. Please. |
| 3. Final Report of Task Force on Non-Concessional Flows | - K. Ikram (in consultation with D. Palmer, IMF). |
| 4. Progress Report on the Composition and Terms of Reference of the Task Force on Concessional Assistance | - H. Kastoft. |
| 5. Other business | |

SEC/01/18/82

January 5, 1982

Tom:

I generally agree with the thrust of the briefing material. However, getting changes in policy in Pakistan has proven exceptionally difficult and there are still many issues on which the Government of Pakistan is not prepared to move, or only moves very slowly. The SAL as described herein is still weak in content and needs to be strengthened. Similarly, the question of energy pricing to provide an adequate incentive to private owners to expand development of gas fields is very important and the Government has not yet decided to take proper action. You might stress the need for internationally comparable prices for gas with an appropriate taxation policy to eliminate excess profits.

In light of the above, I would also caution you to not mention any amount for the SAL and not to be explicit on the amount of the lending program.

Ernie

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

1) Circ
2) File - AWC

TO: Mr. A. W. Clausen

DATE: December 7, 1981

FROM: Ernest Stern, SVP, Operations ES

SUBJECT: Project Implementation Review. Fall 1981 Session.

1. Twice a year, in the spring and fall, the operating units undertake what we call the Project Implementation Review. The purposes of this review are: a) to discuss the main trends in project implementation and supervision; b) to analyze a selected number of issues of general interest in operations; and c) to focus on some of the most difficult and/or interesting cases (projects, sectors, countries) in the portfolio. This exercise, which has been in operation in its present form for five years (before it dealt only with "problem projects") has proved to be an excellent mechanism for exchanging operational experience among Regions, and as a tool of regional management. It has also helped to review existing operating policies and modify them as necessary. We provide an annual report to the Board on project implementation and supervision that is based on these reviews. The meetings of the Fall '81 Review, which I chaired and Mr. Baum also attended, took place on December 3 and 4. They included a short session with the Senior Staff of each of the Regions on the papers they prepared and a Bankwide meeting to discuss the special topics reviewed.

2. As of September 30, 1981 the Bank/IDA had 1,580 projects under active supervision. On the whole, the portfolio continues to be in very good shape, but there has been a slight deterioration during the last three years: the proportion of projects encountering "major" problems rose from 9 to 11%, which largely reflects the deteriorating world economic situation, in addition to the special difficulties for particular groups of countries (Africa, Central America). All sectors have been affected, including traditional ones such as power.

3. Last year there was a deterioration in project performance in countries with a traditionally good record, such as Kenya, Korea, Rumania and Yugoslavia. This was mostly due to the effect of general economic conditions, but in Kenya was exacerbated by the recent political changes and consequent deterioration in the public sector. Performance in Liberia also deteriorated sharply due to political developments.

4. The most pervasive types of implementation problems are those derived from weak institutions and lack of good managers, two generic symptoms of underdevelopment. The financial situation of many of the agencies in charge of project implementation worsened as a result of slower economic activity and the governments' difficulties (and sometimes reluctance) in providing counterpart funds and granting tariff and price increases. The difficulties encountered by agricultural development in many parts of Africa also loomed large in the discussions.

5. There are some bright spots. We have less cost overruns in our projects, thanks to more realistic cost estimates and adequate

provisions for contingencies. Disbursements have accelerated somewhat, in part because of better monitoring within the Bank. Also, there is increased awareness in several countries of the need for more realistic interest rates.

6. By and large, project supervision and the resources devoted to it seems to be well tuned to the level of difficulty in implementation; resources flow where they are needed, and the more difficult projects receive the greatest attention. Supervision continues to have first priority in operational work. Considerable implementation assistance is being provided in some cases (e.g., Bangladesh), while in others local staff and staff from local agencies are being used to perform some of the functions usually included in this task. A potential problem is that the cost of supervising Structural Adjustment Loans seems to be several times higher than that for regular projects.

7. Several country and sectoral reviews were undertaken by the Regions, focussed on those cases where the portfolio faces greater difficulties. They also reviewed a number of special topics of broader operational interest. At the general meeting on December 4, the discussions concentrated on the following: a) project lending as an instrument for policy and institutional change, based on the experience in South Asia; b) LAC experience with emergency lending (operations dealing with the aftermath of natural catastrophes and political disturbances); c) the lending approach for the power sector in Western Africa; and d) project complexity, that is whether some projects are more complex than required under the circumstances. Further work on these topics is envisaged and a summary of the discussion will be prepared in the next weeks.

AIsrael:da:cb

cc: Mr. Baum
Mr. van der Tak
Mr. Rajagopalan

Mr. A. W. Clausen November 30, 1981

Ernest Stern, SVP, Operations

YUGOSLAVIA - Visit of Mr. Petar Kostic

In the meeting with Mr. Kostic we ought to be quite firm about our recently agreed on graduation policy. (You ought to be careful, though, with Tony Looijen present, since we have not yet discussed the policy with the Board.) On graduation (Paragraph 2 of your brief) we ought to make it clear that:

a) $2650 per capita income will be the trigger for

b) a discussion of a phaseout program which will not exceed five years and may be less.

c) We are also willing to discuss post-graduate relations (IFC, EDI, economic work) though little (if any) of this could be for free.

Regarding interest rates - Paragraph 13 of the brief is incomplete. Inflation in Yugoslavia is now about 40% and interest rates are less than 15%. I have refused to consider an Industrial Credit proposal with a negative rate of 25%. You should tell Mr. Kostic that while we understand that interest rates in Yugoslavia do not have the same function as in a market economy, we cannot continue to lend for credit and related operations with an effective cost of capital which is highly negative.

EStern/lms

CONFIDENTIAL



Mr. A.W. Clausen

November 25, 1981

Ernest Stern

IDA

You should be aware that the New York Times story of Wednesday which reports that the U.S. Government has reached a decision on the IDA contribution for the future of $750 per year is reportedly accurate. It is the number which is now in the final draft of the report on the Multilateral Development Banks which is scheduled to be released after January 20 when the embargo on budget numbers is lifted. I think we need to address this issue urgently with the Treasury. It obviously will make it clear that IDA 6 is a four-year exercise and remove all negotiating flexibility for IDA 7.

ES:dpw

Mr. A. W. Clausen



November 25, 1982

Ernest Stern

During your Absence

Life in the Bank has been reasonably serene during your absence. The following points are worth noting:

1. The U.S. continues to be concerned about the membership of Hungary and Poland. Although the Chairman of the Paris Club had invited Chaufournier to attend the meeting on Poland's debt he had to revoke his invitation because of U.S. objections. I have urged both Tim McNamar and Tom Dawson to formulate a U.S. position because there will be strong support for the admission of both countries and support for some type of Bank operations. The U.S. should think through whether it holds a different view and if so, what this would involve. It would be embarrassing to us (and dangerous from the bilateral point of view) for them to continue with this divided set of opinions leading to ad hoc actions.

2. The IDA appropriation number has been jumping around wildly. Last Friday noon it was up to $700 million, but Friday night it was down to $650 million and by Sunday morning it had receded again to $532 million. As you know, it all didn't matter since the President vetoed the bill, closed the Government offices for half a day on Monday for lack of financial operating authority and got a simple extension of the current Continuing Resolution till December 15. So, we are back to square one.

3. The Managing Committee met on the 23rd and we discussed the budget overview memorandum of Mr. Vergin (your office has a copy) and the draft Board paper on the expansion of special procedure limits. (The latter paper has since been issued.) The budget guidelines for fiscal 83 will be difficult and I suggest that you set aside an hour for discussion with Mr. Vergin on the budget process prior to the draft budget guidelines which will come to the Managing Committee December 21.

4. The paper on financing the Bank with the recommendation for increase in the commitment fee and the lending rate and the establishment of a front-end fee was issued on the 23rd for discussion on December 15. The paper on the IDA service charge has also been issued.

5. Mr. Regan has been asked by State (Enders) to call you regarding our decision on the Central American Consultative Group. It is not yet clear whether he will do so or what he will say if he does. Treasury staff agrees with our assessment of the political risks but they feel they have to honor the request from State. I have also talked with the Canadians who are not at all unhappy at our declining the offer to chair the

# Record Removal Notice



| File Title | Barcode No. |
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| 25 November, 1981 | Memorandum |

**Correspondents / Participants**
From: Ernest Stern
To: A.W. Clausen

**Subject / Title**
Mr. Mentre de Loye

**Exception(s)**
Corporate Administrative Matters
Personal Information

**Additional Comments**

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

| Withdrawn by | Date |
|---|---|
| A.May | November 03, 2021 |

AWC

October 30, 1981

Mr. William P. Tavoulareas
President
Mobil Oil Corporation
150 East 42nd Street
New York, New York 10017

incoming in Energy File w/response.

Dear Mr. Tavoulareas:

Thank you for writing to me regarding the World Bank's energy program. The points you make in your letter seem to me to be exactly right and they define the philosophy and objectives of the World Bank energy lending prggram as well. We agree that subsidized financing for energy development is inappropriate because it will misdirect the investment stream and adversely affect decisions on energy investment, and because it may lead to energy pricing which may mislead investment decisions in other sectors.

