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THE WORLD BANK

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Europe / Travel Brief, Oct. 18-25, 1986



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President Conable Travel Files - Europe (United Kingdom, France, Germany) - October 18-25, 1986 - Briefings

BRIEFING BOOK FOR EUROPEAN TRIP
(OCTOBER 18-25, 1986)

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European Trip
Oct. 18-25

Saturday, October 18

- 6:30p Depart Watergate for Airport
8:25p Departure from Dulles Airport to London
British Airways 216 (Boeing 747)

Sunday, October 19

- 8:35a Arrive London Heathrow
Car and driver reserved- **Let driver know
if you want him for the day or only in
the evening.
Accommodations at Claridge's, Brook Street,
London W1 (626-8866)
for M/M Conable, Mr. Qureshi, Mr. Bart-
Mr. Bart will arrive at the Hotel @12:30

- ** Mr. Bart or Mr. Carter will brief you on the
Husain meeting to reschedule the environmental
conference.
- ** Call Bowen Wells with regrets for cancellation of
meeting with Members of Parliament (he lives in
Herford, an hour's drive from London)
Home phone: 992-53993
London office phone: 212-5154

- 8:00p Dinner hosted by Sir John and Lady Baring -
BBC & CWC - informal - guests include
M/M Andreas Tuckey, M/M Michael Howard,
Mr. Andreas Whittam-Smith (Independent
Press), Mrs. Sarah Crew,
Sir Peter and Lady Walters - at Baring home
Flat 7, 34 Bryanston Square, London W1
(262-0245)
(fyi - Qureshi has dinner with C. Tickel
so will not be joining)
*See briefing book, Tab 2

Monday, October 20

- 10:30a Mr. Christopher Patten, MP, Minister of Overseas Development Administration, Eland House, Stag Place, London SW1 (213-5419) - Sir Crispin Tickel, Permanent Secretary, and Mr. R.M. Ainscow, Deputy Secretary, will join
*See briefing book, Tab 3
- 12:00 Mr. Robin Leigh-Pemberton, Governor, Bank of England, Threadneedle Street, London EC2 (601-4444)
*See briefing book, Tab 4
- 12:30 Mr. George Blunden, Deputy Governor, Bank of England
*See briefing book, Tab 4
- 1:00- Lunch hosted by Deputy Governor Blunden
2:45 Bank of England
- 3:15 Sir Shridath Ramphal (known as Mr.), Secretary General, Commonwealth Secretariat, Marlborough House, Fall Mall, London SW 1 (839-3411)
*See briefing book, Tab 5
- 4:30 The Prime Minister, The Rt. Honorable Mrs. Margaret Thatcher MP
10 Downing Street, London SW 1 (233-3000)
BBC and Mr. Tim Lankester, ED, only
*See briefing book, Tab 6
- 5:00 The Chancellor of the Exchequer, The Rt. Honorable Mr. Nigel Lawson MP
H. M. Treasury; 11 Downing Street
*See briefing book, Tab 7
- 8:00 Dinner hosted by BBC & CWC at Claridge's -
Guests include M/M Christopher Patten (ODA), M/M Ian Stewart (Treasury), M/M Michael McWilliams (Chartered bank), Lord and Lady Roll (Advisor to IFC and Chairman of S.G. Warberg), M/M Michael Faber (academia), M/M John Judson (Atkins), Sir Shridath Ramphal (Commonwealth Secretary General), M/M Lankester

Tuesday, October 21

- 7:15 Depart Hotel
- 9:20a Depart London/Gatwick Sabena 562
Reservations for M/M Conable,
Messrs. Qureshi and Bart
- 10:30 Arrive Brussels
Large car and driver from Brussels to
Paris (about a 3-1/2 hour drive)
- @2:00 Arrive Paris
Accommodations at the George V for
M/M Conable, Mr. Qureshi
Car and driver reserved in Paris
- 3:30 Prime Minister Jacques Chirac
Hotel Matignon, 57, rue de Varenne, 75007
(42.75.80.00)
*See briefing book, Tab 9
- 4:15 Jean-Bernard Raimond, Minister of Foreign
Affairs, 37, Quai d'Orsay, 75007
(45.55.95.40)
*See briefing book, Tab 10
- 5:00 Michel Aurillac, Minister of Cooperation
20, rue Monsieur, 75007
(47.83.10.10)
*See briefing book, Tab 11
- 8:30 Dinner hosted by Minister Eduoard Balladur,
Minister of Economy, Finance & Privatization
(location?) - probably stag
*See briefing book, Tab 12

Wednesday, October 22

- 9:00a Visit Paris office, tour facility, meet support staff - BBC & CWC - 66, Avenue d'Iena)
- 10:00 BBC meet with Paris office professional staff
- 12:00 Mr. Daniel Lebegue, Director of Treasury
Ministry of Finance, 93, rue de Rivoli 75001
*See briefing book, Tab 13
- 1:00 Stag lunch hosted by Mr. Michel Camdessus,
Governor of Banque de France, 1 rue de la
Vrilliere, 75001
Guests include: Bank reps. and Roland
Billecart (General Manager, Central Fund of
Economic Cooperation)**Billecart is the man
Mme. Ploix suggested you meet re African aid
*See briefing book, Tabs 28-30, Mr. Wheeler
Chairman, Development Aid Committee-OECD),
Mr. Waitzenegger (First Deputy Governor, Bank
of France), Mr. Cappanera (Director General
Foreign Services, Bank of France)
*See briefing book, Tab 14
- 2:30- Maurice will show BBC & CWC around City
5:00
- 5:30 President Francois Mitterrand
Palais de l'Elysee (42.92.81.00)
Messrs. Qureshi and Bart will accompany
*See briefing book, Tab 15
- 8:00 Dinner hosted by BBC & CWC with key government
and financial representatives
(still in formative stage since date had to
be changed - Mr. Bart will update)

Thursday, October 23

- 9:00 Depart Hotel
- 10:30a Depart Paris for Bonn/Cologne
Lufthansa German Airlines 125
(Reservations for M/M Conable, Mr. Qureshi,
Mr. Bart)
- 11:35 Arrive at Cologne Airport
Accommodations at Koenigshof for M/M
Conable, Messrs. Qureshi, Bart and Boehmer-
Mr. Boehmer and a representative of the
Federal Government will meet you at Airport.
- 12:30 Working lunch hosted by Dr. Juergen Warnke,
Minister for Economic Cooperation, followed
by meeting with Minister Warnke
Topics of interest include: comments in your
AM speech on women in development,
structural adjustment loan to Chile,
aid coordination in Egypt and Bangladesh.
*See briefing book, Tab 17
- 3:30- Informal meeting with members of Bundestag
5:00 Committee for International Economic
Cooperation
*See briefing book, Tab 18
- 5:00 Return to Hotel Koenigshof
- 7:00p Depart Hotel for dinner hosted by Minister
Warnke with leaders of German banking
community - Castle Rheineck
(CWC to Opera)

Friday, October 24

9:00a Dr. Gerhard Stoltenberg, Minister of
Finance and Alternate Governor of the
Fund (accompanied by Qureshi & Boehmer)
*See briefing book, Tab 19

CWC and Mr. Bart will depart Hotel for Airport
at 9:15.

10:10a Depart Cologne
British Airways 3004
(Reservations for M/M Conable, Messrs.
Qureshi, Boehmer)

11:10 Arrive Berlin-Tegel
Car arranged by Mr. Boehmer
Accommodations at Hotel Bristol Kempinski
for M/M Conable, Mr. Qureshi & Mr. Boehmer

12:00 Federal President Richard von Weizsaecker
*See briefing book, Tab 20

12:30 BBC & CWC Proceed to Congress Center for lunch
hosted Mr. Haupt, General Manager of
Preparation Group for 1988 Annual Meetings,
tour the Congress Center (site of the '88
AM) and tour the city

5:30- Free time for shopping, freshening up, etc.
7:00

7:00 Mr. Rexrodt, Senator of Finance of Berlin, to
meet with BBC & CWC and Bank reps. at Hotel

8:00 Mr. Rexrodt will accompany group to Dahlem
Museum for the 125th Anniversary celebration
of the German Chamber of Industry and
Commerce

Saturday, October 25

8:00a Breakfast hosted by Mr. Diepgen, Governing
Mayor of Berlin

CWC has separate breakfast

10:50a Depart Berlin-Tegel
Pan Am 643 Airbus
Reservations for M/M Conable,
Mr. Qureshi

11:55 Arrive Frankfurt

12:45 Depart Frankfurt
Pan Am 061

4:40 Arrive Dulles Airport

Charlotte Conable's Itinerary
European Trip
October 18-25, 1986

London

Sunday, October 19

8:00p Dinner hosted by Sir John and Lady Baring -
BBC & CWC - informal - guests include
M/M Andreas Tuckey, M/M Michael Howard,
Mr. Andreas Whittam-Smith (Independent Press),
Mrs. Sarah Crew, Sir Peter and Lady Walters -
at Baring home, Flat 7, 34 Bryanston Square,
London W1 (262-0245)
*See briefing book, Tab 2

Monday, October 20

9:00 Janet Hickman of London Office will meet you
at Claridge's and accompany you to meetings
(930-8511)

9:30a Meeting with NGO representatives hosted by
John Mitchell of The World Development
Movement - briefing on their programs in UK
Location: Bedford Chambers, Covent Garden,
London WC2E 8HA (01) 836-3672
Participants: John Mitchell (WDM), Michael
Palmer (WDM), Glenys Kinnock (One World & wife
of Chairman of Labour Party), Joan Lester
(in line to become Minister in next Labour
government), John Clark (Oxfam), Adrian Hewitt
(ODI), Lady Diana Hood (Save the Children),
David Ward (Labour Party Executive Cte. for
the next election), representative from
Christian Aid

12:30 Meeting with International Planned Parenthood
Federation - Mr. Bradman Weerakoon, Secty General
Location: Regent's College, Inner Circle, Regent's
Park, London, NW1 4NS (01) 486-0743
Participants: Bradman Weerakoon (Secretary General
IPPF), Vernon Aluvehare (Assistant Secretary

General IPPF), Susan Perl (Director Program Development), Michael Sozi (Regional Director, Africa), Mark Laskin (Resource Development), representatives of (3-4): Oxfam, Save the Children, Other NGOs.

- 1:00 Lunch at IPPF - Guests include Bernard Aluvihare, Assistant Secty General; Susan Pearl, Director Programmes Department; Michael Sosi, Regl Director for Afrida; Sureha P=Puri, Information Officer; Dilys Cossey, Organizer, British Parliamentarian Group; Lady Medawar, Chairperson, Common Ground (environmental matters); Alistair Service, General Secretary, Family Planning Assn.
- 8:00 Dinner hosted by BBC & CWC at Claridge's
Guests include M/M Christopher Patten (ODA), M/M Ian Stewart (Treasury), M/M Michael McWilliams (Chartered bank), Lord and Lady Roll (Advisor to IFC and Chairman of S.G. Warberg), M/M Michael Faber (academia), M/M John Judson (Atkins), Sir Shridath Ramphal (Commonwealth Secretary General); M/M Tim Lankester

Paris

Tuesday, October 21

- 1:30 Arrive Paris
- 2:45 Mrs. Carter and Mr. Bretaudeau will meet you at Hotel George V with car
- 3:00- Meeting with Rony Brauman (Physicians Without Borders)
4:00 NGO involved in health programs in developing countries) - 68 Boulevard St-Marcel, Paris 5
**Note - Mr. Brauman is leaving for Kabul, Afghanistan Tuesday evening.
- 4:00 Visit Notre Dame cathedral with Mrs. Carter

Wednesday, October 22

- 9:00a Visit Paris Office, tour facility, meet support staff
CWC & BBC (66 Avenue d'Iena)
- 10:00 Visit Louvre Museum with Mrs. Carter

- 1:00 Lunch hosted by Mrs. Camdessus at the Bank of France Residence, 9 rue de Vallois
Guests include: Mrs. Roland-Billecart (wife of head of French Aid Fund), Mrs. Wheeler (wife of DAC chairman), Mrs. Waitzenegger (wife of Bank of France Deputy Governor), Mrs. Carter
- 2:30- Maurice Bart will show you and BBC around the
5:00 City
- 5:15 Return to Hotel George V
- 8:00 Dinner hosted by BBC & CWC with key government and financial representatives (still in formative stage since date had to be changed - Mr. Bart will update)

Bonn

Thursday, October 23

- 11:35a Arrive Cologne/Bonn - proceed to Hotel Koenigshof and to afternoon program of visits in Cologne, accompanied by an escort
- 8:00p Attend performance at Opera House of Bonn:
Richard Wagner "The Flying Dutchman"

Friday, October 24

- 9:15a You and Mr. Bart leave Hotel Koenigshof to Cologne/Bonn Airport

Berlin

- 11:10a Arrive Berlin
- 12:30 Proceed to Congress Center - Lunch hosted by Mr. Haupt, General Manager of Preparation Group for 1988 AM, tour of the Congress Center, site of the 1988 AM, and tour of the city
- 5:30- Free time
7:00
- 7:00 Meeting with Mr. Rexrodt, Senator of Finance of Berlin, at Hotel Bristol Kempinski - BBC & CWC

8:00 Mr. Rexrodt will accompany entire group
to Dahlem Museum for the 125th Anniversary
celebration of the German Chamber of Industry
and Commerce

Saturday, October 25

8:00a Breakfast in Hotel with Mrs. Haupt and another who will
be involved with the Spouses program for the '88 AM

10:50 Depart Berlin

UNITED KINGDOM

**Mr. Conable's dinner with
Sir John Baring
Director, Bank of England and
Chairman, Baring Brothers & Co., Ltd.
(8:00 P.M., Sunday, October 19, 1986)**

This being an informal dinner, a variety of issues might be discussed. However, for your information Baring Brothers and Company has been lead manager of all our domestic issues in sterling and eurosterling. To date we have made nine issues in sterling in the UK capital markets, totalling L530 million, and six eurosterling issues totalling L475 million. The company will also be managing a forthcoming issue which was originally scheduled for September but for various reasons, relating to the situation in UK markets, has been postponed to January.

Biographical Information

Sir John BARING
Director, Bank of England
Chairman, Baring Brothers & Co. Ltd.

Experience

Since 1983 Director, Bank of England

1977-78 Chairman, Accepting Houses Committee

Since 1974 Chairman, Baring Brothers & Co. Ltd.
Receiver-General of Duchy of Cornwall

1955-74 Managing Director, Baring Brothers & Co. Ltd.