The World Bank has been lending for energy almost since its inception and when I discussed our energy lending program, I had in mind not only the financing of oil and gas development, but also all those other aspects of energy development in the developing countries which are crucial to their development process. These include lending for power development, coal mining and transport, fuelwood production, conservation programs to reduce or limit the growth of energy demand, and the restructuring of refineries to assure a better match between refinery output and domestic requirements. In FY1981, which ended last June 30, the World Bank lent a total of $2.4 billion for all types of energy projects. Of this amount, roughly two thirds went for electric power generation transmission and distribution, about $300 million went for biomass, i.e., including the support of the Brazilian Methanol Program and fuelwood development, and about $650 million went for oil and gas projects.

In the area of oil and gas we share your perceptions completely. You mention the need for appropriate contract terms, the lack of existing infrastructure, the absence of government funds to carry its share of large investments, and the political risks associated with nationalization. Our oil and gas program is specifically tailored to meet these concerns. We are keenly aware of the need to tailor contract terms to the different realities of less favorable geological potential and higher risks. Our exploration promotion activities have, as an integral component, provided experienced technical assistance to governments to formulate an appropriate legal and contractual framework able to attract the necessary private capital. I would mention Madagascar as a good recent example of a country where Bank participation in exploration promotion resulted in an offering of acreage to companies on reasonable terms culminating in successful agreement with a number of major oil companies.

You also note that the absence of infrastructure by raising costs can be a disincentive for private companies. Here we have traditionally played a significant role in helping governments to finance infrastructure, such as pipelines, and thereby reduce the financial exposure of private partners. For example, the World Bank played this role in the development of the gas resources in Thailand, in association with Union Oil. Our participation enabled the Thai Government to raise substantial funds on the markets for the financing of the pipeline and associated infrastructure. In Egypt, we have similarly assisted in the financing of gas, both associated and free, which previously had not been utilized and which, with our financing of the necessary infrastructure, was brought ashore and now provides fuel for industry and domestic consumers, freeing up considerable amounts of oil for export.

The lack of host government funds to participate in joint ventures with private companies, which you mention, is unfortunate since this type of participation can often be the basis for a stable long-term relationship. The Bank is prepared to assist in financing the government's share of joint-venture costs in accordance with its agreement with a private company.

Finally, you note the problem of political risk. The oil companies with which we have worked believe that our presence helps to reduce the possibility of a government retroactively and unilaterally revising agreed terms or expropriating company assets. We believe that our participation can serve to increase private capital flows by reducing some of these types of risks. This participation could either be in the form of a loan or we are prepared to underwrite exploration arrangements, as we have done in the case of Pakistan, which provide for Bank participation in financing the government share of development costs if a commercial discovery is made.

I hope these comments clarify some of the issues you raise in regard to the World Bank's energy program. I, and any of my senior associates, would be very glad to meet with you further to discuss your ideas or to provide additional clarification on what our program seeks to achieve. @ enclose some material on our energy program which gives you an indication of the types of projects we are engaged in. We are convinced that most of the financing and all of the expertise and technical skills for oil and gas development reside in the private sector. The World Bank could not, nor does it wish to, substitute for these. We see our role as supportive and catalytic. We share your view that private capital will be attracted to oil and gas development in the developing countries if there is adequate information on the geological potential and if the terms of concessions are mutually satisfactory.

Sincerely,

A. W. Clausen

Enclosures

cc: Mr. Clausen's Office (2)

EStern:dpw 10/30/81

AWC

Mr. A. W. Clausen — October 23, 1981

Ernest Stern, SVP, Operations

Events during your Absence

1. Welcome back. I hope you had a nice and productive visit.

2. There have been relatively few major developments in the past week. We presented five borrowing operations to the Board on Tuesday, all of which were approved without difficulty. The $500 million U.S. operation proved slightly more difficult. The transaction was presented as consisting of $250 million each in 5-year notes and 10-year bonds, with a total cost to the Bank not to exceed 16.50%. This was based on a margin of 20 basis points over the then-established cost. Between the Board meeting and the pricing on Wednesday, the market deteriorated and it was clear that we would not be able to issue within the proposed ceiling. After protracted discussions with the underwriters, we reconvened the Board on Thursday morning and I asked for revised authority to issue at a cost not to exceed 16.75% and to give us discretion to change the mix between the 5's and 10's. Gene Rotberg, who was still in New York, had suggested a ceiling of 16.70%. However, in view of the previous experience I thought this inadequate. As it turned out, we settled on a total cost of 16.73% with a blend of $300 million 5-year notes and $200 million 10-year bonds. One lesson from this is that we must seek much broader negotiating authority to deal in this volatile market.

3. On the day that we were about to issue, the Wall Street Journal carried the attached editorial. It is a thoroughly nasty piece of work and the underwriter lawyers thought there might even be a basis for a libel suit. Despite the higher than anticipated cost of the bond issue, the editorial added to the arguments that we should proceed with the issue.

4. Your letter to President Mitterand on energy had a very successful impact. It was one of the things he mentioned to President Reagan when they met at Yorktown. This led to calls from Treasury. I shared with them our suggestions and the last call I had before they trooped off to Cancun was that "senior Treasury officials" were prepared to support an increase in the Bank lending level to finance additional energy projects, subject only to a check after they return that this would have no significant affect on the estimated date for the next capital increase. They indicated explicitly that they could support such a proposal in the Board. I told them that if the U.S. was prepared to indicate its support, there was no other Board member I was aware of who would oppose it.

5. I reached Fred Hartley and invited him to participate in the January Brookings symposium on the World Bank and he has agreed to do so. You might want to send him a note of appreciation.

6. The IDA appropriation is not in very good shape and there is now talk of no foreign aid bill, but instead having a continuing resolution. In such a resolution there would be an attempt to put IDA at $600 million rather than simply leave it at last year's level of $500. This would of course be disastrous. We must get together urgently with Treasury to agree on a strategy. If there is no foreign aid bill, we must give some thought to an alternative approach for IDA funding. With $600 million as a U.S. base, we would have no more than about one-half of the FY82 resources. We simply cannot take these developments as inevitable. They are susceptible to political pressure and we must begin to be more active.

7. Throughout the week we have had a continuous problem on the public affairs side. Mr. Haq has been in a frenzy of public relations activities regarding Cancun, none of which had been cleared in advance and few of which represented Bank policy. He appeared in a discussion with Bob Hormats on the McNeil/Lehrer Report and he produced the attached article for the OpEd page of the Washington Post. I asked Martijn Paijmans to speak with him, which he has done, and I attach my memorandum to Mr. Benjenk and the response regarding the Washington Post article.

Attachments
EStern/lms

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This news item appeared on page 26 of the October 22, 1981 issue of:

The Wall Street Journal

# REVIEW & OUTLOOK

## A $500 Million Wager

While President Reagan is at Cancun trying to stave off a Third World grab for the American wallet, the World Bank is quietly making its long-delayed offering in the U.S. bond markets of $500 million in notes, half due in 1986 and half in 1991. Leafing through the prospectus for today's sale, we're struck by the absence of any mention of serious questions facing the bank."

Don't misunderstand; we're not alleging any violation of the law. The Bretton Woods Agreement Act exempts the bank from major provisions of U.S. securities law. The underwriters have a platoon of $500,000-a-year lawyers to say everything's cricket. And the bank's problems are scarcely a secret from potential bond buyers; its officials have dealt with the questions that trouble us in various speeches and newspaper interviews over the years. Still, it seems to us that in addition to being matters of public policy, these issues are material to the bank's ability to repay the loans it seeks today.

One question, for example, has to do with the intentions of the bank's management about what is called its "gearing ratio." When the World Bank was established at Bretton Woods, the nations that set it up wrote into its articles of agreement a clause that prohibits the bank from lending more than it has in capital and reserves. Under the McNamara regime, however, the bank began pumping out such huge sums to Third World borrowers that the gearing ratio seemed restrictive. So about a year ago Mr. McNamara began a campaign to get the ratio relaxed so that the bank could make more loans with the same capital base.

An internal Reagan administration report on the World Bank and similar institutions recently made the obvious point that a change in the gearing ratio could have an adverse impact on the bank's ability to raise market funds. The bank's new management under A.W. Clausen has not made its intentions clear on this point, ~~and it is~~ mentioned in neither the prospectus nor the bank's annual report. Yet clearly the value of the paper being sold will depend on whether it adheres to a conservative one-to-one gearing ratio.

The second question involves the bank's capital itself—the money the bank would rely on to pay its own debts if its Third World loans go sour. The bank has two types of capital. One type its owner governments purchase for cash. The second, far larger type (about 90% of the bank's capital), owner-governments promise to purchase if the bank calls on them to do so. What's happened lately is that, in an effort to disguise the impact of World Bank programs on the U.S. budget, Congress has been threatening to move "off budget" these promises to buy capital if the World Bank makes the call.

In the latest round, for example, the House Appropriations Committee chose not to seek an appropriation for $1.68 billion for fiscal 1982 in the callable capital the U.S. would take in the bank's latest capital increase. The exact status is up in the air at the moment, along with the entire foreign aid bill. But the problem is serious enough that those committee members following the issue most seriously—Congressmen Jerry Lewis, Bill Young, Virginia Smith and Mickey Edwards—published last month a dissenting view. They said failure to appropriate callable capital "reduces the certainty of fulfilling the guarantee" of the U.S. If the capital is called in the future, they warned, congressional appropriation "may not be automatically forthcoming if Congress disapproved of the manner in which the bank has been operating."

Well, a concern about the way the bank has been operating is precisely what's prompting these Congressmen and other critics to start flyspecking its operations. The bank has been claiming—as it does in its offering documents on the new bonds—that it has never had a loss on a loan and that it refuses to participate in debt reschedulings. It insists in its latest offering documents, moreover, that it anticipates no losses on loans "and, accordingly, no reserve for loan losses has been established." This is the bank, mind you, that has lately been shoveling out $12 billion a year in loan commitments to such nations as Tanzania, India and China.

These are just the sort of nations who are down at Cancun right now, complaining loudly every time President Reagan suggests they put a little faith in the magic of the marketplace and insisting that the First World make up for its colonial sins by giving them the money to keep their unproductive socialist economies from collapsing. It all adds up to a situation in which the questions of the World Bank's gearing ratio and proper budgeting procedures for callable capital are issues not merely for the member governments but for the bond buyers wagering $500 million today.

This is the Complete Article Quoted In Earlier Development News

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This news item appeared on page A-31 of the October 22, 1981 issue of:

The Washington Post

*Mahbub ul Haq*

# . . . And Possibilities for Success

Will the Cancun summit meeting of northern and southern nations disappear into history as yet another unsung event, all sound and fury signifying nothing? Or will it start a process of constructive dialogue between rich and poor nations, leading to greater economic opportunities and shared prosperity? I believe that at least three steps are necessary for the Cancun summit to succeed.

First, there must be a shared political perception at Cancun that economic prosperity of all nations is closely interlinked. The economic recovery and financial health of the Third World must become a matter of more than casual interest to the industrial nations once they recognize that over one-third of their exports are purchased by the developing countries, their capital markets nervously watch over $300 billion of debt in the Third World, and their private sector has several hundred billions in investments at risk in poor nations.

At the same time, the developing countries have a vested interest in a quick turnaround in the economic fortunes of the rich nations, since this would expand their own markets and their sources of capital funds.

Second, the summit must descend quickly from political rhetoric to concrete proposals. There are many areas in which it is possible to reach agreement on a fairly specific agenda in the best interest of all nations. For instance:

- Oil-importing developing countries need to triple their investment from $20 billion to $60 billion a year over the next 10 years to expand their energy production. These are extremely high-return investments for all sides.
- The developing countries must increase their food production by at least 4 percent a year over the next 10 years (compared with 2.5 percent over the last two decades) to reduce their unsustainable dependence on food imports. Besides considerable effort on their own part, this requires a near doubling of present external investment of about $5 billion a year which, again, carries a high return for all sides.
- The poorest developing nations also need some short-term protection against periodic food shortages. In a tight international market, the poor nations should have access to some ready cash (from the proposed International Monetary Fund Food Facility) as well as physical reserves (at least 10 million tons) available at reasonable prices and repayable in a reasonable period.
- The developing countries face rising current account deficits, already exceeding $80 to $90 billion a year. They desperately need international liquidity. Since the surplus countries choose to hold their liquidity primarily in dollars, there is automatic lending to the richest country of the world, rather than to poor deficit countries. There is, as such, an urgent need to enlarge even further the role of the IMF (to supplement that of the commercial banks) in providing balance-of-payments support to the developing countries.
- We must seek realistic ways to expand assistance to low- and middle-income developing countries without putting pressure on the overstretched budgets of the nations of the Organization for Economic Cooperation and Development. For example, only one-third of their current concessional assistance is actually going to low-income countries. Why not reallocate this concessional assistance primarily to the genuinely needy nations, compensate middle-income countries by the expansion of World Bank lending (maybe $2 for every dollar of concessional assistance loss) and thus serve the diversified interests of all nations, without costing the OECD budgets a penny more?
- In the trade area, the real question is how to translate the broad agreement on the principles of liberal trade environment and opening up of markets into practice when the multifiber agreement or agreements on other quantitative trade barriers are actually negotiated.

It would be unrealistic to expect instant decisions at Cancun on these proposals. But it should be possible to agree on concrete objectives in each area and to refer the specific proposals to various negotiating forums. After a modest start, more fundamental issues can be taken up in later years.

Finally, the success of the Cancun summit will hinge on the process of negotiation it starts. So far, both sides have been trying to pull the negotiations into forums where they enjoy a majority—either numerical or weighted. It is time for a new beginning that overcomes the anxieties and suspicions on both sides. One possible way to break the deadlock is to: x

- Institutionalize annual north-south summits, with half of their membership permanent and the other half rotating.
- Set up ad hoc forums of 15 to 20 concerned nations to discuss and agree on specific policy options in each area.
- Use annual summits to break any political deadlock that arises and the U.N. General Assembly for ratification or modification of the agreements once reached.

This is precisely what we and the Fund have strongly objected to.

Such a procedure will provide an overall political framework for global negotiations, continuity and linkage in various steps over time and productive negotiations in functional forums while ensuring universal participation in approval of agreements.

*The writer is director of policy planning at the World Bank.*

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This is the Complete Article Quoted In Earlier Development News

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. Ernest Stern, SVPOP

DATE: October 22, 1981

FROM: Shirley Boskey, Acting VPE SEB

SUBJECT: Relations with the Media

1. I have just received my copy of your memo to Mr. Benjenk, which begins by stating that you are "amazed" that his office would clear the Haq article on Cancun which appeared in today's Washington Post. If you can de-amaze yourself retroactively, please do so, because External Relations was not given the opportunity to clear the text.

2. I attach a memo from Martin Koelle to me, received this morning, in which you will see recorded the fact that Mahbub gave Martin a copy of the article yesterday, the text being the one he gave to the press at the ODC meeting last week and which was in part the basis for Bart Rowen's article. He had not shown it to IPA before he distributed it at the ODC meeting, nor (see Martin's memo) did he say to Martin yesterday that it would appear in the Post today. The text given out at the ODC meeting has a footnote stating "The writer is Chairman of North South Roundtable. These views are expressed in his personal capacity." However, as your memo notes, the Post article identifies Mahbub as the Bank's Director of Policy Planning, without reference to the Roundtable or to a personal capacity.

3. Martin understands that the concept of a personal capacity distinct from the role of Bank spokesman no longer exists. I daresay Mahbub now is likewise aware of that fact. Would it not be advisable for wider currency to be given to this policy/viewpoint/rule/whatever you want to call it? Granted that the Manual is explicit on the need for clearance, I do believe that many staff are under the impression that even if clearance to participate in a program is given, they are able effectively to protect themselves and the Bank by a disclaimer. If the Bank does not recognize the disclaimer, staff should be so informed. As I am copying this note to Mr. Benjenk, I shall raise this point with him on his return.

cc: Mr. Benjenk, VPE

SEBoskey:di

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mrs. S. Boskey

DATE: October 22, 1981 (Thursday)

FROM: H. Martin Koelle HMK.

SUBJECT: Mr. Mahbub ul Haq's Public Statements



Following your conversation with Mr. Haq last week after his appearance on the McNeil/Lehrer TV show and his Washington Post quote on Cancun he called me twice to discuss the matter of his public statements, the first time to sound out my feelings, and the second time, to explain the new rules he had instituted in his department concerning public statements. Both conversations were conducted in a very friendly and relaxed tone.

In the first conversation, Monday, I drew Mr. Haq's attention to rule 1.02 of the Administrative Manual, and we discussed the need and usefulness of that rule. Mr. Haq pointed out that in all his public appearances and statements in whatever capacity he had always the best interest of the Bank at heart. As to the McNeil/Lehrer program, he had been invited that same afternoon which didn't give him time to check with IPA. I asked, hypothetically, what if IPA had advised him to decline the invitation, to which he replied he would have gone anyhow. I said that there may be times and occasions where IPA's advice would be against participation and that at any rate Bank staff should not go beyond the lines indicated in the President's speech when discussing policy. I also said that, try as he might to appear to be speaking as Chairman of the North-South roundtable, he would always be identified in the media as the World Bank's Policy Planning Director, and the Washington Post quote showed this very clearly.

In the second conversation, Wednesday, Mr. Haq said he is now instituting the rule in his department that all public appearances, statements or requests for interviews will be submitted to him and he will clear them with IPA, including his own. I welcomed this initiative, and suggested that when explaining this rule to his staff, it might be helpful to refer to Statement 1.02 of the Administrative Manual to show that this was not a new rule, but rather the application of an existing one. Mr. Haq said that this was the beginning of a "new era," and to clear the slate with regard to some of his activities in the "old era" (i.e. when he didn't inform or clear materials with IPA), he sent me the attached statement on Cancun which he had prepared and handed out to the press at last week's ODC conference (attachment 1). But he did not mention that this statement was going to be published the following day, Thursday, in the Washington Post's op-ed page, with his title given as Director of policy planning at the World Bank.

Ringing in the "new era", Mr. Haq sent me the attached invitation to one of the National Town Meetings at the Kennedy Center for clearance which I gave him while suggesting that his intervention should reflect Bank's views (attachment 2).