Since 1968 Chairman, Outwich Investment Trust Ltd.

Since 1964 Director: Trafford Park Estates Ltd. (1964-77)
Pye Holdings Ltd. (1966-79)
Outwich Ltd. Johannesburg (1967-77)
Dunlop Holdings Ltd. (1981-84)
British Petroleum (since 1982)
Royal Insurance Co. (1964-82)
Dep. Chairman, Royal Insurance Co. (1975-82)

Education

Eton (Fellow, 1982); Trinity College, Oxford (M.A.)

Personal

Born November 2, 1928.
Married (1955) and divorced (1984). Two sons and two daughters.

**Mr. Conable's Meeting with
Mr. Christopher Patten, Minister of State for Overseas Development
Sir Crispin C.C. Tickell, Permanent Secretary,
Overseas Development Administration
Mr. Robert Ainscow, Under Secretary, Overseas Development Administration
(10:30 A.M., Monday, October 20, 1986)**

Mr. Patten is very new to his post and will probably have an interest in a broad range of subjects including your views on the future of the Bank. He has practically no background in aid issues but is reputed to be a "wet" and has on occasions expressed rather sympathetic views to development and aid. He is said to be philosophically more inclined to multilateral than bilateral aid. Mr. Patten is also concerned with issues of agricultural development and the impact of food aid. He is also very keen to visit Washington and meet the senior staff in the Bank. Perhaps an invitation could be extended during the meeting. Sir Crispin's particular concern is the environment. He is himself a climatologist and interested in paleohistory and pre-Columbian art.

Baker Initiative

The recent successful negotiation of the Mexico package has definitely affirmed that the Baker Initiative is on course, and you expect the Bank to move strongly in furthering implementation of adjustment reform packages for many high debt middle income countries. The Bank has extended almost \$3 billion in new policy-based loans to 8 of the 15 Baker nations, and is discussing an additional \$5 billion in such loans to 11 of those countries. You may wish to cite the example of Nigeria where the U.K. has been instrumental in helping to formulate a total financial package.

You may wish to express the Bank's appreciation for the U.K.'s strong support of the Bank's role in policy-based lending called for by the Baker Initiative, as set forth in a paper sent by the U.K. Treasury to Mr. Clausen in March 1986. This also includes the Bank of England's willingness to provide and coordinate bridge financing in the case of Nigeria, as well as the U.K.'s recent cofinancing framework agreement with the World Bank which earmarks L200 million for the next three year, in the form of concessional loans, mixed credits consisting of commercial loans and government grants, and technical cooperation.

GCI

You might express your appreciation of the U.K.'s strong support for a prompt and sizeable GCI, but also indicate that there was no evidence at the Development Committee meeting of the U.S. feeling pressured to change its position, nor prospect of its doing so. Nevertheless, **it would be helpful if in private conversations with the U.S., the U.K. might continue to press for a GCI, particularly as the Bank cannot afford to forego a capital increase beyond the end of 1987.**

IDA8

The U.K. is keen on seeing the IDA8 negotiations brought to a close as soon as possible. You might heartily endorse this while indicating that you are hopeful that the additional time will allow the unallocated gap (2.6%) in IDA7 to be filled and voluntary contributions to be obtained to increase the resource level of the Eighth Replenishment to \$12 billion or more. In this respect, **you continue to hope that the U.K. will either increase its share or make a voluntary contribution.** The U.K. is the only major donor, other than the U.S., that has not supported either type of increased support for IDA. Earlier U.K. authorities agreed to maintain their 6.7% share in a \$12 billion replenishment, which implies that the U.K. should have an additional \$33.5 million (or 0.30% share) in budgetary funds allocated for IDA, beyond a 6.7% share in a \$11.5 billion replenishment.

Environment

The environmental dimension of economic development has been an important part of the Bank's operational focus for more than 15 years. The Office of Environmental and Scientific Affairs reviews all World Bank projects to determine their likely consequences for the environment, public and occupational health, and social welfare, and recommends measures to avoid or mitigate adverse ecological impact. Recent work has focussed on wildlands management, effect of development on tribal people, identification and prevention of accidents in hazardous facilities and toxic processes, the selection, procurement, and use of pesticides and assistance in the preservation of cultural property. **Cultural property includes sites having archeological (prehistoric), paleontological, historical, religious and unique natural environmental features.**

Although the Bank was the first development institution to give environmental problems an organizational focus, it has been under increasing attack from environmental groups. The five projects of most concern to environmentalists are (i) transmigration in Indonesia, (ii) Narmada dam in India, (iii) Polonoroeste in Brazil, (iv) livestock in Botswana, and (v) Three Gorges Project in China. The issues and status of these projects is appended.

Because the environmental groups are particularly active in the U.K., the Bank had scheduled a major conference in England to be organized through the Institute of International Environment and Development, with NGOs and government officials from the U.K., Brazil, India and Indonesia. The conference was cancelled because the working material to be presented was not sufficiently advanced or prepared, and **Mr. Shahid Husain (OPSVP), his colleague Mr. Jeremy Warford (PPDPR), and Mr. Michael Carter from the European Office, are visiting London on October 16-17 to reestablish a timeframe.** Mr. Carter or Mr. Maurice Bart will brief you on the outcome of their meeting, prior to your meeting with Messrs. Patten, Ainscow and Sir Crispin. Sir Crispin was personally very upset about the postponement during the Annual Meetings.

You may wish to reassure Sir Crispin of your own strong personal interest in the environment and your concern that this issue be at the forefront of the Bank's operational focus. You might cite that a special study team was established in August 1986 to review and make recommendations on the internal organization of the institution for dealing with environmental issues; and that the Bank launched a seminal work program in early 1985 in Economics of Natural Resource Management (see attachment for details).

Agriculture

Mr. Patten recently made a strong statement criticizing EEC food aid as paying scant attention to the interests of producers. Should the issue arise, you may wish to emphasize that the World Bank considers improving agricultural productivity an important component of its operations.

You may wish to reassure Mr. Patten that the Bank will continue to evaluate agricultural lending operations based on international (border) prices, with a view to promoting development and efficiency in resource allocation, taking full account of volatile, and at present generally depressed, agricultural commodity prices. The Bank will also encourage production in line with national comparative advantage. Particular care will be paid to the evaluation of projects involving commodities that are in global surplus, and likely to remain so (further details in the brief for Prime Minister Thatcher).

Biographical Information

Christopher PATTEN
Minister of State for Overseas Development

Experience

- Since Sept. 1986 - Current position.
- 1985-86 - Minister of State for Education.
- 1983-85 - Under-Secretary of State for Northern Ireland.
- 1981-83 - Parliamentary Private Secretary to the Secretary of State for Social Services.
- 1979-81 - Parliamentary Private Secretary to the Chancellor of the Duchy of Lancaster and Leader of the House of Commons.
- 1979 - Member of Parliament for Bath.
- 1974-79 - Director, Conservative Party Research Department.
- 1972-74 - Personal Assistant to the Chairman of the Conservative Party.
- 1972 - Home Office.
- 1970-72 - Cabinet Office.
- 1966-70 - Conservative Party Research Department.

Education

Balliol College, Oxford University.

Personal

Born May 12, 1944.

Biographical Information

Sir Crispin C. C. TICKELL

Permanent Secretary, Overseas Development Administration (ODA)

Experience

- From 10/1/84 - Permanent Secretary, Overseas Development Administration
- 1984 - Deputy Undersecretary of State, Foreign and Commonwealth Office
- 1981-84 - Ambassador in Mexico City
- 1981 - Visiting Fellow, All Souls College, Oxford
- 1977-81 - Chef de Cabinet to Rt. Hon. Jenkins, President of Commission of European Communities
- 1975-76 - Fellow, Center for International Affairs, Harvard University
- 1972-75 - Head of Western Organisations Department, Foreign and Commonwealth Office
- 1970-72 - Private Secretary to successive Chancellors of the Duchy of Lancaster (Rt. Hon. Thomson, Rt. Hon. Barber and Rt. Hon. Rippon)
- 1954-70 - HM Diplomatic Service
1964-70 - Paris
1961-64 - Foreign Office (Planning Staff)
1958-61 - Mexico
1955-58 - The Hague
1954-55 - Foreign Office
- 1952-54 - Served with Coldstream Guards

Other

Conferred the Order of Orange Nassau (Holland) in 1958

Published the following as contributing or principal author: The Evacuees, Life After Death, Climatic Change and World Affairs

Education

Westminster

Christ Church, Oxford

Personal

Born on August 25, 1930

Married with two sons and one daughter from previous marriage

Recreation: climatology, paleohistory, art (especially pre-Columbiana)

Biographical Information

Robert Morrison AINSCOW

Under Secretary and Principal Finance Officer
Overseas Development Administration

Experience

- Since 1980 - Current position.
- Since 1982 - Chairman, OECD (DAC) Working Party on Financial Aspects of Development Assistance.
- 1979 - Under Secretary, FCO (ODA).
- 1976-79 - Head, South Asia Department (ODA).
- 1971-76 - Senior Economic Adviser, Ministry of Overseas Development.
- 1968-70 - Economic Adviser, Ministry of Overseas Development.
- 1965-66 - Department of Economic Affairs, London.
- 1966-68 - UN Secretariat, New York.
- 1961-65 - UN Secretariat, New York.
- 1957-61 - Statistician, Government of Rhodesia and Nyasaland.

Education

Salford Grammar School, Liverpool University (BA Econ. Hons.).

Personal

Born June 3, 1936.

Married with one son and one daughter.

**Mr. Conable's Meeting with
Mr. Leigh-Pemberton, Governor, Bank of England
(12:00 Noon, Monday, October 20, 1986)**

**Mr. George Blunden, Deputy Governor, Bank of England
(12:30 PM, Monday, October 20, 1986)**

The following issues may be of interest to Mr. Leigh-Pemberton and most probably the same points will be raised by the Deputy Governor. Mr. Blunden is new to his job as Deputy Governor. His association with the Bank in the capacity of Executive Director goes back to 1976. He was also with the IMF from 1955-58.

Baker Plan and GCI

This topic is certain to be of interest, and is covered in the brief for your earlier meeting with Messrs. Patten, Ainscow and Sir Crispin Tickell.

IMF/Bank Collaboration

The U.K. has supported a larger and more influential role for the Bank in support of policy reform. In the paper submitted by the U.K. Treasury to Mr. Clausen, they have stated that while this will require close cooperation with the IMF, it is essential to preserve the character of the operations of each institution and avoid duplication. You may wish to appreciate the UK's strong support for policy-based lending and reassure them that the Bank's main focus remains medium and long-term development issues even in the context of policy-based lending.

Bridge Financing

The Bank of England has been instrumental in coordinating and supporting a US\$250 million in bridge financing to the Government of Nigeria for the foreign exchange auction introduced in Nigeria late last month. The bridge now awaits final documentation and payments are due to begin by Thursday, October 23, 1986. The bridge is tied to the Trade Policy and Export Development (TPED) loan of US\$452 million from the World Bank which is now pending Board approval. The terms for the TPED are expected to be finalized within the next week and the loan should be effective by the end of the month. Other contributors to the bridge financing arrangements are the U.S., France, Germany, Canada, Japan, and the Netherlands. Germany was initially reluctant to join, fearing that bridge financing would become a precedent. You might express appreciation for the lead role taken by the Bank of England in providing bridge financing which will allow Nigeria to become the first country in Africa for which a financial package under the Baker Plan will have been completed.

Completion of the package requires full participation by all the major parties, including the international financial institutions, commercial banks, uninsured suppliers and official creditors. Agreement with the London Club was struck last week, which has given the go-ahead to the TPED loan. The Fund will go to its Board after a critical mass (90% of the commercial banks' approval of the package) is affirmed. This will hopefully be followed by an agreement with the Paris Club, scheduled to meet in November, a positive response from which will finally conclude the package. **The major Bank loan is to be followed by quick disbursing loans in 1987 and 1988 that, along with project lending, will result in a substantial commitment level to Nigeria approaching \$1 billion per annum over the next few years, provided the adjustment program is being effectively handled.**

Biographical Information

Robin LEIGH-PEMBERTON
Governor, Bank of England

Experience

- Since July 1983 - Governor, Bank of England
- Since 1982 - Lord-Lieutenant of Kent
- 1977-83 - Chairman, National Westminster Bank PLC
- 1975-77 - Chairman, Birmid Qualcast PLC
- 1949-54 - Served with the Grenadier Guards

Education

St. Peter's Court School, Broadstairs
Eton
Trinity College, Oxford
Called to the Bar in 1954

Other

Member of the National Economic Development Council
Freeman of the City of London

Personal

Born 1927
Married
Has five sons

Biographical Information

George BLUNDEN

Deputy Governor, Bank of England

Experience

- Since 1986 - Current position.
- Since 1984 - Joint Director Chairman, Leopold Joseph Holdings.
Director: Eagle Star Holdings and Insurance Co.
Portals Holdings
Grindlay Holdings
Chairman, Dovedale Almshouses Trust.
Member, Executive Committee, National Association of
- 1984 - - Non-Executive Director, Bank of England.
- 1981-83 - Chairman Group of Ten Committees, BIS, Basle on
Payment Systems.
- 1976-84 - Executive Director, Bank of England.
- 1978-82 - Chairman, Governors St. Peters Group of Hospitals.
- Since 1983 - Council, Oxford Centre for Management Services.
- Since 1982 - Chairman, St. Peter's Hospitals Special Trustees.
Chairman, Institute of Urology.
Governing Body, London Business School.
- 1974-77 - Chairman, Group of Ten Committees, BIS, Basle, on
Banking Regulations and Supervisory Practices.
- 1974-76 - Head of Banking Supervision, Bank of England.
- 1973-74 - Chief of Management Services, Bank of England.
- 1968-73 - Deputy Chief Cashier, Bank of England.
- 1958 - Rejoined Bank of England.
- 1955 - International Monetary Fund.
- 1947-55 - Bank of England.
- 1941-45 - Royal Sussex Regiment.

Education

City of London School; University College, Oxford (M.A.)

Personal

Born December 1922. Married with two sons and one daughter.

**Mr. Conable's meeting with
Sir Shridath Ramphal
Commonwealth Secretary-General
(3:15 p.m., Monday, October 20, 1986)**

You may wish to thank Sir Shridath Ramphal for his letter of September 25 in which he reported the deliberations of the annual Commonwealth Finance Ministers' meeting in St. Lucia (see attachment for details on the Commonwealth). The following issues were raised during these meetings and will probably be of concern to Sir Ramphal.