HMK:apz

Attachments

cc: Mr. Benjenk o/r

CONFIDENTIAL



October 23, 1981

Mr. Clausen

I was told that the U.S. interest in Mr. Chenery's successor is still strong. Allegedly, Secretary Regan is to call you next week to express this interest. As I understand it, the U.S. does not have a specific individual in mind but would like to be consulted, in part because of their concern that Mr. Haq is a leading candidate to replace Mr. Chenery.

Secondly, the U.S. seems to have heard about organizational changes being considered for the DPS and believes that if Mr. Chenery's replacement is to be a U.S. national the size of the DPS should not be any less than it is today. Needless to say, the latter is a subject which is and ought to remain within Management's province.

Ernest Stern

October 23, 1981

Mr. Clausen

Before you left you asked me to follow up on two items -- the report to the staff on the Annual Meetings, which we had decided on at the Managing Committee, and comments on the Treasury Report on the MDBs.

Some work had been started on the comments on the Treasury Report but it was awaiting the return of Mr. Benjenk and Mr. Qureshi. I retrieved it and, with the assistance of Mr. Wood and Mr. Burki, extracted those comments of principal importance to us and sent them with a covering note to Beryl Sprinkel last Friday. Although this was about a week late I am told that we were still in time and that these and other comments will be considered by the Inter-Agency Group next week.

Work on the report to Bank staff on the Annual Meetings has not been assigned to anyone and in view of the time that had passed I thought it best not to pursue this further. Instead, I have asked that Mr. Benjenk consider devoting the next issue of Bank Notes to describe some of the highlights of the Annual Meetings.

Ernest Stern

10/7/81

Tom:

In addition to economic issues there is a basic question concerning the territorial dispute with Venezuela. Up until now we have always taken the position on border disputes that we would not finance projects in disputed areas. This has been both for political reasons and because the government guarantee of our loan would be suspect if there were a real chance that the territory could be transferred. However, in the case of Venezuela, they claim about two-thirds of the territory of Guyana and our existing policy position may not be tenable. The matter is under review by the General Counsel but we do not yet have his conclusions. We should, of course, urge both countries to try to resolve their dispute but it is an old one and they are unlikely to reach an agreement without some outside participation. For this meeting, I suggest you merely note a willingness to continue to assist in defining the economic viability of the project and in obtaining possible private sector participation and note that it is urgent for Guyana and Venezuela to get together rather than to continue to try and persuade us of the merits of their respective positions.

Ernie

Attachment

Mr. A. W. Clausen September 24, 1981

Ernest Stern

Management Seminar

Tom:

I have discussed an "Annapolis" for senior staff with Martijn and we both agree that it would be a good idea.

Attendance

The participants should be the members of the President's Council.

Site

Since most of the members of the PC have been in Annapolis for two years running we would suggest another venue. There are several possibilities within 2-3 hours drive of Washington and the specific location can be worked out once we have settled on a date.

Timing

Martijn and I believe that the retreat should be held as soon as is consistent with your travel schedule. Since we also need to provide advance notice to the senior staff who have their own post-Annual Meeting travel schedule, and group reservations need lead time, late November or early December should be our target.

Wives

If we find a site within reasonable distance of Washington, and the retreat is for Friday and Saturday, it would be a nice gesture to invite wives to come down Saturday afternoon and join for dinner Saturday evening.

Agenda

Obviously we want to discuss this with other members of the Managing Committee. But I would suggest as possible topics:

Communications: Internal communications are inadequate. What improvements lie ahead? What do we expect to accomplish through the management chain; through centrally produced material; through staff meetings, seminars and other meetings; through more written communications by senior managers. What are our objectives and how do we measure our achievements? What are our plans for improved external dissemination of our achievements?

Financial Prospects: Presentation, for information, of outlook for borrowing program; net income trends; measures under consideration to strengthen earnings, including greater differentiation among borrowers.

Expanded Borrower Services: How, in light of likely resource constraints, do we handle expanded advisory services. What is the scope for such services in Africa; in other low income countries; in middle income countries? What type of services do we offer--technical, project preparation, economic analysis, policy advice?

Policy Emphasis: How do we implement an increased attention to the policy framework in Borrowers? How do we handle the dialogue where we do not make a structural adjustment loan? Is it realistic to seek explicit agreement on specific policy changes in the context of a multi-year lending level for projects? What are the practical implications for managing the project pipeline? Is it politically feasible in terms of most large Borrowers? If not, can we differentiate?

Management: How do we expect management/employee relations to evolve? How can we improve the institutional climate and create a creative "esprit de corps"? How do we see career opportunities in a constrained environment? How do we give greater weight to the interest of the institution in staff assignments? How do we broaden the perspective of managers. How do we strengthen the sense of individual responsibility for decisions?

b/cc: Mr. Paijmans

EStern:mep

AWC

Dear Mr. Wright:

It was gracious of you to send me your good wishes on my appointment as President of the World Bank, and I accept them with pleasure.

I am aware of the endorsement which my predecessor, Mr. McNamara, gave to the World Conservation Strategy and of the Bank's participation in the ceremony which marked its public launching. His Royal Highness, Prince Philip, recently presented me with a copy and in acknowledging it I assured him of my firm belief that environmental considerations have a key role in economic development.

With respect to the Bank's position concerning tribal peoples, let me also assure you that we are very mindful of our responsibilities for ensuring their well-being. Your compliments regarding the work of our Office of Environmental Affairs in this respect are greatly appreciated. We are now moving towards a formal Bank policy on the subject.

Thank you for your courtesy.

Sincerely,

A.W. Clausen

Mr. R. Michael Wright
Vice President
World Wildlife Fund-U.S.
1801 Connecticut Avenue, N.W.
Washington, D.C. 20009

VRajagopalan/JALee:on

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WORLD WILDLIFE FUND-U.S.
®

1601 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20009
CABLE: PANDAFUND TELEX: 64505
TELEPHONE: (202) 387-0800

21 September, 1981

Mr. A. W. Clausen
President
The World Bank
1818 H St., N.W.
Washington, D.C. 20433

Dear Mr. Clausen:

Please allow me to convey my belated congratulations upon your challenging new assignment. The World Bank was an early leader among the assistance agencies recognizing the essential relationship between sustainable development and maintaining the earth's natural resource base. The challenge which the relationship represents for your tenure will be found in seeking to implement the "Declaration of Environmental Policies and Procedures Relating to Economic Development" signed by the key assistance agencies on 1 February, 1980.

The conservation community has come only lately to the recognition of the interconnectedness between lack of development and environmental degradation. This position was articulated in "The World Conservation Strategy-Living Resource Conservation for Sustainable Development" (a copy of which is enclosed) launched globally one month after the Declaration.

My reason for writing now is a specific aspect of the resource-development relationship, the proposed Bank policy on Economic Development and Tribal Peoples. We would like to compliment the Bank and its Office of Environmental Affairs on the preparation of this careful and well balanced analysis. We urge the formal adoption of the guidelines and approach outlined in the paper.

We wish you a most successful Presidency and look forward to a continued cooperative relationship with the Bank's extremely capable staff.

Sincerely,

R. Michael Wright
Vice President

RMW/z-c

Enc.

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AWC

September 23, 1981

10-2-81

Mr. Clausen

Tom:

Because the alleged rigidity of the programming system is of concern to you I have reviewed FY1981. The results, shown in the attached table, bear out my contention that Regional Vice Presidents have, and exercise, considerable flexibility. In <u>every</u> Region 20% or more of the projects actually submitted to the Board were added to the program in the course of the year, and an almost equal percentage of projects listed in June 1980, were not presented. In Western Africa and LAC the differences are over 30%.

While differences in the aggregate dollar amounts are not as large -- they are constrained by Bank wide totals -- they still can exceed 10%.

Moreover, country variations are very large, reflecting adjustments (up and down) in response to changing country circumstances.