IDA8

The Commonwealth countries have consistently pressed for a substantial increase in IDA8 and in the last meeting the Finance Ministers made a clear statement to the effect that a replenishment of \$12 billion would be "inadequate in the light of the needs of all low income countries." You may wish to reassure him that on the Bank's part, we are still striving for a replenishment of \$12 billion or more. Sir Ramphal may also question the hardening of terms, especially for blend countries. You may wish to explain that the agreement reached at the last IDA Deputies' meeting would not have been achieved without the differentiation in terms.

GCI

The Commonwealth countries have emphasized the urgency of a substantial GCI and you may wish to agree that the Bank cannot afford to forego a capital increase beyond the end of 1987, though the US has taken a strong position against a GCI in the near future.

IMF/Bank Collaboration and Cross Conditionality

One of the key issues that the Ministers discussed was that of cross conditionality which is a growing concern with many countries. The Secretariat prepared a study on this issue, the general conclusion of which was that "while co-operation over structural adjustment lending between international financial institutions was desirable, the distinct character and independence of international financial institutions should not be compromised". You might wish to emphasize that while the recent world crises have required close collaboration between international financial institutions in formulating reform packages, the mandates of the Bank and IMF are clearly different. The Bank's main focus is development, and it is in our own interest to maintain a separate character of operation and avoid any expansion into areas more legitimately the concern of other IFIs.

The Commonwealth

The Commonwealth is a grouping of 49 independent countries, former British colonies in addition to the United Kingdom, with a population of more than one billion people. The Commonwealth Secretariat was established to promote consultation and exchange of information between the members. It has an observer status at the Bank/Fund Annual Meetings. The Secretariat has divisions and programs dealing with political international affairs, economic affairs, health, law, youth affairs, science, women and development management, food production and rural development, information and administration. The Secretariat also supervises three separate specialized agencies:

- the Commonwealth Fund for Technical Cooperation (CFTC) established to provide development technical assistance and training to developing member countries. For 1985/86, CFTC's program amounts to L27 million;
- the Commonwealth Youth Programme (CYP) established in 1973, which operates training centers in Fiji, Guyana, India and Zambia. It has a budget of L1.38 million for 1985/86; and
- the Commonwealth Science Council (CSC) which operates regional research programs in areas such as energy, water and mineral resources, agriculture, environmental planning. Its budget is L385,000 for 1985/86.

The Commonwealth heads of Government meet every year before the annual meetings of the World Bank and IMF. In recent years, they have established ad hoc consultative groups such as the Consultative Group on Economic Action established in 1983 and the Consultative Group on Monetary and Financial Issues created in 1985. The Commonwealth Secretary General plays a key role within such working groups.

Biographical Information

Shridath RAMPHAL

Shridath Ramphal (a Knight who prefers not to use the title "Sir"), 58, has been Commonwealth Secretary General since 1975 and is now in his third term which ends in 1990. He is an Asian by descent, a national of Guyana, and European by education and legal training. In Guyana, he was Minister of Foreign Affairs and Minister of Justice. In that capacity he was active in many Third World fora at the United Nations and the Non-Aligned Movement. He was leading spokesman for the African, Caribbean and Pacific developing countries in the negotiations with the European Community which led to the Lome Convention of 1975. As Commonwealth Secretary General, Ramphal has revitalized the Commonwealth fora and established the position of the Commonwealth on international economic issues. With Edward Heath, he was a leading spirit in the Brandt Commission, responsible for the Final Reports and for the Second Report, "Common Crisis". He now occupies a generally recognized leadership role in Third World circles. Although he is still a harsh critic of the present U.S. Administration and of its "magic of the market place" approach, he has moved perceptively from the rhetoric of the new international economic order and is now taking a more pragmatic stance to international economic cooperation for emergency measures in view of the pressing circumstances of the developing countries.



**Mr. Conable's Meeting with
Prime Minister Margaret Thatcher
(4:30 P.M. on Monday, October 20, 1986)**

Mrs. Thatcher is not known for her concern with either aid or development. It did, however, come as a bit of a surprise when she gave Christopher Patten the Aid portfolio, since he is considered as very much to the left of the Conservative Party and replacing another "wet" (Mr. Raison), when almost everyone expected someone closer to Mrs. Thatcher. Mrs. Thatcher will basically want to know your views on the Bank and perhaps discuss wider international economic and political issues.

Baker Plan

These issues are discussed in the brief for Messrs. Patten, Ainscow, and Sir Crispin. **You may wish to express your appreciation for British support for the adjustment program efforts of the Bank in the middle-income countries, and note the progress made in completing both the Mexico and Nigeria packages.** You may want to thank Mrs. Thatcher for the role of the Bank of England in putting together the bridge financing necessary for the Nigeria financial package.

Future Role and Direction of the Bank

Mrs. Thatcher will probably also wish to know the general direction you intend to give to the Bank. In this respect, you might reiterate and expand on the **leadership role** you outlined in your speech at the Annual Meetings. You might note the difficulties that the Bank confronts in accomplishing a **change in priorities in developing countries towards market orientation, adjustment reform programs, and social and environmental issues;** but also note the progress that has already been made, and the benefits to the global community in moving in this direction. You might point to the **assistance of capable Bank staff members, such as Alan Walters (Economic Adviser, Operations Policy Staff) who is a close friend of the Prime Minister's** and who used to be her associate.

You might also indicate your **awareness about issues relating to the internal management and bureaucracy of the Bank** by noting the action you intend to take with respect to the budget and long-range planning functions and your initiation of the internal management and organizational review.

Agriculture

In light of the agreed agenda for the next round of GATT negotiations, and the recent World Development Report, Mrs. Thatcher may raise the issue of agriculture pricing and policy and the Bank's financing of agricultural projects.

You may wish to reassure Britain that the Bank will continue to evaluate agricultural lending operations based on international (border) prices, with a view to promoting development and efficiency in resource allocation, taking full account of volatile, and at present generally depressed, agricultural commodity prices, and to encourage production in line with national comparative advantage. Particular care will be paid to the evaluation of projects involving commodities that are in global surplus, and likely to remain so.

It is important to note, however, that subsidies and protection in many OECD countries have contributed to low world prices for agricultural exports which represent a major loss for developing countries, particularly for many debtors. Thus, **better pricing policies need to be advocated in both developed and developing countries.** Mr. Nigel Lawson stressed this issue in the Development Committee when he quoted from this year's World Development Report: "World-wide liberalization could produce overall gains in the region of \$20 billion for developing countries, and up to \$50 billion for OECD countries".

Private Sector Development

You might express your support for the important role of the private sector in development and to market-oriented liberalization measures. In this regard, **you hope to see IFC become a major force,** building on new initiatives that it has recently launched to encourage equity investment in developing countries (i.e., Emerging Markets Growth Fund, Technique of Guaranteed Recovery of Investment Principle). You see **MIGA as an important step to promoting private sector investment and applaud the leadership role the U.K. has provided in approving the MIGA convention.** So far, fifty countries have signed the convention and four countries have ratified. The convention will enter into force when at least five developed and fifteen developing countries ratify, provided that total subscription of these countries amount to not less than one-third of the authorized capital of the Agency. It is hope that the Agency can come into being by the summer of 1987. The U.K., France, and Canada have indicated that they hope to be able to ratify by the first half of 1987.

October 16, 1986

Mr. Conable:

re: Your Visit with Prime Minister Margaret Thatcher

1. I called Professor Brian Griffiths in connection with your visit to the United Kingdom next week. He is Chairman of the Prime Minister's Committee on Economic Policy. I first met him 10 years ago through the National Prayer Breakfast Group. In recent years I have seen him on a couple of occasions when visiting London. He asked me to remind you that in 1973 he had enjoyed a most delightful lunch with you in Rochester. He was a visiting Professor from England to the University of Rochester during 1972/73 school year. While he was there he was offered the post of Dean of the Business School but he declined in order to return to England to run for Parliament on the conservative ticket. He was badly beaten and then he returned to the academic world. Until about a year ago he was the Dean of the London School Business. He is almost sure that you will not remember him at the lunch because you were meeting so many people in those days. It had meant a lot to him and I think he would be a good contact to develop considering his present position.

2. Professor Griffiths was pleased that I had called him. He said that he had just today been looking at a short briefing that had been prepared for the Prime Minister for your meeting on Tuesday. He asked if I might wish to add further information. I told him that Mrs. Thatcher may wish to know ahead of time that you will want to discuss your view that World Bank supported programs should be directed to encourage privatization, deregulation and market oriented policies in third world.

3. In addition, you will discuss your concern that most of our major stockholders had not supported the present administrative budget (which you had inherited when you took office on July 1). I said that you had expressed on a number of occasions the need to take direct control over budget issues and policies and in this regard you would welcome the Prime Minister's future support.

4. The Prime Minister likes to have her meetings one-on-one when meeting with individuals such as the President of the World Bank but there is still the possibility that Professor Griffiths may sit in on the meeting. If he does not he would welcome an opportunity to say hello when you are at No. 10 Downing Street.

Bill

Bill Stanton

cc: Mr. Qureshi

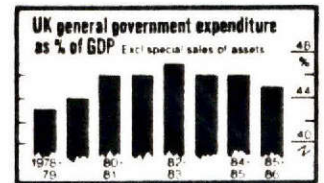
How public spending isn't cut

Thatcher's ideas are beaten by a system that nobody can agree to change

As soon as Mrs Thatcher's ministers get back from their annual party conference, they will become embroiled in the bloodiest season of the political year: the final stages of planning government spending for the next three financial years. The "star chamber" will be convened—a committee of senior ministers to adjudicate among those claims from spending departments that the Treasury has been unable to beat down in the past six weeks. It is, as even most ministers agree, a ludicrous way to distribute the 40%-plus of Britain's gross domestic product that goes on public spending. It

is a main reason why the Thatcher governments have failed to fulfil their promise to cut that proportion. It could gravely impede the policies proposed for the next Parliament to which the Conservative conference has been listening (see page 64). Everybody except entrenched vested interests should want it changed.

The system seems designed to ensure that the bulk of public spending is never collectively considered by ministers. Each July, the cabinet rubber-stamps the total agreed in the previous year's plans, and then asks the Treasury to battle with departmental ministers over



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small proposed additions to programmes already in train. The battle is whether (eg) spending on universities should increase by an extra 1% this year, not whether students should be financed by grants at all.

Ministers seldom have to argue for spending programmes in terms of cost-effectiveness; nobody asks whether extra hip replacements would do more good than heart transplants. Each year the Treasury ought to be asking spending departments whether they need to do what they have always done in the way they have always done it. The present system impedes the Treasury from asking that.

British politicians are not used to collective discussion of their priorities. Even in opposition, the Labour party has not held a coherent debate about what it most wants to buy with the extra taxes it says it will raise. Once in government, ministers rarely want to antagonise their own civil servants by sacrificing departmental interests to the needs of the country. What defence secretary would volunteer to scrap the latest wildly expensive weapon to release cash for the health service? What agriculture minister would suggest the scrapping of such farm subsidies as were within Britain's control, to benefit primary schools? Sir Keith Joseph was the only one of Mrs Thatcher's ministers to sacrifice his department's sacred cows for the total spending programme, and small thanks he got for such eccentricity.

Mrs Thatcher's best policy would be to opt for zero-

based budgeting—an examination each year of all spending programmes to see if they are still justified. She won't, but might accept smaller changes. One—considered, but wrongly dropped—would be to split the Department of Health and Social Security into its two components, under two cabinet ministers. It is not reasonable to ask one man to scrutinise the case for over 40% of all public spending. Another would be to produce a separate budget for capital spending, which would allow rates of return on capital projects to be more directly related to the cost of financing them. At present, capital spending takes its chance alongside current spending, and suffers from the common constraint imposed on both by the public-sector borrowing requirement, even on projects that might earn a good rate of return.

Britons get tax relief if they spend money in particular ways. The annual spending white paper now has a table showing each year's cost of these tax allowances. But it makes no attempt to consider tax relief on mortgage interest as part of the housing programme, or tax relief on private pensions as part of the social-security budget. If departments had to fight for the holes they knock in the tax base as well as for their direct spending, they might tell the Treasury that tax allowances are rarely an efficient way for the public sector to achieve a given aim. And what a good thing it would be if Britain were to follow President Reagan in recognising that.

Biographical Information

Mrs. Margaret Hilda Thatcher
Prime Minister and First Lord of the Treasury

Experience:

- Since 1979 - Current Position
- 1975-79 - Leader of the Opposition
- 1975 - Hon. Bencher (Lincoln's Inn)
- 1970-74 - Secretary of State for Education and Science
- 1970-74 - Co-Chairman, Women's National Commission
- 1961-64 - Joint Parliamentary Secretary, Ministry of Pensions and National Insurance
- Since 1959 - M.P. from Finchley
- 1954 - Called to the Bar, Lincoln's Inn
- 1947-51 - Research Chemist

Education

Kesteven and Grantham Girls' School; Somerville College, Oxford (MA, BSc).

Personal

Married with one son and one daughter (twins)
Born October 11, 1925 in Grantham, Lincolnshire

Awards: Honorary Fellow, Somerville College, Oxford 1970; Freedom of Borough of Barret, 1980; Donovan Award, USA 1981.

**Mr. Conable's Meeting with
Mr. Nigel Lawson
Chancellor of the Exchequer
(5:30 P.M. Monday, October 20, 1986)**

You met with Mr. Lawson during the Annual Meetings, and you will probably wish to update him on events since then, such as initiatives on an internal management review of the organizational structure of the Bank and on improved budgetary planning. He will also probably be interested in developments on the Baker Plan and on agricultural policies (since he personally introduced the language into the Development Committee Communique on worldwide agricultural pricing policies).

IDA8.

In his speech to the Development Committee, Mr. Lawson welcomed the fact that we were very close to an agreement on a \$12 billion replenishment. **You might indicate your strong interest in a special effort by Britain** (as detailed in brief for Messrs. Patten, Ainscow and Sir Crispin Tickell) **to either close the unallocated gap by increasing the U.K. share from 6.7% to 7.0% or to make a voluntary contribution** (around \$33.5 million). You may refer to the agreement reached by the Ministers of the Commonwealth in their meeting in St. Lucia, that even \$12 billion would not be sufficient to meet the needs of the low income countries.