ES

Ernie

Attachment

| Region | FY81 Program (as of 6/30/80) | | FY81 Program (Actual) | | Variation | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projects Added | | Projects Deleted | | Dollar Amounts |
| | No. of Proj. | Amount ($m) | No. of Proj. | Amount ($m) | No. | % of Program as of 6/30/80 | No. | % of Program as of 6/30/80 | Actual/6/30/80 Plan (Percentage) |
| **Eastern Africa** | | | | | | | | | |
| Botswana | 1 | 15.0 | 1 | 17.0 | | | | | 113 |
| Burundi | 2 | 22.7 | 4 | 56.0 | | | | | 247 |
| Ethiopia | 2 | 72.0 | 2 | 75.0 | | | | | 104 |
| Kenya | 3 | 190.0 | 3 | 133.0 | | | | | 70 |
| Lesotho | 1 | 10.0 | 1 | 10.0 | | | | | 100 |
| Madagascar | 3 | 35.5 | 4 | 45.3 | | | | | 128 |
| Malawi | 3 | 65.0 | 4 | 120.0 | | | | | 185 |
| Mauritius | 2 | 30.0 | 2 | 30.0 | | | | | 100 |
| Rwanda | 3 | 40.5 | 2 | 22.5 | | | | | 56 |
| Somalia | 3 | 39.0 | 1 | 10.2 | | | | | 26 |
| Sudan | 3 | 80.0 | 3 | 73.0 | | | | | 91 |
| Swaziland | - | - | 1 | 10.0 | | | | | - |
| Tanzania | 5 | 102.8 | 4 | 92.8 | | | | | 90 |
| Uganda | 3 | 87.0 | 2 | 17.0 | | | | | 20 |
| Zaire | 3 | 37.2 | 2 | 29.3 | | | | | 79 |
| Zambia | 4 | 89.5 | 2 | 26.0 | | | | | 29 |
| Zimbabwe | 1 | 50.0 | 2 | 107.0 | | | | | 214 |
| Total | 42 | 966.2 | 40 | 874.1 | 9 | 21.4 | 11 | 26.2 | 90 |
| **Western Africa** | | | | | | | | | |
| Benin | 2 | 25.0 | 4 | 43.3 | | | | | 173 |
| Cameroon | 3 | 68.0 | 3 | 62.5 | | | | | 92 |
| C.A.R. | - | - | 1 | 9.4 | | | | | - |
| Gambia | - | 1.0 | - | - | | | | | 0 |
| Ghana | 1 | 30.0 | 1 | 29.0 | | | | | 97 |
| Guinea | 2 | 42.2 | 2 | 46.0 | | | | | 109 |
| Guinea-Bissau | 1 | 5.0 | 1 | 6.8 | | | | | 136 |
| Ivory Coast | 4 | 215.0 | 2 | 133.0 | | | | | 62 |
| Liberia | - | - | 2 | 9.0 | | | | | - |
| Mali | 2 | 17.0 | 2 | 20.7 | | | | | 122 |
| Mauritania | 4 | 24.3 | 1 | 15.0 | | | | | 62 |
| Niger | 1 | 18.0 | 1 | 21.5 | | | | | 119 |
| Nigeria | 4 | 430.0 | 3 | 321.0 | | | | | 75 |
| Senegal | 4 | 79.1 | 5 | 102.9 | | | | | 130 |
| Sierra Leone | 2 | 22.0 | 3 | 30.5 | | | | | 139 |
| Togo | 1 | 12.0 | 2 | 25.7 | | | | | 214 |
| Upper Volta | 3 | 90.0 | 2 | 62.0 | | | | | 69 |
| Total | 34 | 1078.6 | 35 | 938.3 | 13 | 38.2 | 12 | 35.3 | 87 |

| Region | FY81 Program (as of 6/30/80) No. of Proj. | FY81 Program (as of 6/30/80) Amount ($m) | FY81 Program (Actual) No. of Proj. | FY81 Program (Actual) Amount ($m) | Variation: Projects Added No. | Variation: Projects Added % of Program as of 6/30/80 | Variation: Projects Deleted No. | Variation: Projects Deleted % of Program as of 6/30/80 | Variation: Dollar Amounts Actual/6/30/80 Plan (Percentage) |
|---|---|---|---|---|---|---|---|---|---|
| EMENA | | | | | | | | | |
| Algeria | 4 | 280.0 | 1 | 110.0 | | | | | 39 |
| Cyprus | 1 | 8.0 | 1 | 14.0 | | | | | 175 |
| Egypt | 8 | 364.0 | 7 | 286.6 | | | | | 79 |
| Jordan | 2 | 36.0 | 2 | 46.0 | | | | | 128 |
| Morocco | 4 | 197.5 | 3 | 223.0 | | | | | 113 |
| Oman | 1 | 20.0 | - | - | | | | | 0 |
| Portugal | 3 | 142.0 | 2 | 120.0 | | | | | 85 |
| Romania | 4 | 325.0 | 4 | 360.0 | | | | | 111 |
| Syria | 2 | 23.4 | 1 | 15.6 | | | | | 67 |
| Tunisia | 5 | 101.0 | 6 | 152.6 | | | | | 151 |
| Turkey | 6 | 555.0 | 8 | 722.0 | | | | | 130 |
| Yemen AR | 4 | 44.0 | 3 | 41.0 | | | | | 93 |
| Yeman, PDR | 2 | 20.0 | 3 | 24.0 | | | | | 120 |
| Yugoslavia | 4 | 310.0 | 4 | 321.0 | | | | | 104 |
| Total | 50 | 2425.9 | 45 | 2435.8 | 10 | 20.0 | 15 | 30.0 | 100 |
| LAC | | | | | | | | | |
| Argentina | 4 | 341.0 | 2 | 68.0 | | | | | 20 |
| Bahamas | 1 | 7.0 | 1 | 7.0 | | | | | 100 |
| Barbados | 2 | 18.0 | 1 | 6.0 | | | | | 33 |
| Bolivia | 2 | 95.0 | - | - | | | | | 0 |
| Brazil | 8 | 695.0 | 8 | 844.0 | | | | | 121 |
| Chile | 2 | 78.0 | 2 | 78.0 | | | | | 100 |
| Colombia | 8 | 333.0 | 5 | 550.0 | | | | | 165 |
| Costa Rica | 1 | 25.0 | 2 | 29.0 | | | | | 116 |
| Dominican Republic | 1 | 25.0 | 1 | 24.0 | | | | | 96 |
| Ecuador | 1 | 15.0 | 1 | 20.0 | | | | | 133 |
| Guyana | 2 | 20.0 | 3 | 31.5 | | | | | 158 |
| Haiti | 2 | 17.0 | 3 | 21.2 | | | | | 125 |
| Honduras | 1 | 28.0 | 1 | 28.0 | | | | | 100 |
| Jamaica | 1 | 5.0 | 2 | 44.5 | | | | | 890 |
| Mexico | 7 | 1087.0 | 7 | 1081.0 | | | | | 99 |
| Nicaragua | 1 | 5.0 | 3 | 38.7 | | | | | 774 |
| Panama | 2 | 25.0 | 3 | 45.5 | | | | | 182 |
| Paraguay | 4 | 70.0 | 3 | 58.8 | | | | | 84 |
| Peru | 3 | 120.0 | 4 | 148.0 | | | | | 123 |
| Uruguay | 1 | 30.0 | 1 | 30.0 | | | | | 100 |
| Total | 54 | 3039.0 | 53 | 3153.2 | 16 | 29.6 | 17 | 31.5 | 104 |

| Region | FY81 Program (as of 6/30/80) No. of Proj. | FY81 Program (as of 6/30/80) Amount ($m) | FY81 Program (Actual) No. of Proj. | FY81 Program (Actual) Amount ($m) | Variation: Projects Added No. | Variation: Projects Added % of Program as of 6/30/80 | Variation: Projects Deleted No. | Variation: Projects Deleted % of Program as of 6/30/80 | Variation: Dollar Amounts Actual/6/30/80 Plan (Percentage) |
|---|---|---|---|---|---|---|---|---|---|
| **East Asia & Pacific** | | | | | | | | | |
| China | - | - | 1 | 200.0 | | | | | - |
| Fiji | 1 | 15.5 | 1 | 18.0 | | | | | 116 |
| Indonesia | 8 | 740.0 | 7 | 673.0 | | | | | 91 |
| Korea | 5 | 495.0 | 5 | 390.0 | | | | | 79 |
| Laos | 1 | 15.0 | - | - | | | | | 0 |
| Malaysia | 4 | 145.0 | 5 | 182.0 | | | | | 126 |
| Papua New Guinea | 2 | 27.0 | 2 | 33.0 | | | | | 122 |
| Philippines | 5 | 468.0 | 5 | 533.0 | | | | | 114 |
| Solomon Islands | 2 | 3.5 | 1 | 1.5 | | | | | 43 |
| Thailand | 8 | 455.0 | 7 | 325.9 | | | | | 72 |
| Western Samoa | - | - | 1 | 2.0 | | | | | - |
| Total | 36 | 2363.5 | 35 | 2358.4 | 7 | 19.4 | 8 | 22.2 | 100 |
| **South Asia** | | | | | | | | | |
| Bangladesh | 8 | 320.0 | 8 | 334.0 | | | | | 104 |
| Burma | 3 | 90.0 | 2 | 55.0 | | | | | 61 |
| India | 13 | 1840.0 | 13 | 1711.0 | | | | | 93 |
| Nepal | 5 | 60.2 | 5 | 62.2 | | | | | 103 |
| Pakistan | 6 | 160.0 | 6 | 202.0 | | | | | 126 |
| Sri Lanka | 3 | 140.0 | 4 | 167.0 | | | | | 119 |
| Total | 38 | 2610.2 | 38 | 2531.2 | 10 | 26.3 | 10 | 26.3 | 97 |
| BANK TOTAL | 254 | 12483.4 | 246 | 12291.0 | 65 | 25.6 | 73 | 28.7 | 98 |

Mr. A. W. Clausen September 11, 1981

Ernest Stern

Matters have been relatively quiet during your absence--only a few points of interest to which I want to draw your attention:

1) Your draft Annual Meeting speech is attached as it now has gone to the translators and to printers. The accuracy check is being completed by Monday and there will therefore be time for you to make any last minute changes without any difficulty. I would draw your attention to:

   a) the section on IDA (starting at the top of page 20) which I have changed, in consultation with Finance;

   b) the statement on the seventh replenishment of IDA;

   c) the discussion on the misleading terminology where I have put in the point that IDA, while a vital part of the Bank Group, is an independent entity;

   d) the section on the results of the post evaluation of our projects (page 21); and

   e) the reference to financial problems and consequent need to pass along costs more fully (page 16).