Baker Initiative

The U.K. has been very supportive of policy-based lending and the expansion of structural adjustment loans. This was elucidated clearly in a paper sent by the U.K. Treasury to Mr. Clausen in March 1986. **Mr. Lawson has expressed some concern over the use of guarantees by the Bank as in the case of Mexico.** The U.K.'s general position is that they have reservations on any significant expansion in the use of guarantee powers beyond their existing use in relation to B-loans, which they see both as a moral hazard (reducing commercial banks' reliance on their own judgement) and a threat to the quality of the asset portfolio.

You might wish to clarify that the World Bank guarantee to Mexico was given reluctantly but was critical to the completion of the "rescue" package. Moreover, of the \$1 billion joint financing component with commercial banks, only \$500 million is guaranteed, callable after 15 years, and with a present value of roughly only \$150 million.

MIGA

In the Development Committee Mr. Lawson expressed his personal advocacy of the Agency, and his desire to see momentum maintained. **You may want to thank him for the leadership role the U.K. has played and express the hope that they will ratify quickly to not only speed the formation of MIGA, but to encourage other governments to do so.**

Trade and Liberalization

Mr. Lawson believes strongly in the debt-trade-growth link. His speech to the Development Committee suggested that gains from better pricing policies and trade liberalization are infinitely larger than any feasible increase in aid. You may want to share your own views on the subject.

Biographical Information

Nigel LAWSON
Chancellor of the Exchequer

Experience

- Since 1983 - Chancellor of the Exchequer
- 1981-83 - Secretary of State for Energy
- 1979-81 - Financial Secretary at HM Treasury
- 1977-79 - Opposition Spokesman on Treasury and Economic Affairs
- 1976-77 - Opposition Whip
- 1973-74 - Special Political Adviser, Conservative Party Headquarters
- 1972-73 - Fellow, Nuffield College, Oxford
- 1970-71 - Contributor to the London Times and Evening Standard
- 1966-69 - Editor of The Spectator
- 1965 - Financial Times Columnist and BBC Broadcaster
- 1963-64 - Special Assistant to the Prime Minister (Sir Alec Douglas-Home)
- 1961-63 - City Editor, Sunday Telegraph
- 1956-60 - Editorial Staff, Financial Times
- 1954-56 - Royal Navy

Other

Wrote several publications, including "The New Conservatism" in 1980.

Education

Westminster School
Christ Church, Oxford

Personal

Born 1932.

Married.

Has one son and another son and three daughters by previous marriage.

OFFICE MEMORANDUM

DATE October 13, 1986

TO Mr. Barber Conable

FROM Moeen A. Qureshi *MAQ*

EXTENSION 73665

SUBJECT Your meetings in London

I have discussed with Tim Lankester your schedule of meetings in London. He and I agree that your meeting with Mrs. Thatcher should be on a "one-on-one" basis. That is the format that she likes best, and both of us believe that the best environment for your meeting would be one in which she can talk to you as one "politician" to another. However, please note that it is customary for her Private Secretary to be present even at "one-on-one" meetings, to take notes. Her Private Secretary is Nigel Wicks, who is an ex-Bank Executive Director and a good friend of ours. About 45 minutes have been slotted for your meeting with the P.M.

I sat down with Tim Lankester to go over some of the points that are likely to be of special interest to the British leaders. Please use these points to seek further explanations from Tim during your meeting with him on Tuesday, October 14.

Meeting with the Prime Minister:

The main points she is likely to be interested in are the following:

1) Agriculture: Mrs. Thatcher has been consistently interested in agricultural issues. The British position in the Common Market also lends a particular significance to this area. The point to be emphasized is our effort to put agriculture on a sound and competitive basis in the developing countries, in part by insisting on the elimination of price distortions, subsidies and the like, that inhibit the functioning of the market system.

2) Support for Policy Reform and Adjustment: You should highlight the increasing emphasis we are giving to support for policy reform and adjustment programs in Latin America and Africa. You should draw the P.M.'s attention to the political difficulties and resistance that many governments are meeting in undertaking necessary policy changes, the sensitivity of advice in that area, and the central role the Bank can play as an interlocutor, adviser, and a catalyst. She should also be told of the important shifts towards privatization, deregulation, and market orientation that most Bank-supported programs help bring about.

3) IFC: You should talk to her about IFC as an organization. (Please remember that Bill Ryrie was not a favorite person of her's. She is aware that he heads IFC.) Therefore it may be advisable to let her bring up Bill's name rather than for you to do so.

4) Africa: In talking about adjustment programs in Africa, it would be useful to mention Nigeria. You should thank her for the contribution that the British have made in putting together the Nigerian program. (The Bank of England made a bridge loan.) Incidentally, she does not think that governments or international institutions should put pressure on the commercial banks to provide "new money". She believes that there is a "moral hazard" involved in such a posture.

Mrs. Thatcher could bring up the issue of South Africa with you and ask your views on sanctions -- in particular, the impact that the imposition of sanctions would have on countries such as Zambia, with which the Bank has an adjustment program. As you know, she has been unalterably opposed to sanctions against South Africa.

5) Internal Administration of the Bank: She, together with some other leaders you will meet, do have an impression that the Bank is a somewhat overblown bureaucracy. You should tell her the steps you are taking to come to grips with this issue.

6) Other points: Please note that one of her very favorite persons is Alan Walters. He works in the Bank. You might say that he is doing well. She is also interested in Bob Geldorf. She believes that Geldorf reflects the altruism of young people -- which should be channelled into constructive endeavours -- and she admires his activities in raising funds for Africa.

Meeting with the Chancellor of the Exchequer:

1) Capital Increase: We have some ground to make up with the Chancellor. I am told that he got the impression that you were being "evasive" on the issue of capital increase and IDA but, in particular, the former. The Chancellor considers himself to be a "friend" and to be strongly in the Bank's camp, and felt that you could have been more candid with him.

I would suggest that you tell him that you would prefer to go with the capital increase in April 1987, but that you have discussed this with Baker and have been unable to convince him to proceed in April, because he is afraid that, in that event, disaster could befall us on both IDA and the GCI. In these circumstances, you are prepared to wait -- but not later than the fall of 1987. You would like the Chancellor to be as helpful as he can in supporting such a strategy with Baker.

2) Support for Adjustment: Please mention Nigeria and thank him for the British support. Also please note the completion of the Mexican deal. The Chancellor does not want the Bank to provide guarantees. Please tell him you share his views on guarantees but that you need a card up your sleeve in very exceptional circumstance to bring a critical debt negotiation to a close.

3) Agriculture: He too is interested in this area. Please note that he insisted on getting a reference to this issue in the Communique of the Development Committee.

4) Bank Administration: Same as for the P.M.

October 17, 1986

Mr. Conable:

re: Michael McWilliams
Standard Chartered Bank

1. Mr. McWilliams is the Chief Executive Officer. He has accepted your invitation to dinner at the Claridge's Hotel on Monday evening.

2. Standard Chartered Bank is the fifth largest bank in Britain. They are also the second largest bank with overseas investments (in England) with their primary interests being in Africa and South and East Asia. They also own the Union Bank of California. They are either the first or second bank in the world in cofinancing.

3. They are somewhat disappointed with the financial side of the Bank because Gene Rotberg has not deposited any Bank funds with them.

Bill Stanton

OFFICE MEMORANDUM

DATE October 8, 1986

TO Mr. Timothy P. Lankester, EDS03

FROM Barber B. Conable, President *BBC*

EXTENSION 72001

SUBJECT UK Position Paper

I found the UK Treasury paper on the Bank's future role very thoughtful and constructive. I very much appreciate the effort that has gone into this paper, the support expressed, and the confidence placed in the Bank as an agent for change at this critical juncture for the highly indebted countries. Although an informal response to the paper was already given to you by Mr. Stern, I felt that the many suggestions and observations in the paper merit further consideration and asked the staff to review the paper in detail. I have attached a staff paper summarizing this review. It is too early for me to have firm views on many of the specific points raised by our staff. I agree with the general thrust of their comments that the Bank has already moved in the direction pointed to by the UK paper and will continue to do so.

I plan to keep in touch with you on the issues raised by your paper and our staff. The UK has been a strong supporter of the Bank and a source of intellectual guidance and inspiration. I am anxious for our dialogue to continue.



Att.

STAFF REVIEW OF THE UK PAPER ON THE FUTURE ROLE OF THE BANK

1. Lending Capacity of the Bank

Summary of Points Made in the UK Position Paper:

- The Bank must be in a position to deliver a volume of lending commitments at least at the upper end of the lending range discussed in Seoul. The case for the even higher figures now proposed in the mid-year review deserves careful study;
- A consensus on a GCI is needed by spring 1987 to avoid the risk of a lending program significantly in excess of the sustainable level of lending for two fiscal years in succession;
- The portfolio limit should continue to be applied flexibly, pending any consideration of a specific increase;
- Quick disbursing adjustment lending in excess of 20% of total Bank/IDA lending deserves support if suitable high quality lending opportunities come forward;
- The paid-in element of the GCI should be as small as possible, to minimize cost to shareholders, but it should still be at a level appropriate to maintaining the Bank's financial standing and risk-bearing capacity.

Key Bank Comments:

- ° Lending targets should be flexible, and quick disbursing adjustment lending should not be subject to predetermined ceilings;
- ° The paid-in portion could be lower than in previous capital increases without damaging the Bank's financial standing and risk-bearing capacity.

The UK position paper supports the main points made in the recent memorandum to the Board on the "Modalities of the General Capital Increase" (R-86-176, June 23, 1986), particularly with regard to the volume of commitments and the timing of the GCI. It is essential for the Bank to have the capacity to expand the lending program substantially in the next few years in response to demand--particularly to support adjustment programs but also to support investment among major borrowers such as India and China. We agree that the size of the lending program should be determined by the opportunities for high quality lending and the Bank's capacity to deliver such lending, rather than by predetermined targets. The GCI should be large enough to provide ample capacity to adjust to changing circumstances over the next few years.

The volume of adjustment lending must be viewed pragmatically. The choice of lending instruments depends on individual country needs and circumstances. We do as much adjustment lending as can be justified on the basis of country-by-country analysis and do not feel bound by targets overall or by country.

Recent reviews of the lending program suggest an increase in the share of adjustment lending during FY87-89 to 21% from about 15% in recent years. This implies a substantial increase in dollar terms (46%). Adjustment lending will be concentrated in the highly indebted countries of Latin America and Africa; in some of these countries adjustment lending could account for more than half of commitments during the next 3-5 years. Most of the adjustment lending is expected to be in the form of sectoral adjustment lending, which will entail greatly increased and in-depth analysis of a number of sectors in some of these countries.

In regard to the paid-in portion of the GCI, as discussed in the GCI modalities paper (R-86-176, June 23, 1986), the paid-in portion of the Bank's capital allows the Bank to strengthen its income position and risk-bearing capacity and provides an indication of member governments' willingness to make cash contributions to the Bank. However, maintaining the level of paid-in capital is not absolutely necessary to preserve the standing of the Bank in the credit markets. Because there may be a trade-off between the size of the GCI and the amount of paid-in capital, the paid-in portion should be modest.

2. Maintaining the Quality of Bank Lending for Adjustment

Summary of Points Made in the UK Position Paper:

- For adjustment programs to be successful they must be derived from meaningful dialogue between the Bank and the borrowing country and reflect a genuine commitment by the latter;
- However, the Bank should reinforce the adjustment process by:
 - adequate tranching arrangements;
 - offering a program of successive policy-based loans;
 - greater readiness to suspend disbursements where policy covenants are not met;
 - greater concentration of lending on countries which take suitable reform measures, and greater willingness to suspend new commitments (or to run down their level very considerably) where overall economic policies are unsatisfactory;

- using more quantified performance criteria where possible;
- building relations with other sources of finance so that IBRD decisions to press ahead or to go slow on lending/disbursement have a significant effect on decisions by these bodies.
- The Board should routinely discuss the Bank's lending strategy in each country and where tranche release is based on a qualitative assessment should seriously consider taking on responsibility for approving it;
- The Bank should continue its efforts to promote private sector development (in close cooperation with IFC).

Key Bank Comments:

- ° We concur with the UK proposal that the Board should routinely discuss country lending strategy. Given the political sensitivity of this issue, we can only expect gradual progress towards this objective.
- ° The Bank is strengthening its efforts to promote private sector development.

On the issue of the need to maintain the quality of Bank adjustment lending and the design of such loans, the policies and practices followed by the Bank largely coincide with the views expressed in the position paper.

We have doubts, however, that it would be wise for the Board to assume the responsibility for releasing loan tranches. Approving disbursements on loans is a Management responsibility, which should be carried out according to guidelines approved by the Board. Tranching is a standard feature of structural adjustment and sector adjustment loans, and the release of tranches is made against progress on specific program objectives. If any of the conditions are not met, the tranche is not released until remedial action has been agreed upon. Follow-up lending is not undertaken where there has been unsatisfactory implementation during the second tranche period. In practice, however, increasing the frequency of tranche release as suggested would provide insufficient time to evaluate progress; this is one of the reasons for tackling the adjustment problem with a series of loans.

Quantitative performance criteria in adjustment lending are adopted where feasible. Our objective is to establish monitorable programs of policy reform, even if these are not always amenable to quantification. In the past, we have tried to monitor performance against a set of specific indicators relating to economic policy only to find that performance against these indicators might be satisfactory, but progress in policy reform was negligible. Thus, for longer-term adjustment programs, Management feels that formulation of a policy program and timetable, leaving the government flexibility for fine-tuning, is a more appropriate strategy.

Given the importance of policies and adjustment measures in restoring and promoting growth in member countries, we agree that it would be most helpful if the Board were to have the opportunity to discuss country strategy and the Bank's proposed assistance strategy. However, this position has not always been acceptable to the Part II countries, some of which are sensitive to the appearance that the Board approve their country strategy and impose conditions on them and to the asymmetry between Part I and Part II countries in this respect. Given these sensitivities, we can only expect the Board to gradually take up this role. For example, the joint Bank/IMF policy framework papers for countries planning to use the Fund's Structural Adjustment Facility are to be discussed at the Board.