2) I suspended disbursements to Sudan because of delay in repayments. The Sudanese situation is difficult and we do not know for sure whether our suspension will get them to clear up their overdues.

3) Attached also is an article which appeared in the New York Times on India's drawing from the IMF. It is ironic that we have been criticized by the US Government for our financing of the Bombay High project exclusively with the India National Oil Company. Associated with our financing was a major effort to get India to open tracts to international oil companies for exploration. These efforts have now been undercut. At your convenience, you might bring this anomaly to the attention of Mr. Sprinkel.

4) Secretary and Legal are actively engaged with the PLO issue. But I am not sure that lead responsibility is clearly fixed or that there is a good understanding of how the institution's interests are to be protected. I suggest you have a session on that soon.

Attachments

August 20,,1981

Tom:

My conclusions regarding the Kenya CPP are as follows:

1) Para. 12 in the Summary puts the conclusions the wrong way around by suggesting that if Kenya should fail to implement its structural adjustment program satisfactorily we would reduce our lending program. I believe that the slow progress that Kenya is making in bringing about policy changes warmants only a much more modest program for the next two years and that the Region should be asked to come back with another assessment 12 months from now.

2) Compared to a proposed lending program for FY82 and 83 of $560 million I would propose a lending program of $450, of which no more than $250 million should be from the Bank (compared to the $335 million pr9posed).

3) Before we can consider an expansion of Bank lending to Kenya a thorough analysis of Kenya's creditworthiness should be undertaken.

4) In light of the above the number of projects proposed should be reduced (by about 3) and there should be a commensurate reduction in reserve projects.

5) The Region should prepare a more useful analysis of the disbursement problems than is presented in the CPP.

6) In terms of Bank financing ~~to~~ of total project expenditures, Kenya's performance is not such as to warrant a special effort by us. In order also to stimulate cofinancing I would limit Bank financing to the foreign exchange cost or 60% of total project cost whichever is higher. In case of cofinancing we would be prepared to have total external financing reach 90%.

7) The sectoral discussion in the CPP is weak and action programs for the public sector enterprises, industry and the price structure should be prerequisites for any structural adjustment lending.

Ernie

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

| ROUTING SLIP | Date<br>Aug. 10, 1981 |
|---|---|

OFFICE OF THE PRESIDENT

| Name | Room No. |
|---|---|
| Mr. Stern | |
| | |
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Remarks

cc: Mr. Qureshi
Mr. Maddux with notation -

"I really like what this says."

From

nks

304

MORGAN STANLEY

MORGAN STANLEY & CO.
INCORPORATED
1251 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020

August 3, 1981

Mr. A.W.Clausen
President
International Bank for
Reconstruction and Development
1818 H St. N.W.
Washington, D.C. 20433

Dear Tom:

At our recent meeting in Washington I suggested that it might be helpful to you if we were to offer some thoughts as to how you might address the interests of investors in World Bank bonds in your innaugural speech in September. This letter is an attempt to do so, reflecting the views of the senior members of our firm who have been most involved with Bank financing since its inception.

It is constructive to review the history of how the World Bank's credit was established in the U.S. financial community. In the early years of the Bank's existance its bonds were marketed almost entirely on the strength of its uncalled capital, with particular emphasis on the uncalled subscription of the United States. As time passed and the Bank built up a record of sound and profitable operations, the marketing effort turned toward an evaluation of the Bank as a successful operating institution. Investors came to believe in the soundness of the Bank's lending policies, its conservative management, and its record of earnings and additions to reserves. It was essential that this should happen, since the growth of the Bank's debt steadily reduced the relative value of the subscriptions of the United States and other major member countries. Convincing investors of the soundness of the Bank's operations became the focus of a massive educational effort by the managing underwriters extending over a long period of years.

In the last decade operations of the Bank have escalated dramatically, while many of its earlier lending policies have changed. It is to do no more than to record a simple fact to state that in recent years investors have grown increasingly apprehensive over their perception of where the Bank is going. In their view the Bank has grown too fast, has significantly altered its emphasis in the direction of loans with social objectives and has made loans to countries whose economic or political policies are not in accord with those of the United States. These opinions have been expressed widely by bondholders, potential investors and in the financial press. If such impressions are allowed to continue to spread, we believe that they could materially impair the future fund-raising activities of the Bank.

The financial community will now be looking to you for a signal as to the directions the Bank will take from this point on. I know that you have many constituencies to satisfy, and that their interests in some cases are diametrically opposed. However, to the extent that you feel you can do it consistently with other appropriate expressions of policy, we believe that your address could contain much that would be reassuring to investors. Among the things the financial community would like to hear are the following:

1. <u>Growth</u>

<u>The future growth of the Bank will be managed in a manner calculated to preserve its financial soundness.</u> Many investors have concluded that the world's needs, rather than the availability of resources, were driving the expansion of the Bank. Little has been said other than by the financial staff about the need to maintain the attractiveness of the Bank's obligations in the world's financial markets. A reaffirmation of this truth by the Bank's President would say a great deal to those upon whom the Bank's future growth must depend.

2. <u>Projects</u>

<u>The traditional project financing approach will be maintained.</u> Investors for a generation have been imbued with the concept that one of the great strengths of the Bank has been its financing of discrete projects rather than that of overall current account deficits. They are observing the inception of "structural adjustment" loans with some apprehension. A reduced focus on this type of activity would allay an incipient fear that the Bank is in the process of abandoning a key element in the quality of its credit.

3. Types of Loans

Loans will be made for productive purposes that will stimulate economic growth. Recently investors have heard a lot about the duty of the Bank to alleviate the plight of the world's poor. This can only reinforce their conclusion that the Bank is increasingly lending for social purposes rather than for productive projects. This comes after a decades-long effort to convince investors that the Bank is a business and not an aid agency. A change in emphasis here would be viewed as a reconfirmation of what investors have been led to believe for many years.

4. Private Enterprise

A renewed effort will be made to attract private enterprise to participate in Bank projects. Many investors are concerned that the Bank is fostering statism. To the extent that private enterprise is brought into Bank projects these concerns will be diminished while at the same time total Bank resources will be increased. The future development of cofinancing techniques and the use of the Bank's guarantee powers would be seen as constructive approaches to achieving this objective.

In somewhat simplistic form, the foregoing are the primary things which the capital market would find most encouraging coming from the new management of the World Bank. In most areas a relatively minor shift in emphasis would accomplish much to reassure present and potential bondholders. The image that the Bank has acquired in recent years in the financial community is that of an institution with an almost messianic mission. However laudable such a purpose may be, it doesn't help to sell bonds, and unless the Bank can continue to do that its role will of necessity be diminished. I believe that without announcing any dramatic change of direction, you have an opportunity in your innaugural address to set a tone that will make the job of financing your operations in years to come materially less difficult.

Two other related points. It will be absolutely essential that the Bank retain its triple-A rating from the two independent rating agencies. Nothing approaching the contemplated levels of Bank borrowing in the future will be attainable if these ratings are reduced. Moreover, any general impression that the ratings were likely to be reduced would precipitate widespread selling with a consequent increase in the cost of new issues. Thus it is of utmost importance that these agencies not be induced in any way to question the soundness of the Bank's operations.

Finally, it goes without saying that investors will be strongly influenced by their perception of the support which the Bank receives from the U.S. Government. Although this may raise hackles in a multi-national institution, it is a fact of life, the market implications of which may impose some constraints on the future policies of the Bank.

My colleagues at Morgan Stanley are at work on a presentation setting forth in some detail our views on the considerations that will affect the market for World Bank bonds over the next five years. Within the next few weeks they would like to meet with you to review our conclusions. We have been closely involved with the development of this market for more than thirty years, and I believe that our perspective can be of some use to you.

I greatly appreciate the opportunity to offer these thoughts on your prospective speech. Your interview in the New York Times on June 30 in my opinion laid exactly the right groundwork, and I greatly look forward to hearing your further views in September.

With warmest regards,

Sincerely,

Bob

Robert H.B. Baldwin

Mr. A. W. Clausen

August 4, 1981

Ernest Stern, SVP, Operations

<u>Your Meeting with Mr. R. N. Malhotra</u>

You are seeing Mr. Malhotra at 2:15 p.m. He has met you once before, just before you took office here. He is the senior Secretary in the Ministry of Finance, responsible for all external financing including the World Bank. The purpose of his visit is a courtesy call, but he may be expected to mention the following topics:

1. The importance which India attaches to a large IDA VII.

2. The importance which India attaches to maintaining its 40% share in IDA VI and an appropriate share in IDA VII after adjusting for the entrance of China.

3. India's interest in borrowing additional Bank funds up to $1 billion per year, and consequently its interest in having the $9.6 billion FY1982 lending program increased.

India is just about to complete negotiations with the IMF for an Extended Fund Facility drawing in excess of SDR 4 billion. In that context Mr. Malhotra may also discuss India's current balance of payments difficulties and how they expect to reverse them in the next several years.

I met with Mr. Malhotra yesterday afternoon for an hour and there are no operational issues that he intends to raise.

He asked me, and he may ask you, for any suggestions we have on issues that should be raised at the Mexico Summit meeting which may be of interest to the Bank. I suggested that it would be important for the heads of the industrialized countries to hear from the developing countries at this high political level the importance they attach to the role of the international banks and their continued growth.