Finally, the Bank is intensifying its efforts to promote private sector development. Specifically, the Bank's efforts are focused on enhancing the policy environment facing the private sector by emphasizing greater market orientation, including less regulated, more efficient financial markets. To this end, the Bank is working on an increasing number of financial sector and industrial restructuring loans. In instances where privatization is the objective, IFC assistance will be sought. To further facilitate the effectiveness of the Bank and IFC in promoting private sector development, a working agreement was drawn up earlier this year between the Bank and IFC, specifying the circumstances in which the Bank would support private sector developments both with and without the IFC. For projects outside the public sector, the agreement establishes new procedures for determining at an early stage whether the proposed project should become a Bank, IFC or a joint project and, in the case of joint projects, the division of responsibility. Also, new arrangements for coordinating Bank and IFC strategies in member countries have been implemented to ensure consistency and to maximize the interchange of country expertise. Thus, the framework for Bank-IFC cooperation exists; further efforts are required to improve the cooperation in practice.

3. Cooperation with Other Sources of Finance

Summary of Points Made in the UK Position Paper:

- It is essential to maintain and strengthen close cooperation with the IMF, while preserving the character of the operations of each institution and avoiding duplication.
- The Bank should develop its cofinancing with commercial banks through B-loans, loan sales and other techniques.
- The Bank should explore further ways of encouraging export credit agencies to provide finance for good-quality projects.
- For both banks and ECAs, the Bank might, where appropriate, propose projects in the private as well as the public sector.

- It would be inappropriate to attract private finance by excessive use of guarantees or by exemption from rescheduling: the Bank should maintain its own preferred creditor status and its existing policy on arrears.

Key Bank Comments:

- ° The Bank needs to tailor its cofinancing approaches and techniques to individual country circumstances.
- ° Export credit agencies could play a more important role in supporting growth-oriented adjustment programs. Better coordination with the Bank and the Fund and sharing of information, particularly with regard to investment programs, would be helpful in this regard.

The UK paper stresses the importance of a proper division of labor and collaboration between the IMF and the World Bank. The Bank and the Fund have established the modalities for strengthening their cooperation and clarifying the responsibilities of the two institutions. The emphasis of the Bank's work is on the policy dialogue and associated lending aiming at longer term structural change. The Fund programs are also addressing the key structural issues, but more from a short-term stabilization perspective which occasionally leads to conflict in policy recommendations vis-a-vis the Bank's long-term growth perspective.

The suggestions made in the paper on how the Bank's relations with commercial banks might be developed are thought-provoking. On the question of cofinancing, we would like to point out that to play effectively the catalytic role envisioned for it, the Bank will need to use different approaches and techniques in different situations. The formal cofinancing techniques (B-loans, guarantees, etc.) are most effective for countries in between voluntary and involuntary lending, where commercial banks need some comfort from the Bank to come forward with new lending, and where the risk to the World Bank in giving such comfort is manageable. In the case of countries where commercial bank lending is involuntary, the comfort is derived from the Bank's ability to promote structural change (supported by adjustment lending) which improves the long-term economic prospects of the country, and therefore, the country's ability to service debt. Formal cofinancing and guarantee arrangements are often not entered into in these situations because they could expose the Bank to excessive risks and may not be the most suitable vehicles to effect policy reform. The Bank does not intend to "bail out" commercial banks by assuming some of their risk. The Bank's work on establishing an appropriate framework for medium-term growth and lending in support of such framework is, however, critical to convince commercial banks to maintain and increase their exposure in these countries. Commercial lending is often directly linked to progress on Bank-supported programs.

The Bank's pilot loan sales program has been successfully completed and will be reviewed by the Board in October. Although the loan sales program is currently not conceived as cofinancing and has not had a

demonstrated positive effect on total financial flows, it may have the potential, in an expanded and modified form, to mobilize additional financing for developing countries.

The suggestion that commercial banks might be interested in having the Bank evaluate and monitor projects for them is intriguing. Staff constraints, of course, would limit the Bank's ability to assist the commercial banks in this respect unless such services would generally be extended on a fee basis. Such arrangements could reduce the risks associated with project lending by giving the banks a better basis for evaluating projects and more control during the implementation stage. Commercial banks would probably look to this facility mainly for private sector projects. Their lending to government entities is in most cases explicitly or implicitly guaranteed by the government and project risk is then of lesser concern to these lenders. IFC may therefore be better suited than the Bank to develop this facility. Export credit agencies and other official lending agencies have expressed interest in Bank assistance, and the Bank has responded by helping formulate criteria for evaluating and monitoring of projects.

With regard to export credit agencies, The World Bank recently sponsored a conference to explore ways of helping these agencies play a greater role in the adjustment process. At the conference many of these agencies agreed with the view that Bank-supported adjustment programs could provide the basis for the resumption of their lending to marginally creditworthy countries. They also emphasized the need for regular consultations and dialogue with the Fund and the Bank and access to Bank/Fund information on country economic developments and investment priorities. The Bank has already undertaken or is in the process of undertaking investment program reviews for majority of its borrowers. The primary objective of these reviews is to make recommendations to governments on the size, composition and viability of investment programs in light of available resources for new investments, maintenance and rehabilitation and operating costs. The reviews are also potentially valuable to the export credit agencies as a guide to high priority projects and to resist pressure from exporters to finance projects which are not in the country's interest. For these reasons borrowing countries should also be prepared to share the findings of the investment program reviews with the export credit agencies and the Bank should encourage them to do so.

4. Financial Standing of the Bank

Summary of Points Made in the UK Position Paper:

- It will be essential to ensure that the new initiatives do not damage the financial standing of the Bank.

Key Bank Comments:

- ° Policy-based lending has increased the risk to the Bank. The Bank's shareholders can reduce this risk by coordinating their bilateral activities with the Bank.

The UK position paper rightly points out that policy-based lending represents a great challenge for the Bank and involves new risks. The Bank and its shareholders need to take every step possible to reduce these risks and to maintain the high standing of the Bank in the financial markets. The dilemma is that to be effective in promoting structural change, the policy-based lending should not only be based on well-conceived realistic programs to which governments have a firm commitment, but the lending should also come in substantial volumes and disburse quickly. This means that, even if the reform programs have been agreed to as a condition of the loan, their implementation can often only be fully evaluated after the funds have been disbursed. The Bank, therefore, needs to make critical judgments about the government's ability and willingness to implement reform programs which involves broad economic, political and institutional considerations. Although we expect most of the Bank-supported structural reform programs to be successfully implemented, the possibility of occasional failures, particularly in countries where the Bank has a large exposure, has increased the risk to the Bank. To the extent that the failures are related to external developments such as falling commodity prices and increased protectionism in industrialized countries, the risk is largely outside the control of the Bank and the countries. To ensure the Bank's capacity to cope with these risks, we must maintain adequate reserves. For countries with extended arrears, we will make provisions for eventual loan losses. We would like to emphasize, however, that our shareholders could also make important contributions to reducing the risks inherent in the new type of lending by persuading fellow shareholders, who may be tempted to abandon reform programs or even to default on their IBRD debt, that such actions are not in their own interest and will have major costs that extend beyond their financial transactions with the IBRD. One way of accomplishing this would be to ensure that bilateral and World Bank activities are mutually supportive and reinforcing, i.e. that bilateral programs support the adjustment programs agreed with the Bank, and that the flow of bilateral funds depend on progress in those programs.

5. Administrative Costs

Summary of Points Made in the UK Position Paper:

- As a medium-term objective, growth in the Bank's administrative budget should be held to zero in real terms, with increases in area of high priority offset so far as possible by savings in areas of lower priority. The Bank should address seriously the implications of such a policy for its structure given the need for a continued rise in gross commitments over the medium-term.

Key Bank Comments:

- ° We agree with the position paper on the need to set clear priorities and to keep the budget lean but would caution against premature conclusions on future requirements of the administrative budget.
- ° As part of our FY88 budget briefings and discussions with the Board, we propose to provide a clarification of the budget trade-offs as a means to facilitate judgment on appropriate budget growth.

Budget restraint is a high priority. A number of the most labor-intensive work processes have been reviewed and revised just recently, e.g., loan processing procedures. Identifying and implementing further cost-effectiveness measures could have a moderating effect on future budgets, and we are continuing these efforts.

At the same time, however, the Bank has experienced a rising demand for services to borrowers in recent years, which shows no sign of abating. Over the years, the Bank has received shareholder directives to expand and to diversify its services in many non-lending areas: for example, aid coordination and technical assistance in Sub-Saharan Africa; sectoral coordination, especially in agricultural research; cooperation with cofinanciers and commercial banks; and, to use the most recent cases, enhanced review of environmental issues. Adjustment lending itself is a relatively new priority and must be expanded, as the UK and other shareholders have suggested, without severely diminishing the Bank's capacity to support investment projects. Finally, as seen from the recent discussions of the planning assumptions, the Bank is anticipating significant overall "volume" growth (i.e. growth in loan commitments and in the size of its total portfolio), again in response to expected borrower needs and the mandate received to expand vigorously its role in addressing the problems faced by heavily indebted middle-income countries in Africa.

While there is certainly some scope for improving the efficiency with which we undertake these tasks, achieving a zero or low real growth scenario would probably entail some hard choices about the scope of the Bank's services to borrowers and its role in the development process. It may also require shifting more of the cost burden for non-lending services to the recipient countries by charging "service fees", which will clearly not be well received by our borrowers. Thus, consideration of the medium-term budget outlook should remain linked to the issues of program priorities and cost-sharing options.

In sum, we feel it would be unwise to lock in on an arbitrary real rate of growth at this point, without the benefit of examining and clarifying all the implications to the Bank. As part of our budget briefings for FY88, we therefore propose to include a discussion of the budget alternatives and their implications for the Bank's programs and services. In any case, we expect to take specific measures in the near future which should allay shareholder concerns in the area of cost effectiveness.

Political, Economic and Aid Situation

The Westland affair last winter, controversy over the U.S. raid on Libya, and the government's opposition to strong sanctions against South Africa have considerably reduced confidence in Mrs. Thatcher within both the electorate and her own Conservative Party. However, it would be unprecedented for a Prime Minister not to lead the party to the next elections. Elections are due by June 1988 but are more likely to be called in the second part of 1987. If held today, there is doubt whether a clear majority would emerge for any single party. The Labor Party led all recent opinion polls though by a surprisingly narrow margin, with the Alliance (Liberals and Social Democrats) slowly but constantly gaining ground. Following the Annual Party Conferences, Labour's lead may grow; the Liberal/Social Democratic Alliance has been weakened by differences over defence, while the Labour Conference was a resounding success for the more modern, moderate image promoted by Mr. Kinnock. In the local and by-elections held this spring the Tories suffered a serious setback, mostly to the advantage of Labor. In September, Mrs. Thatcher introduced major changes of personnel in the middle and lower ranks of the government. One of the changes was the arrival of a new Minister for Overseas Development, Mr. Chris Patten, a moderate, who replaced Timothy Raison, another moderate. However, this reshuffle gave more prominence to the right wing of the Party in preparation for the election.

The end of 1985 was not without some success for Mrs. Thatcher. Most notable was the agreement signed with the Republic of Ireland establishing consultations to resolve the situation in Northern Ireland. Continuing violence engineered by Protestant and Catholic extremists (mainly directed at the police), and particularly the growth of Protestant violence following the agreement cloud the Province's future.

On the economic front, Mrs. Thatcher's resolution to pursue her policies with conviction, disregarding sectional interests seems to be fading somewhat. On several issues such as rented housing, university fees or Sunday trading which had received strong emphasis in the government's program, Mrs. Thatcher has had to retreat or compromise. Plans to privatize public enterprises are still in place but the attempted sale, earlier this year, of the automobile firm British Leyland was strongly opposed by Labor as well as by many Conservative MPs.

The slow improvement in economic growth which started in 1981 reached a peak in 1985 with a 3.1% growth in GDP. Since then, growth has faltered and is expected to reach 2.4% in 1986 and 2.7% in 1987. Retail price inflation has slowed sharply in the early months of 1986 and is now forecast at 3.2% for the year, down from 6.1% in 1985.

There appears to be growing support within the Cabinet for an increase in public spending in order to boost the government's popularity. Despite Mrs. Thatcher and Mr. Lawson's commitment to reducing taxation, some extra expenditures are being approved for the financial year beginning in April 1987. Additional spending on health and education to reverse earlier cuts would be popular and would help to create jobs in advance of

the next general elections. At the end of August 1986, unemployment equalled 11.7% of the labor force, down from 12.3% one year ago. Adult unemployment has trebled under Mrs. Thatcher to more than 3.2 million, and total unemployment including school leavers is estimated to be about 4 million. Despite this high level of unemployment, average earnings are growing at a pace of about 8%.

British ODA has been severely cut in recent years, falling from 0.44% of GNP in 1981 to 0.34% in 1985. While ODA increased annually by 3.1% on average from 1980 to 1985 for all DAC/OECD members, it declined by 3.7% per year in the case of the U.K. In terms of the volume of ODA, the U.K.'s rank declined from the fifth to sixth in 1984 as it was overtaken by Canada. The decline in aid levels can be attributed to the Prime Minister's personal indifference combined with cutbacks demanded by the government's public expenditure policy. Multilateral aid represented 37.6% of total ODA in 1985. The bilateral program places emphasis on Commonwealth countries and the U.K. prides itself on giving a high proportion -- 62% -- of bilateral aid to the poorest countries.

Mrs. Thatcher's lack of enthusiasm for development aid was seriously challenged in 1984-85 as the general public, shaken by reports of famine in Africa, began urging increases in emergency aid. MPs successfully opposed further threatened reductions in the 1984 aid program, and Conservative MPs joined others in criticizing the small size of British joint-financing for the Special Facility for Sub-Saharan Africa. The eventual untying of the British joint-financing did not satisfy the advocates of a larger aid budget who constitute a more powerful and vocal body of parliamentary opinion than at any time in recent years. Furthermore, in October 1985 major NGOs and the churches organized a mass rally which gathered more than 20,000 people pressing for an increase in development aid. On this occasion, high-level representatives from all political parties, trade-unions, churches and business circles spoke in favor of an increased aid budget. In mid-November it was announced that in 1985/86 U.K. aid will more than keep up with inflation, with an increase of £80 million this year, about 5% more than the figure envisaged a year ago.

In December 1984 the U.K. confirmed its withdrawal from UNESCO, although the Aid Minister reportedly favored an extension of the notice of withdrawal period. The decision was regarded mainly as that of the Prime Minister who resisted intense domestic lobbying as well as international pressure, particularly from Germany and Japan.

The Bank group continues to enjoy strong support in the civil service and among parliamentarians, who view it as the most effective multilateral development institution. The dramatic reports on the situation in Africa have dampened the criticism of those who usually oppose any form of aid. However, some have begun to express the view that the African famine is a demonstration of the ineffectiveness of aid, including World Bank financed projects. An unusual coalition of the left and the right argue that much development leads to an ineluctable degradation of the environment and a worsening of the situation of the poorest people. More generally environmental issues in the Third World and their relation to development projects are becoming increasingly popular subjects of public and political debate.

COFINANCING

General Overview

Our cofinancing relationship with the UK has been traditionally good. The scope for cofinancing may now be enlarged further since a Cofinancing Framework Agreement was entered into with the British Government on September 19, 1986. Under this agreement an amount of two hundred million pounds is earmarked for the next three years, mainly for "mixed credit" cofinancing.

Official

The UK has committed seventy-five million pounds for Special Joint Financing under the Special Facility for Sub-Saharan Africa.

From FY84 through FY86, the UK, mainly through the Overseas Development Administration (ODA) and the Commonwealth Development Corporation (CDC), cofinanced on average 11 operations per year committing about US\$126.0 million annually. They provided 9.5% of all bilateral funds, the fourth largest share. The majority of the projects have been in the South Asia and Eastern and Southern Africa regions. The agriculture and energy sectors have drawn most of the cofinancing.

Export Credits

The British Export Credit Guarantee Department (ECGD) has been supportive of our proposals for enlarging the scope of cofinancing with export credits, particularly in countries which undertake adjustment programs with IMF and Bank assistance. The UK has provided US\$170.0 million in export credit for cofinancing since FY77.^{1/}

Private

British banks have been the third largest participants in the Bank's B-loan program. Eleven banks have committed US\$134.8 million to nine B-loans since FY84.

^{1/} The source of export credit cofinancing is usually firmed up after the borrower finalizes the procurement by selection from amongst a number of suppliers from different countries. This information generally becomes available a year or two after Board approval. Our statistics in this respect are therefore not up-to-date.

BORROWINGS

Although the sterling market has been a minor source of finance for the Bank to date, it is eventually expected to become one of our major markets. Already sterling has been an important source of currency diversification, long-term finance and, because of sterling's continuing depreciation, of cost-effective finance vis-a-vis other currencies. At June 30, 1986, the Bank had borrowed L 1,105 million through public market borrowings in the U.K. and the euro-sterling markets, of which L 958 million (US\$1,466 million) was outstanding.

The sterling market - the world's third largest after the US and Japanese markets - is in the midst of a major transformation. October 27's "Big Bang" will mean increased competition as more firms become both primary and secondary market makers. This change, coupled with the end of fixed commissions should translate into reduced borrowing costs for the Bank.

FY86 and FY87 - Small Program

During FY86, the Bank borrowed only L 100 million; and no increase is planned for FY87. The first issue, for L 100 million in 24 - 35 year funds, is planned for September 16, 1986.

<u>Official Borrowings</u>	<u>Millions of US\$ Equivalent</u> ^{1/}
Outstanding as of 9/18/86	= 19.2
FY86 Borrowings	= 5.0
FY86 Maturities	= 2.5
FY87 Maturities	= 19.2
Foreign Exchange Reserves (bil. US\$) ^{2/}	= 11.2
Ratio of Outstanding to FER (%)	= 0.2

The Bank of England has been a somewhat sporadic subscriber to our 2-Year dollar and SwF Issues accumulating to date US\$148.1 million and SwF 73.7 million. Outstanding is currently US\$7.5 million and SwF 20 million, respectively. The only direct investment with us was a 1978 private placement for SwF 100.0 million which matured and was repaid in full in 1984, despite of our attempt to seek a rollover. The Bank of England has further informed us that they would limit our private placements denominated in L with other official sources to those having an average life of no less than 5 years. While we had only two such private placements in the past (both with SAMA), the possibility of renewed interest exists and can only be hampered by such a restriction. Our request to relax such restriction has been denied. With respect to possible tap issues they have expressed an interest in purchases of these, but in relatively small amounts.

^{1/} July 21, 1986 rates.

^{2/} As of May 1986.

Note: Due to confidentiality, CBF statistics are not included.



**Mr. Conable's meeting with
Prime Minister Jacques Chirac
(3:30 PM, Tuesday, October 21, 1986)**

Prime Minister Chirac will probably be interested in some of the issues which are discussed in the briefs for Minister of Cooperation Aurillac and the Treasury, namely IMF/Bank collaboration, representation and the Bank's policies toward Africa. He may also wish to discuss the Baker Plan and GCI which are covered by the UK briefs. You may note that Mr. Aurillac who you will be meeting later is very close to Mr. Chirac.

Review of Bank's Organizational and Management Structure

In the past **the French have indicated that they would like to see greater efficiency in the Bank** which they consider to be "over-staffed". You may raise your intentions of reviewing the Bank's internal management structure with the assistance of consultants, McCormick, Cresap and Paget; and bringing the budget and long-range planning functions more centrally under your control.

Bank's Policy Towards Africa

With this new administration, French aid is now set to focus more on Francophone countries, and Mr. Chirac himself recently visited the Ivory Coast. You may wish to reassure him that Africa remains a priority in both project and adjustment lending. Forty-five to fifty percent of the funds available under IDA8 are to be allocated to Africa. The Special Facility for Africa, to which France is the largest contributor, will provide approximately \$1.7 billion to some twenty African countries in FY86 and FY87. You may also wish to emphasize the importance to the Bank of French support for aid coordination in Africa.

IDA8 & GCI

You may wish to thank the French for their willingness to increase their share of IDA aid from 6.6% to 7.3%. The French have supported a GCI and you may wish to express your appreciation for their support and your hope that they will continue to press the issue.

Biographical Information

Jacques CHIRAC
Prime Minister

Experience

- Since March 1986 - Present Position
- Since 1976 - President of Rassemblement des Francais pour la Republique (RPR)
- 1977-86 - Mayor of Paris
- 1974-1976 - Prime Minister under President Giscard d'Estaing
- 1974 - Minister for Interior Affairs
- 1972-74 - Minister for Agriculture and Rural Development
- 1971-72 - Minister for Relations with Parliament
- 1968-71 - State Secretary for Economy and Finance
- 1967-68 - State Secretary for Employment Problems
- 1962-67 - Various positions under Georges Pompidou
- 1962 - Head Deputy, Secretary General of Government
- 1959 - Auditor, Cours des Comptes

Education

Institute of Political Studies, Paris; Summer School at Harvard
National School of Administration (1957-59)

Other

Member of European Parliament 1979-80,
Treasurer of Claude Pompidou Foundation (for the elderly and handicapped)

Personal

Born on November 29, 1935
Married with 2 daughters

FRANCE

**Mr. Conable's meeting with
Mr. Jean-Bernard Raimond
Minister of Foreign Affaires
(4:15 PM, Tuesday, October 21, 1986)**

Mr. Raimond's concerns will probably be similar to those of Prime Minister Chirac and Aurillac, except that he **might be more interested in Bank policies outside of Africa** which is Mr. Aurillac's domain. Issues of IDA, GCI, and Bank/Fund collaboration are discussed in the brief for Mr. Lebegue.

Adjustment Lending

You may wish to discuss the successful conclusion of the Mexico and Nigeria packages as examples of the Bank's activity in helping to stimulate economic growth in those heavily indebted countries that are undertaking programs of economic adjustment. Disbursements to fourteen highly indebted middle-income countries have risen from \$2.4 billion in FY82 to about \$4.1 billion at the end of FY86 - mostly, but not exclusively in support of adjustment programs in Latin America.

Expanded Bank Lending

The Bank has recognized the potential for additional lending - not only to the heavily indebted countries, but also to other countries, including "blend" countries, whose access to IDA's concessional lending may be limited (though they have been allocated 30% of IDA8 funds) - and so raised its lending range for the period fiscal 1986-88 to as much as \$50 billion.

MIGA

You may wish to cite MIGA as a **World Bank initiative to secure greater flows of private foreign investment to developing countries**, and hope that France will continue to support the Agency.

Biographical Information

Jean-Bernard RAIMOND
Minister of Foreign Affairs

Experience

- Since March 1986 - Present Position
- 1985-1986 - Ambassador to USSR
- 1980-1985 - Ambassador to Poland
- 1977-80 - Various positions within the Ministry of Foreign Affairs
- 1973-77 - Ambassador to Morocco
- 1969-73 - Member of Secretariat of President Pompidou
- 1967-69 - Member of Cabinet of Prime Minister Couve de Murville
- 1956-66 - Various positions within the Ministry of Foreign Affairs

Education

National School of Administration (1954-56)

Personal

Born on February 6, 1926 in Paris
Married with 2 daughters

**Mr. Conable's meeting with
Mr. Aurillac, Minister of Cooperation
(5:00 PM, Tuesday, October 21, 1986)**

Mr. Aurillac's primary concern will be the Bank's policy toward Africa. He himself was a member of the Cabinet of Leopold Senghor (former President of Senegal) and an advisor to the Secretary of State to Algeria.

Sub-Saharan Africa

The French are always concerned about the Bank's operations and dealings with Africa, especially the Francophone countries. They are acutely interested in aid coordination as a means of improving the efficiency and effectiveness of development activities in these countries and are aware of the resource inadequacies for the task. You may wish to indicate the importance of French support in aid coordination for the Bank's operations in Africa.

You should acknowledge that the African countries face complex development problems that require bold action towards policy reform and debt management support. France plays an important role in both aspects of the problems. While you do not presume to second guess the debt support measures of the Paris Club and others in this, resolution of these difficulties will require the joint action and support of the international community. For the Bank's part, you should assure them that Africa remains a priority in both project lending and adjustment lending. Forty-five to fifty percent of the funds available under IDA8 are to be allocated to Africa. Furthermore, it has been agreed that \$3.0 billion to \$3.5 billion would support adjustment lending, to the extent feasible, in conjunction with the IMF Structural Adjustment Facility. You might acknowledge France's considerable role in achieving these objectives.

You might also acknowledge France's support for the African Facility as the largest contributor (\$227 million at 9/30/86 exchange rate). The Facility will provide approximately \$1.7 billion to some 20 African countries in FY86 and FY87, which will increase the adjustment-related commitments to over 50% of the Bank's total annual commitments in these countries.

Biographical Information

Michel AURILLAC
Minister of Cooperation

Experience

- Since March 1986 - Present position
- Since 1981 - President of Club of 89 of the RPR
- 1978-81 - Member of Parliament
- 1978 - Named Counselor of State
- 1969-77 - Prefect corps
- 1963 and 1973 - Member of Cabinet of Prime Minister Pompidou
- 1961-63 - Auditor, State Council
- 1960-61 - Trustee, Supreme Court of Senegal
- 1959 - Director of Cabinet of Leopold Senghor, former President of Senegal (he was then a member of the French Government).
- 1957-58 - Advisor to A. Barakrok, Secretary of State to Algeria.
- 1956 - Member of Committee on Disarmament
- 1955 - Auditor, First Class with State Council
- 1953-55 - Auditor, Second Class with State Council
- 1951-53 - National School of Administration

Education

Institute of Political Studies, Paris
National School of Administration

Personal

Born on July 11, 1929 in Marseille, lived in Indochina as a youth
Married, with two children

Biographical Information

Eduoard BALLADUR

Minister of Economy, Finance, and Privatization

Experience

- Since March 1986 - Present Position
- 1982-86 - President of two affiliates of the state-owned CGE an electrical equipment company.
- 1977-86 - President of General de service Informatique
- 1968-81 - President of company that built and now operates the Mont Blanc tunnel
- 1973-74 - Chief of Staff for Prime Minister Georges Pompidou
- 1968-73 - Member of Administrative Council of the National Forestry Office
- 1966-68 - Technical Advisor to Prime Minister Pompidou
- Prior to 1966 - Held other positions under Pompidou and was twice an advisor to ORTF the then state-run radio and television network.

Education

National School of Administration

Other

Is one of Prime Minister Chirac's closest advisors considered to be defacto number two in the government, and a member of the neo-Gaullist Rally for the Republic Party. He is expected to take a moderate approach to deregulation, preferring "privatization" through gradual increases in the shares of state-owned groups for public sale and conversion of non-voting shares into voting shares quoted on the Bourse (stock market).

Personal

Born on May 2, 1929 in Turkey
Married, with 4 children

**Mr. Conable's meeting with
Mr. Lebegue, Director of Treasury
(12:00 PM, Wednesday, October 22, 1986)**

The following are key points that might be raised during your meeting with Mr. Lebegue. Others, such as the Baker Plan, GCI, and Bank administration and efficiency have been covered in previous briefs.

IMF/Bank Collaboration

The French are concerned that with the Bank's new role in adjustment lending the IMF's primacy in such matters will be lost. They do, however, welcome close cooperation with the Fund in coordinating financing packages, and strongly endorse the US proposal to enhance collaboration between the two institutions in Structural Adjustment Facility operations. You may wish to reassure them that you support such collaboration, while recognizing that the mandates of the two organizations are clearly different. The Bank's main focus is development, and it is in our own interest to maintain a separate character of operation and avoid any expansion into areas more legitimately the concern of the IMF.

IDA8

Please thank the French for their willingness to increase their share of IDA aid from 6.6% to 7.3%. **The French have been a strong supporter of IDA during the negotiations, and may be receptive to a request for an additional voluntary contribution.**

Representation

The French authorities are particularly concerned to see an increase in French representation at the Senior Management level. You might take the position that as in the past we are ready, when vacancies at senior levels occur, to consider French candidates together with those of other nationalities, appreciating the fact that Bank management should reflect the fullest possible representation. With the ongoing review of the Bank's organizational structure, it is uncertain what vacancies are likely to emerge, but the need for flexibility and French concerns will be taken into account.

SCI

France has expressed interest in increasing its share in IBRD capital so as to stand alone as the fourth largest shareholder. This entails breaking parity with the U.K. You might say that while you sympathize with the French request and hope that the issue can be resolved easily, the issue of ranking is a political matter that needs to be resolved among shareholders.

MIGA

It may be appropriate to raise the question of MIGA with the Treasury. **Please express your hope that France will ratify the convention speedily and allow for this very important Agency to come into force.**

Sub-Saharan Africa

Treasury shares the Ministry of Cooperation's strong concerns about increasing the level of Bank Group support for Sub-Saharan Africa and in improving aid coordination to provide for efficient use of the scarce resources available to this end. This has been covered in the brief for your earlier meeting with Mr. Aurillac.