EStern/lms

AWC

July 30, 1981

Dear Walter:

Thank you for your letter of July 17 and the attached statements of two speakers at the International Conference of Commercial Bank Economists. These statements are indeed of interest and I have circulated them to some of my associates here.

It is nice to hear of manifestations of support for the World Bank. We certainly can use all the help we can garner!

It is also always good to hear from you, Walter. Thank you again for writing.

Warm regards.

Sincerely,

(Signed) A. W. Clausen

A. W. Clausen

Mr. Walter E. Hoadley
Executive Vice President and
Chief Economist
Bank of America National Trust
and Savings Association
San Francisco, California 94137

cc: Messrs. Stern
Qureshi
Benjenk
Golsong

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BANK OF AMERICA

WALTER E. HOADLEY
Executive Vice President

July 17, 1981

Mr. A. W. Clausen
President
World Bank
1818 H Street NW
Washington, D.C. 20433

Dear Tom:

The recent meeting of the International Conference of Commercial Bank Economists in Tokyo discussed World Bank policies and programs. A couple of brief statements attached were prepared by Koei Narusawa of the Bank of Tokyo and Rodney Wood of the Bank of New South Wales. You may find them of interest.

The consensus was clearly in favor of a greater role for the World Bank and for broader co-financing arrangements -- conclusions which are not earthshaking -- but indicative of support for your administration.

Sincerely,

Walt

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION · BOX 37000 · BANK OF AMERICA CENTER · SAN FRANCISCO, CALIFORNIA 94137

SOME REFLECTIO. ON THE CRITERIA FOR CAPITAL IN. STMENT IN POOR COUNTRIES

Fresh from a visit to China with its intimations of the confusion and waste being experienced in the "Period of Adjustment" from the earlier ambitious excesses of the "Four Modernizations", I would suggest that the experience of the Chinese experiments in economic management underlines the necessity for all economic planning and investment decisions to be based on a hard-headed commercial assessment of the costs and benefits of individual projects and not on some idealistic or politically subjective impression of their social or political desirability.

In China, as in all poor countries which may be claimants for the transfusion of capital resources through the World Bank and its various associates, it is surely of prime importance to determine the justification and the priority of capital expenditure according to an objective measure of its yield, with a proper discount factor for possible longer-term benefits. To this end, the users or beneficiaries of a development scheme ideally should be obliged to pay a commercial price for the goods or services provided by the development. Only in this way can one be assured, on the one hand, that the cost-benefit was genuine and, on the other hand, that the project is properly integrated into the rest of the country's economy and does not cause dangerous distortions of resource allocation. As very much a second-best solution, if this precept cannot be observed for some really compelling reason, as an absolutely inescapable alternative, the regional or national government of the country concerned should be obliged to pay to the development undertaking the equivalent price related directly to the usage of the service. It is important to avoid the circumstance where the capital service of a project is lost in the anonymity of general government expenditure. If projects cannot meet these criteria they should be subject to very stringent scrutiny indeed, for the presumption in such a case must be that they are not economically justifiable undertakings. From basic economic principles it would seem that in a poor country the provision of appropriate capital investment should yield very high marginal rates of return indeed. If a project indicates only low rates of return, its justification is very questionable.

A necessary corollary of this approach is that greater reliance should be placed on market-derived indicators than on centrally devised national five-year plans, however glossy their presentation or eloquent their political exposition. The performance of the market-oriented, but not particularly resource-rich economies of south east Asia is a salutary example. The waste and misallocations of scarce capital which have characterized the national plans of many LDCs is equally impressive in the opposite sense. One may even express the unpopular opinion that in many spheres, the assessment of priorities for investment in LDCs would be more soundly made by transnational companies whose capital and profitability would be directly involved in their decisions and whose capacity to introduce technology, management skills, and marketing flair, as well as capital, may be presumed generally to be of a higher order than that of government agencies, however idealistic and dedicated their staff.

R J Wood

R. J. Wood
Sydney
30 June 1981

The World Bank, together with its affiliates, will undoubtedly have to continue playing a leading role in narrowing the stunning gulf still existing between the developed and the developing world, even if the speed with which it has been able to expand its lending over the past decade or so is bound, in all probability, to decelerate in the future as a result of various strains affecting its lending capacity.

I take the liberty of making a couple of suggestions, covering both organizational and operational aspects of the issue, aimed at strengthening and enhancing the activities of the Bank's group.

A series of proposals has been made for the purpose of reinforcing the lending capacity of the Bank's group. The following two measures, among others, seem to be of the highest priority: namely 1). relaxation of the too rigid gearing ratio and 2). establishment of the so-called "energy affiliate." So far as the former is concerned, some doubts have been voiced by a number of international commercial bankers. Firstly, it is questioned whether the excellent credit standing the Bank is now enjoying in the international financial market may not be adversely affected by introducing a higher gearing ratio, say, "two to one" instead of the "one to one" at the present time, which in turn may not result in the deterioration of the Bank's funding capability in terms of both quality and quantity. Another question often raised by commercial bankers is whether the vested interest of those holding the Bank's bonds issued previously may not be unduly affected by the unilateral action to be taken by the issuer. There is no denying, in my view, that these arguments contain a certain element of truth. I nevertheless would like to support the idea of expanding the Bank's lending capacity without resorting to a capital increase under the present circumstances in the belief that any negative side-effects such as referred to above will no doubt be more than offset by the hoped for increase in the flow of capital towards the third world. I hasten to add, however, that it will be extremely advisable for the Bank to make use of the enlarged lending capacity in such a prudential manner as will minimize any conceivable adverse by-products.

With regard to the latter, i.e., the energy affiliate, it is particularly worth mentioning that the third world, widely held to be endowed with enormous potential energy resources awaiting exploration and development, will not only be given a strong impetus for the economic take-off by means of successful development of their dormant natural resources, but also that significant progress will thus be made towards solving the world-wide energy problem in the coming years. This will constitute precisely one of the most opportune areas where the Bank should be assigned to play a pioneering role, since such development projects, their undeniable historic significance notwithstanding, will not only call for enormous capital investment, but will inevitably be beset by unmeasurable credit risks as well. By the same token, namely because of the distinct differences in the nature of such projects, it will be appropriate for a separate entity, another offshoot of the Bank, to assume the financing functions concerned in the interest of preserving the highly reputable quality of the Bank's present loan portfolio. In other words, the proposed energy affiliate should be positioned somewhere between the Bank and the IDA, its soft loan window.

Furthermore, the Bank should endeavor to encourage the non-concessional flow of capital in closer cooperation with private banking institutions with a view to increasing, as far as possible, the aggregate flow of real resources towards needy countries. One of the ways of serving this objective will be more extensive use of the Bank's cofinancing scheme. For that purpose, there will be a pressing need for streamlining the mechanics of the scheme with a view to making it less cumbersome and more attractive to the co-lenders. The cross-default clause is no doubt one of the crucial incentives from the co-lenders' point of view, since it provides a certain amount of additional security by imposing pressures on the borrowers to urge them to fulfill their commitments by all means. The more binding or mandatory the clause is made to oblige the Bank to take action against the borrowers in case of default of the co-lenders' credits, the greater the incentive would be for the co-lenders. In addition, commercial banks will undoubtedly welcome such good loan projects to be offered for participation as will be most preferred by the Bank itself. Some of the sophisticated new devices being worked out by the Joint Development Committee of the Bank and the Fund in order to supplement the conventional cofinancing scheme will equally deserve due attention, although a few of them, particularly the partial sale of the Bank's existing loan portfolio to the market in one way or another, may not be feasible at a time when the market rate of interest is extremely high. Special attention should be paid, among other things, to the partial guarantee scheme designed to be made available for the so-called "threshold countries." Although the concept of threshold countries is admittedly not free from ambiguity, the scheme will hopefully result in the desired additionality, provided its implementation is done in a cautious and prudential fashion. A great number of commercial banks may presumably be in favour of the Bank's guarantee to cover their entire interest income. Such preference on the part of the commercial lenders will be particularly evident in case the borrowing countries, despite their high degree of resilience in a longer perspective, are currently undergoing a transitional phase of economic ailments.

Last but not least, brief mention ought to be made of the structural adjustment programme loan scheme newly introduced by the Bank as this move seems to have been rather controversial among commercial bankers. I personally am supportive of the new scheme of the programme loan, for this will greatly contribute to facilitating the otherwise unbearably painful adjustment process which in fact is badly needed at present for the Non-oil LDCs and will remain so for many years to come.

Prepared by Koei NARUSAWA
Economic Advisor to the President
The Bank of Tokyo, Ltd.
Tokyo

THE WORLD BANK

Office of the President

July 27, 1981

TO: Messrs. Benjenk
Qureshi
Stern

Mr. Mentre de Loye called me Friday to convey the informal response of the French Government to the idea of Mr. Clausen's visit to France in September. He reported that both Ministers Delors (Economy and Finance) and Cheysson (External Relations) would be very pleased to see Mr. Clausen on September 9. He added, however, that a meeting with President Mitterrand is still uncertain for that day since Wednesday is the day for the weekly meeting of the Council of Ministers, not the most convenient time for the President to meet Mr. Clausen. I told Mr. Mentre that there was still some flexibility in Mr. Clausen's schedule because of the uncertainty concerning the visit to The Netherlands and that the possibility of meeting President Mitterrand on Thursday, September 10, in the morning could be envisaged. Mr. Mentre told me that he would inform Paris accordingly and he would later advise us as to the preference of the President.