Biographical Information

Daniel LEBEGUE
Director of the Treasury
(Alternate Governor - IMF)

Experience

- Since Aug 1984 - Director, Treasury. He has been at the Treasury since 1969 except in 1974-76 and 1981-83.
- 1983-84981 - Deputy Director, Treasury.
- 1981-83 - Advisor to the Minister.
- 1980-81 - Assistant Director, Domestic Financial Affairs.
- 1979-80 - Head, Treasury Funding and Money Markets Division.
- 1974-76 - Head, Balance of Payments and Exchange Markets Division.
- 1974-76 - Financial Attache for the East East, French Embassy in Tokyo.
- 1969-74 - Financial Markets Division.

Education

Law, Paris Institute of Political Studies.
Alumnus of L'ecole Nationale d'Administration.

Personal

Born on May 4, 1943.
Married with one son and one daughter.
Hobby: Opera.

Biographical Information

Michel CAMDESSUS
Governor, Bank of France
(Governor - IMF)

He was formerly Head of the Paris Club.

Experience

- Since Nov 1984 - Governor, Bank of France
- Aug - Nov 1984 - First Deputy Governor, Bank of France
- 1968-84 - French Treasury
 - 1968 - Chief of the Office of Public Enterprise Financing
 - 1971 - Investment Chief
 - 1972 - Deputy Director for Savings and Credit in the Financial Activities Department
 - 1974 - Deputy Director
 - 1982 - Director
- 1966-68 - Financial Attache at the French Delegate to the EEC
- 1961 - Civil administrator in the Ministry of Finance and Economy
- 1960-61 - Director General for National Education in Algiers
- 1958-60 - National School of Administration

Education

College of Notre Dame Betharram
Law Faculty, Paris
Institute of Political Studies in Paris
Doctorate in Political Economics

Personal

Born on May 1, 1933 in Bayonne
Married with 6 children

Mr. Yves Roland-Billecart, 60
General Manager, Caisse Centrale de Coopération Economique - COCE
(Central Fund for Economic Cooperation)

A Civil Servant (Finance Inspector), Mr. Roland-Billecart was Advisor to the Minister of Finance of Tunisia in 1957-58. From 1958 he has been dealing with Algerian economic affairs, before and after independence, until 1967 when he joined the COCE as Deputy General Manager. He was appointed General Manager in 1979. He is also General Manager of the monetary agencies for French overseas departments and territories and he teaches at Paris Institute for Political Studies.

COCE is a public entity to finance development projects in 34 African and 5 Caribbean countries as well as in the French departments and territories. COCE lends money it borrows from the market and administers development budget on behalf of various ministries. In 1985, COCE commitments amounted to 6.16 billion French Francs (about \$950 million) for a total of 86 operations of which 6 (for a total of about \$50 million) were cofinancings of Bank/IDA operations. COCE has an affiliate, PROPARCO, to promote the private sector in a way similar to the IFC.

This is the gentleman
Mme. Ploix talked to you
about - his specialty
is Africa.

HB/Le
October 17, 1986

Mr. Joseph C. Wheeler
Chairman
Development Assistance Committee, OECD

Born in Massachusetts in 1926, Mr. Wheeler graduated from Bowdoin College in 1948 with a BA degree and from Harvard University in 1951 with a Masters degree in Public Administration (MPA).

Mr. Wheeler first joined government service as a Junior Economist in the United States Interior Department in 1950. A year later, he joined the Technical Co-operation Administration which administered the Point Four Program. In 1961 he helped start Peace Corps operations in the Near East and South Asia. He returned to AID in 1963 to continue to work on the Near East and South Asia and in 1977 became assistant administrator of AID's Near East Bureau. From 1980 to mid-1982 he was AID Deputy Administrator. In 1979, the AID Administrator presented him the Distinguished Honor Award for outstanding service, particularly related to management of the Near East programmes. In 1982, Mr. Wheeler was one of the first two AID Foreign Service officers to be awarded the rank of Career Minister. He was elected Chairman of the OECD/DAC in December 1985.

One of OECD's main Committees, the DAC seeks to improve the volume and effectiveness of the development assistance programmes of its 20 members. It regularly reviews Members' aid programmes and policies, monitors aid and development trends and provides general orientations for Members' aid policies.

HB/Le
October 17, 1986

Mr. Jacques Waitzenegger, 61
First Deputy Governor
Banque de France

Born 1925 in Toulouse, France

Education

Post graduate diploma in Law and Political
Economy

Professional Experience

- 1956 Inspector, Banque de France, Paris
- 1957-58 Seconded to the Federal Reserve Bank of New York
- 1958-59 Inspector, Banque de France, Paris
- 1960-64 Alternate Executive Director, IMF
- 1961-64 Alternate Executive Director, World Bank
- 1964-75 Deputy Director, Africa Department, IMF
- 1975-80 Assistant to the Director General for Foreign Services, Banque de France
- 1980-84 Director General, Foreign Services, Banque de France
- 1984 First Deputy Governor, Banque de France

HB/Le
October 17, 1986

Mr. Francis Cappanera
Director General, Foreign Services
Banque de France

Born in 1927
Married, two daughters, two sons

Professional Experience

- 1952 Joined Banque de France
- 1957 Inspector, Banque de France
- 1965-67 Head of Monetary Analysis, Banque de France
- 1967-68 Seconded to Federal Reserve Bank of New York
- 1968-70 Advisor on monetary matters to Morocco's Finance Minister
- 1970-75 Head of Financing services, French Planning Commission
- 1975-84 Director, Foreign Relations, Banque de France
- Since 1984 Director General, Foreign Services, Banque de France

HB/Le
October 17, 1986

FRANCE

**Mr. Conable's meeting with
President Mitterand
(5:30 p.m. Wednesday, October 22, 1986)**

Issues that may arise in your meeting with the President include **IDA8, Africa, GCI, IMF/Bank collaboration** (covered in briefs for Mr. Aurillac and Mr. Lebeque) and the **general direction you intend to give to the Bank** (discussed in brief for Prime Minister Margaret Thatcher).

IDA8 and Special Facility for Africa

You may wish to thank the President for the strong support of France in IDA8 and in the Special Facility for Africa to which it is the largest contributor.

Biographical Information

Francois MAURICE MARIE MITTERRAND
President of the French Republic

Experience

- Since 1981 - Current Position
- 1974 - Candidate for French Presidency
- 1972 - Vice President, Socialist International
- 1971-81 - First Secretary, Socialist Party
- 1965 - Candidate for French Presidency
- 1965-68 - President, Federation of Democratic and Socialist Left
- 1959-62 - Senator
- 1956-57 - Minister of State
- 1954-55 - Minister of the Interior
- 1953 - Delegate to the Council of Europe
- 1951-52 - Minister of State
- 1950-51 - Minister for Overseas Territories
- 1948-49 - Secretary for Information (attached to Prime Minister's
- 1939-47 - Served in the war and subsequently held several posts dealing with the war's aftermath

Education

College Saint-Paul, Angouleme
Facultes de droit et des lettres, University of Paris
Numerous publications

Personal

Born at Jarnac, Charente, October 26, 1916
Married with 2 children
Interests: tennis

OFFICE MEMORANDUM

DATE October 14, 1986

TO Mr. Barber Conable

FROM Moeen A. Qureshi *MAQ*

EXTENSION 73665

SUBJECT Your meetings in France

Due to Helene Ploix' absence from Washington, I have not been able to sit down with her and discuss what issues specifically interest the French authorities. However, from my discussions with the French officials at the Annual Meetings, here are their principal bugaboos:

1) Africa: The French want the Bank to do much more in Africa -- provide both more money and more support for policy reform. The staunch support for Africa has two practical ingredients. The French are keen to have someone else take up a part of the burden of aid to former French Africa which, in the main, they have shouldered in the past. Second, the French are now convinced that without comprehensive policy change, more aid to AID will merely go down the drain and they agree that the Bank can be a more effective agent for policy change in Africa.

The French are also very interested that these objectives be accomplished without damaging French business, financial, and political interests, which are strongly entrenched in French Africa.

2) Debt: The French strongly support the Baker Plan and would like the Bank to proceed more expeditiously in this area.

The French are very sensitive to the role of the Paris Club which is chaired by a French Treasury official. (The Paris Club is the body that renegotiates "official" as distinct from "private" debt -- i.e. mostly export credits.) This gives the French Government a major voice in debt restructuring exercises for official credits. They do not want to lose this primary position. They have felt that the Bank has a tendency to make suggestions and to prescribe solutions for debt restructuring that could constrain the freedom of action of the Paris Club. They have been wary about World Bank participation in these meetings.

3) Personnel: You are aware of the French desire to have a Frenchman appointed to a senior management position on the Operations side. During the Annual Meetings, I pointed out the impropriety of the manner in which this request was made. I pointed out to the French officials that their desire to have a senior Frenchman appointed in the Bank was understandable, however it is not for them to say who the person should be or where he should be appointed. The French officials drew my attention to the unfortunate case of Jean-Louis Dherse and said that the way in which that matter was handled still rankled, but they promised to speak to the Minister about the issue.

4) GCI: They will ask you what you have in mind. They will also ask how you can help in increasing the French share in IBRD.

Political, Economic and Aid Situation

The March 16, 1986 legislative elections brought to power a new center-right coalition (RPR and UDF), leading to an unprecedented situation in which the National Assembly majority and President are of opposing political persuasions. The majority on which the new Prime Minister, Mr. Jacques Chirac, can count is a very thin one: 291 out of 577. Thus, Mr. Chirac has constructed a government which is carefully balanced between the RPR and the different factions within the UDF. The RPR is however the dominant force in the cabinet, with control of the chief economic positions - most notably the Finance Minister, Mr. Edouard Balladur, as de facto number two. A complicating factor for Mr. Chirac is that about 20 of the majority votes are held by supporters of former Premier Raymond Barre, a potential rival for Mr. Chirac in the next presidential elections due in the spring of 1988.

The modus vivendi - or "co-habitation" - between the government and President Mitterrand worked fairly smoothly until mid-July, when the President dramatically announced that he would not sign a government decree providing for the privatization of 65 national enterprises. Such frictions, however, are not likely to endanger the existence of the government as long as there is nothing to be gained by Mr. Mitterrand (or Mr. Barre's followers) provoking a political deadlock leading to early presidential elections. After the series of dramatic bombings in Paris in September, a broad consensus on ways to fight terrorism emerged from practically all political parties, but this did not last until the beginning of October. One local and by-elections in late September demonstrated, as suggested by the polls, that the present Government continues to enjoy the support of a majority within the electorate. Some cracks, however, can be seen in the construction of the Government coalition, and on October 9 led to the election of a socialist as President of the Foreign Affairs Committee in the National Assembly, when members of the coalition refused to vote, in a secret ballot, for a moderate UDF candidate.

In fact the circumstances have given to the Prime Minister an authority - in full respect of the letter and spirit of the Constitution - that none of his predecessors, or himself when he occupied the position 12 years ago, have ever experienced under the Fifth Republic. Mr. Chirac's first major reform, the return to single-seat from proportional majority, was passed without great difficulty and by the end of 1986 he should be able to push through the National Assembly a spate of measures which would have in common less intervention from the State in economical and social sectors and a strengthening of domestic security measures, aimed primarily at fighting terrorism. In this context immigration is to be curbed substantially and the police will enjoy increased powers.

On the economic side, the Socialist government has left a reasonable legacy. In 1986, the French economy looks stronger than it has for many years: inflation has fallen to around 4% (from more than 14% in late 1981) and should fall below 3% later this year; economic growth seems

set to reach 2.3% in 1986 and 3% in 1987 (against a 1.1% average over the last five years); and the unemployment rate appears to be stabilizing at around 10% (uncomfortably high but less than the European average). The trade balance returned to a surplus for a period in early 1986 but remains unsteady. Some underlying structural problems are still there: France's deficit with the rest of Western Europe is rising, the rigidities in French industry seem to make it fundamentally unable to compete openly and successfully on foreign markets; and prices are still rising faster than in Germany, France's biggest trade partner.

The recent declines in inflation are due in large part to the fall of the dollar and of oil and commodities prices, coupled with a rigorous wages policy made possible by the control of prices (10% of industrial prices and virtually all service prices remain under government control) and tight monetary and fiscal policies. Should these external conditions remain unchanged, they should give the Chirac government more leeway to press ahead with plans for deregulation and tax cuts. It should be noted however that Mr. Balladur seems willing to move more slowly and cautiously on this front than the RPR/UDF political platform implied. Future moves will depend on two key monthly indicators: the consumer price index and unemployment figures.

Unlike the situation under the previous government, the Aid Ministry - or Co-operation Ministry - is now a full-fledged Ministry rather than one controlled formally by the Foreign Affairs Ministry and, in reality, by the Presidency. The Ministry is headed by Michel Aurillac, an RPR and former high level civil servant with extensive experience in Africa, and who is very close to the Prime Minister. French aid is now set to focus more on French-speaking African countries and favors closer political links with such countries. This was illustrated by Mr. Chirac's visit to the President of Ivory Coast, Houphouet Boigny, shortly after he was appointed Prime Minister and by the return of 73-year old Jacques Foccart as advisor to the Prime Minister (Mr. Foccart was advisor on African Affairs to Presidents De Gaulle and Pompidou from 1958 to 1974) and the maintenance by President Mitterrand of his African advisor Guy Penne. When he came to power in 1981, President Mitterrand promised to reach the ODA target of 0.7% of GNP by 1988. Despite a sizeable increase, from 0.36% in 1980 to 0.54% of GNP in 1984, the President's promise is not likely to be achieved. For 1986, Minister Aurillac said that ODA should be 0.52% of GNP with an increase in the grant element and the maintenance of the 0.15% of GNP target for transfers to the poorest countries achieved in 1985.

No major changes are expected in France's overall support for the Bank group, which was reaffirmed by Minister of Finance Balladur at the Development Committee meeting last April. Although France has been supportive of the Bank in recent years, it has criticized what French officials perceive as a lack of flexibility and imagination in response to the Baker initiative. They have more confidence in the IMF's role vis-a-vis the heavily indebted countries than in the Bank's programs and would like to see a greater integration of Bank-Fund programs while maintaining the distinction between the two institutions' mandates. One of our most vocal critics in this regard is the former Treasury Deputy Director for International Affairs and now Mr. Balladur's Directeur de Cabinet. In Africa, the French pro-francophone Africa policy largely coincides with the Bank's priority to Sub-Saharan Africa for which the

French would like to reserve 50% of IDA8. The French have been very supportive of a \$12 billion IDA8 for which they propose to increase their share from 6.6% in IDA7 to 7.3% and were the largest contributors to the Special Facility for Africa. They also seem to favor a GCI and, in connection with increase participation in IDA, they would like to become the IBRD's fourth shareholder. They would like to see greater efficiency in the Bank which they consider to be "over-staffed"; and an improved representation of French nationals among the Bank's senior management, notably at the Vice-President level.