Olivier Lafourcade

O.L.

AWC

Clausen File

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A.W. Clausen

DATE: July 9, 1981

FROM: Ernest Stern ES.

To Mr. Stern

SUBJECT: Travel

A

You had asked about a desirable travel schedule for the next 6-9 months and after checking with my colleagues I would suggest the following:

i) Scandinavia - I assume you still plan to agree to the Scandinavia trip in September. If so, I urge you to include a stopover in Paris to meet with the new French Government. If time permitted, a visit to The Hague would also be much appreciated. OK A

ii) After the Annual Meetings, as we discussed with Mr. Qureshi, it would be desirable for you to schedule a visit to the Middle East, specifically Saudi Arabia, Kuwait and possibly the Gulf States. OK A

iii) Assuming the visit to the Middle East could be done in the latter part of October or early November, I would suggest you visit East Africa in early December. We would suggest you visit Kenya, Tanzania and Zimbabwe. OK A

iv) In January I would suggest you plan a trip to Latin America which would include Brazil, Colombia and a brief stop in Mexico. OK A

v) In March I would suggest you visit the Far East, including Indonesia and Philippines. OK A

The above suggestions are based on trips of approximately ten days duration and would involve visits with senior ministers in the capitals plus visits to projects. In all cases I would suggest that you ask the Regional Vice President to accompany you. If this general framework is satisfactory to you I will work out more detailed suggestions for your consideration later.

The trips after that to consider would be to West Africa (Nigeria, Niger and the Ivory Coast); South Asia (India, Bangladesh, Pakistan); EMENA (Turkey, Yugoslavia, Tunisia, Egypt); and, to China.

ES:dpw

July 9, 1981

Mr. A.W. Clausen

Your Meeting with Donald Regan

When you meet with Donald Regan you might suggest the approach for the US position on energy policy at Ottawa, outlined below. It will find a sympathetic reastion from the others at the summit, will take the US off the hook and is consistent with prior US statements about its concern for energy production in the LDCs.

The US might take the following line:

a) It recognizes that increased domestic production of all types of energy in the developing countries is urgent.

b) To increase domestic production requires extensive investments.

c) While most of the financing will have to come from domestic sources the international community has an important contributory role.

d) While the bulk of the financing and technology is in the private sector the World Bank can help to mobilize these resources and direct them to the highest priority investments. The World Bank can also supplement the private sector in such areas as fuelwood production where private sector interest is likely to be minimal.

e) The World Bank is therefore urged to expand its lending and technical advisory activities for energy investments to the maximum extent possible consistent with the prudent use of the increased capital resources which have been provided to it recently under the General Capital Increase.

Ernest Stern

Mr. A. W. Clausen

July 6, 1981

E. Stern

Discussion for Board of Directors/ Meeting, July 7

There are three issues likely to be raised at the Board of Directors' meeting of which you should be aware:

(a) IDA--Lack of Commitment Authority - One of the projects is a $400 million IDA credit to India for the construction of a large thermal power plant. As you know, we have been processing IDA projects as if we had commitment authority and have delayed signing credits approved by the Board. We ended the fiscal year with $800 million of approved credits for which we could not authorize signature. The IDA credit before the Board may well lead them to raise the question as to how much longer we can continue to present projects to the Board without commitment authority.

When this question was raised previously, we indicated that we would continue with the present procedure since progress was being made in the United States in getting the IDA-VI legislation passed. I think this would still be an appropriate response. If the question is raised, I suggest we say that we will continue processing IDA credits for the time being; that we will take a reading on the status of the US legislation in early August; and that we will make proposals to the Board on the subject if IDA-VI is not effective by early September.

(b) India--Type of Project - The same project may attract the question as to whehher it could not be financed with Bank money instead of IDA. This is a question which is raised regularly.

India has limited creditworthiness and our assessment thus far has been that lending approximately $500 million of Bank money per year is about the maximum feasible. In addition, India is planning to got to the commercial markets for the first time in substantial volume, expecting to raise $1 billion in 1981. While we have agreed that there can be a gradual increase in Bank lending to India, we also face the problem of limited Bank resources in fiscal '82 because we have to accommodate China and Zimbabwe as new borrowers within the approved $9.6 billion lending program, increased Bank lending to Egypt to substitute for IDA, and an increased program in Peru in support of an economic program which is a substantial improvement over its predecessor.

There are three projects in the current year program for India which total about $500 million. These are industrialpprojects and clearly suitable for Bank lending. For the moment it is not possible to increase the Bank lending total for India and, consequently, projects other than these three will have to be financed on an IDA basis.

Some of those who have raised this subject in the past believe that Bank lending should replace IDA lending to India, rather than be in addition to IDA lending. You should be aware that India, based on current criteria of size and income levels, is entitled to approximately 40% of IDA. In fact, the ctiteria we use would make them eligible for a larger share and the 40% serves as a ceiling.

(c) Bank Loans at the Old Interest Rate - The decision of the Executive Directors was to raise the interest rate to 10.6, effective July 1st for documents circulated to the Board before then. As you can imagine, this created pressures for some projects which were at the stage of negotiation to be completed and processed in time. We had advised the Board that there were a large number of projects in the pipeline and we assumed in our income estimates which accompanied the proposal to change the lending rate, that approximately $900 million in loans would be processed at the old rate. In fact about $1.2 billion of loans were processed at the old rate before the deadline.

We have promised the Board a paper on what trigger point to use for the next lending rate change and to submit this paper for discussion in advance of discussion of the lending rate in September.

If the question is raised, I suggest that we recognize the need for changing the system from the one used in June and indicate that we will submit our proposal to the Board in September.

ES/psa

T C

Mr. A.W. Clausen July 6, 1981

Ernest Stern

EGYPT

As I mentioned to you Thursday, one of the items of concern to Egypt is its graduation from IDA and we understand that the Egyptian Government will make a last appeal to you on this decision. President Sadat is scheduled to come to town in the first week of August and will undoubtedly wish to meet with you. He can be expected to raise this issue. It may be possible to avoid having a discussion on this subject with Mr. Sadat if an opportunity arises to reconfirm the decision during your meeting with Dr. El-Naggar. However, I would not recommend that you bring up the matter if he does not.

As you know, the basic criterion for IDA eligibility is a lack of creditworthiness for commercial borrowing. Because of the substantial improvement of the Egyptian balance of payments, a continued increase in the estimates of reserves of oil and gas and the continued large amount of highly concessional capital from the US, and other favorable factors, Mr. McNamara announced in his Annual Meetings speech in September 1980 that Egypt and the Cameroons were examples of countries which would no longer be eligible for IDA in the face of the great scarcity of IDA resources.

There was inadequate advance preparation with the Egyptian Government to this announcement and this caused problems but in addition the Government also has objected on substantive grounds. The Regional Vice President subsequently discussed our decision in Cairo in November; he was followed by the Department Director. I visited Egypt at the end of December and again discussed the matter with the Deputy Prime Minister. The Egyptian Government has withheld some projects, originally planned for financing by us, on the grounds that it would be inappropriate to finance such projects with Bank resources. During discussions with several Egyptian ministers in the last few weeks in Washington we have stressed that there is no distinction in terms of the types of projects for Bank and IDA financing and that many countries finance urban development, education and similar projects with Bank funds.

There is no doubt that Egypt today has ready access to the international capital markets at commercial terms and has equally easy access to suppliers' credits. While we cannot use the willingness of the markets to lend to a country as our only criteria of creditworthiness, since the markets sometimes are excessively exuberant, it is an important indicator. Moreover, it is our view, which we have conveyed to the Egyptian Government on many different occasions, that a change in their pricing and subsidy policy would substantially improve the balance of payments further by reducing an unnecessarily high level of imports and providing better incentives for exports. While there are, of course, performance problems in many countries, this factor adds to the justification for not utilizing scarce IDA resources for Egypt.

Our position in regard to Egypt is identical to our decision in Indonesia although, of course, the Indonesian petroleum capacity is larger. Indonesia, with a per capita income of only $370 was graduated from IDA because of its creditworthiness. We advised Indonesia at the time that should their prospects change significantly we would be prepared to consider resuming IDA lending. We have told Egypt the same thing.

I therefore recommend that if there is an opportunity in your discussion with Dr. El-Naggar, that you reaffirm our view that IDA lending to Egypt is inappropriate at least for the next several years in view of Egypt's much improved balance of payments situation and its considerable creditworthiness. Scarce IDA resources must be utilized for countries in a less favorable position. You might express the hope that the Government of Egypt would understand this. You should also reassure them that should the economic prospects change for the worse we would be prepared to consider resuming IDA lending to Egypt because on per capita income grounds Egypt would still be eligible.

EStern:dpw

TC.

Mr. M.J.W.M. Paijmans, VP, AOP
Mr. O. Lafourcade, EXC
Ernest Stern, SVP, Operations

June 17, 1981

Requests for Appointments with Mr. Clausen

Would you please let me know of any requests for appointments from Ministers from borrowing members with Mr. Clausen so that the appropriate RVP and I can provide background on issues.

EStern/lms