10/14/86

COFINANCING

General Overview

France ranks first amongst the official bilateral cofinanciers in terms of number of projects cofinanced over the last ten years. Germany and Japan have, however, contributed larger resources.

Official

A Consultant Trust Fund Agreement is in the process of being signed. It will provide US\$200,000 per year for the funding of French consultants engaged by the Bank.

From FY84 through FY86, France cofinanced 18 operations annually, with concessionary funds provided through the Caisse Centrale (CCCE). Most of these were concentrated in the Western Africa region benefitting primarily the agriculture sector. The average annual cofinancing commitment was US\$127.0 million. In absolute terms, France provided 9.6% of all bilateral funds, the third largest share.

A Cofinancing Framework Agreement, covering cofinancing with "Protocoles du Tresor" (Mixed Credits), was signed with France in April 1985. This agreement is intended to cover cofinancing for countries that are not recipients of CCCE funding. No cofinancing has yet materialized under this agreement, however, several candidate projects are currently being given consideration.

Export Credits

Since FY77, France has provided US\$184.0 million to 12 projects in export credit cofinancing.^{1/}

Private

French banks have been the fourth largest participants in the Bank's B-loan program. Fifteen banks have contributed a total of US\$100.1 million, or 5.1% of total commitments, to nine B-loans since FY84.

^{1/} The source of export credit cofinancing is usually firmed up after the borrower finalizes the procurement by selection from amongst a number of suppliers from different countries. This information generally becomes available a year or two after Board approval. Our statistics in this respect are therefore not up-to-date.

BORROWINGS

The French franc capital markets remain a very minor source of funds for the Bank, though their role could increase with the liberalization of France's heretofore highly restricted and centrally administered markets.

Recent Reentry into Domestic Market

After the Bank's first and only issue in the Euro-FF market 14 years ago, the Bank reentered the French domestic market in July 1985 with a modest FF one billion (\$107 million) bond issue. This transaction was the culmination of a year-long series of negotiations between the Bank and the French Treasury, which led to the exemption of IBRD bonds from France's 10% withholding tax. The Bank became the only borrower in the French market, besides the French government, to be exempted from the tax requirement, though it will soon be joined by other supranational borrowers including the European Investment Bank.

Further Operations in FY86 and FY87

The Bank tapped the Euro-FF market again in FY86 with a public issue targetted at the cooperative sector which was then swapped into Swiss francs.

In terms of loan sales, French banks were significant contributors, purchasing 12% of total sales in our pilot program and ranking third highest among nationalities.

As for our FY87 program, we have approached the authorities with a tentative proposal to conduct three borrowing operations aggregating about FF 2.0 billion which may be expanded on an opportunistic basis to FF 2.6 billion.

Market Trend

Long-term interest rates on French government bonds have declined by two-and-a-half percentage points since January 1, 1986 to about 7.70% in August. Institutional changes are having major effects on market activity and a great variety of new instruments has been introduced.

<u>Official Borrowings</u>	<u>Millions of US\$ Equivalent</u> <u>1/</u>
Outstanding as of 9/18/86	= 22.6
FY86 Borrowings	= 13.8
FY86 Maturities	= 12.1
FY87 Maturities	= 8.8
Foreign Exchange Reserves (bil. US\$) <u>2/</u>	= 24.1
Ratio of Outstanding to FER (%)	= 0.1

France has been a regular subscriber to our 2-Year Issues, albeit in small amounts. To date, they have subscribed a total of US\$118.9 million and SwF 38.1 million of which US\$14 million and SwF 14.7 million are outstanding. During recent discussions, Banque of France expressed some interest in a future private placement with the Bank.

1/ July 21, 1986 rates.

2/ As of May 1986.

Note: Due to confidentiality, CBF statistics are not included.

**Mr. Conable's Meeting with
Dr. Juergen Warnke, Minister of Economic Cooperation
(Lunch and Dinner, Thursday, October 23, 1986**

Mr. Warnke is likely to raise the following issues, as well as discuss your general outlook on the Bank, the Baker Plan and GCI issues discussed in earlier U.K. and French briefs.

Guarantees

The Germans have expressed their reservations on the Bank's extension of a guarantee to Mexico. You may wish to point out that the guarantee was critical to the conclusion of the "rescue" package and was also very small which should not affect the Bank's creditstanding. The Bank has no intention of using guarantees except sparingly where absolutely essential.

You may wish to point out that of the \$1 billion joint financing component with commercial banks, the Bank only guaranteed \$500 million, callable after fifteen years, with a present value of only \$150 million.

Agricultural Policy

Like the U.K., the Germans are sensitive to the issue of growing protectionism and subsidies to production and export of agricultural commodities and their adverse impact on developing country growth. **Mr. Warnke himself emphasized in the Development Committee the need for additional efforts for "a systematic dismantling of protectionism in the field of agriculture"**. You may wish to reassure him on Bank policy on lending for agricultural policy as outlined in the brief for your meeting with Prime Minister Margaret Thatcher.

Bank Administration and Efficiency

Germany, as other major donors, has been interested to see further efficiency in Bank administration. You may wish to point out, as in the case of your meeting with Prime Minister Margaret Thatcher and others in the U.K., **your initiatives to come to grips with the bureaucracy of the Bank by establishing your own hold on the budget and calling for an internal management review of organization with the assistance of outside consultants.**

IDA8

You may wish to express your appreciation for Dr. Warnke's personal intervention to pledge a voluntary contribution to IDA8. The specific amount is still under consideration, although based on Germany's share (11.5%) of the minimum target of \$500 million in voluntary contributions to bring the IDA8 resource level to \$12 billion, Germany's voluntary contribution would be \$57.5 million.

Cost-Sharing of Aid Coordination

Germany has indicated an interest in discussing cost-sharing of aid coordination among donors, an issue raised in the Development Committee Communique. The Bank is intensively involved in the rapidly expanding aid coordination effort and related direct costs to the Bank are high. **You may wish to discuss several steps for cost-sharing, including: (i) provision of Trust Funds such as Germany has recently established with the Bank for consultant support; (ii) seconding of donors' professional staff to the Bank for work on aid coordination; and (iii) integrating aid coordination efforts utilizing the expertise of bilateral or multilateral institutions, such as EEC or AfDB.**

Aid Coordination in Egypt and Bangladesh

The Germans have indicated that the Minister of Economic Cooperation may wish to discuss aid coordination in Egypt and Bangladesh. The Germans are very keen to see the reactivation of a Consultative Group for Egypt (the last time a group convened was in 1979). Because of its strategic location, Egypt gets sufficient untied bilateral aid, and in fact there is competition among donors over contributions to Egypt. It is therefore, not in Egypt's interest to have a Consultative Group, which would only make them vulnerable to donors' criticism. You may wish to assure Germany that the Bank and Fund are striving to put together an economic reform package for Egypt, and will in due course review the necessity for a Consultative Group.

There appears to be no problem in aid coordination for Bangladesh. A well structured and apparently well-functioning set of mechanisms for consultations and inter-action among donors and between donors and the government exist in Bangladesh. On the donors' side, the center of the fairly elaborate coordinative arrangements is the World Bank Resident Mission which plays an active, and apparently well accepted role as Chairman, convenor, or instigator of most of the large number of meetings held by the donor community. A Local Consultations Group, which meets once a month or on a bi-monthly basis, has been in existence for several years. In addition, there is an annual Aid Group meeting in Paris, the largest for any developing country. **The Germans are active and constructive participants of this Aid Group and suggested earlier this year that the World Bank chair a working level meeting of the Aid Group in Bonn. The meeting is scheduled for the 17th and 18th of November and the topic for discussion will be projects and programs to alleviate rural unemployment in Bangladesh.**

You may wish to express your appreciation of Germany's initiatives for organizing this meeting and thank the Ministry of Economic Cooperation for making the arrangements.

Bundestag Delegation Visit

You are meeting with members of the Bundestag Committee for International Economic Cooperation after your lunch with Dr. Warnke. Six members of the Committee are visiting the World Bank on October 28 and 29, 1986 (in response to an invitation by Mr. Clausen in April). **You may wish to indicate that you look forward to the opportunity to have an informal discussion with the Committee in Germany, and look forward to their visit to the Bank.**

Women in Development and Environment

Dr. Warnke is interested in the issue of women in development (for details on the Bank's approach, see attachment), and might also wish to discuss the Bank's role in the environment. In respect to the environment, Mr. Warnke is particularly interested in the issue of rehabilitation, especially in Sub-Saharan Africa. A recent study by the Bank on desertification in the Sudano Sahelian zones has elaborated priorities to be taken into consideration when designing development projects in the region.

Chile

Germany is concerned that politics are entering into the Bank's work, especially with the recent indication from the U.S. that it will not support a loan to Chile on human rights grounds. If this issue is raised, you may wish to clarify that the Bank's sole criteria for operations is economic and not political. However, political matters may be raised by the Board, and while you sympathize with the German view, Management cannot adopt a posture on the issue.

Biographical Information

Dr. Jurgen WARNKE
Minister for Economic Cooperation

Experience

- Since October 1982 - Federal Minister for Economic Cooperation
- 1978-1982 - Vice-President of the Committee for European and International Cooperation
- 1971-1978 - Chairman of the Trade Policy Advisory Council of the German Bundestag
- 1969-1971 - Member of the German Bundestag
- 1964-69 - Chief Executive Secretary of the Association of Ceramic Industries in Selb, Bavaria
- 1962-1970 - Member of the Bavarian Parliament
- 1959-1962 - Technical Assistant to the Regional Group of the Christian Social Union (CSU) in the German Bundestag

Education

Studied law and economics in Munich, Geneva and Warzburg, passing final law examinations in 1958.

Personal

Born on March 20, 1932 in Berlin.
Married with six children.

**Mr. Conable's Informal Meeting with
Members of Bundestag Committee for International Economic Cooperation
(3:30 - 5:00 PM, Thursday, October 23, 1986)**

Members of the International Economic Cooperation Committee of the Bundestag will raise with you for informal discussion the same questions which are on the agenda for the public hearing on "the impact of development cooperation of the adjustment programmes demanded by the World Bank and the International Monetary Fund" to be held in November. They will also be interested to hear your views on the overall development orientation of the Bank, as well as on population, and women in development and the environment.

Questions for the Public Hearing

The following four questions regarding adjustment measures are on the Committee's agenda for the public hearing. CPD has prepared answers to these questions which are attached in full and summarized below.

Q1: What kind of adjustment measures are typically agreed by the International Monetary Fund and The World Bank on the one hand, and the borrowers on the other, particularly as regards highly indebted countries?

A. IMF stabilization programs which typically address demand management issues have to be in place in order that the medium-term structural reforms supported by the Bank can bear fruit. The Bank urges a highly indebted country seeking support to draw up a medium-term macroeconomic program and provides help in the form of extensive country economic analysis. A common objective has been to create a more open export-oriented economy, through adequate foreign exchange policies, liberalization of foreign trade, a rational interest rate policy, better resource mobilization and rationalization of public expenditure.

Q2: Do such agreements also relate to the financing of development programmes and projects and, if so, in what way?

A. Reforms supported under adjustment programs are intended to improve the economic environment for all economic activities, and hence increase the likely return on development projects. Once a medium-term macroeconomic framework is agreed upon, development programs in the borrower country are restructured, and this affects the selection of projects to be financed either by the World Bank or by others. In this context, fast-disbursing Bank loans help sustain the adjustment effort and cushion the borrower against short-term shortages.

Q3: What are the indirect effects of such agreements on the possibilities of selecting, conceiving, planning, and implementing development programmes and projects? Is any specific information available on this issue for the last four years, particularly as regards the sectoral distribution of projects?

A. Where a medium-term macroeconomic framework has been agreed, a coordinated effort takes place to bring Bank support through all types of lending, including project loans. Because of improved prospects in the countries undergoing the adjustment, total Bank lending would tend to rise, as would the share in country lending of quick-disbursing adjustment lending. Both these factors support and enrich the dialogue with the borrower and improve project selection. Projects remain the major medium through which the Bank supports development in borrower countries (84.5% of total commitments, 1983-86), and the emphasis recently placed on macroeconomic policy and sectoral reforms will enhance the productivity of such projects (see tables attached).

Q4: Is it necessary and conceivable for corrections to be made to the adjustment measures so as to avoid negative effects on the development process and on development cooperation?

A. The Bank is aware that adjustment programs may have negative effects on vulnerable groups and that safeguards should be built into the design of the adjustment program to cushion these groups against some of the hardships of adjustment. The attempt to perfect this approach is still in its early stages. Adjustment measures eventually lead to a more sustainable course of development, and many of the initial harms get corrected as growth accelerates. However, occasionally the Bank has argued with the Fund in particular country situations that the pace of stabilization might be moderated in order to safeguard medium-term growth, but such a divergence of views has been quite rare.

In addition to answering the above questions, you should be prepared to field questions in areas of environment, women in development and population (see the attachments on each issue).

Suggested Responses to Questions on Structural Adjustment and
Sector Lending for the Session with the
Bundestag Committee on Economic Cooperation

- Q1. What kind of adjustment measures are typically agreed by the International Monetary Fund and the World Bank on the one hand and the borrowers on the other, particularly as regards highly indebted countries?
- A. Adjustment measures are devised after close consultation between the Bank and the IMF as the adjustment is often triggered by short term pressures on domestic finance and the balance of payments. Fund stabilization programs which typically address demand management issues have to be in place in order that the medium term structural reforms supported by the Bank can bear fruit. For this purpose, the Bank urges the usually highly indebted country seeking support to sketch a medium term macroeconomic program and show signs of commitment to its implementation. The identification of such a program is often greatly helped by extensive country economic analysis undertaken by the Bank. The program varies from country to country depending on individual circumstances, but a common objective has been to create a more open export-oriented economy where the efficiency of production is enhanced by exposure to greater international competition. Features common to the adjustment programs are adequate foreign exchange policies, liberalization of foreign trade, a rational interest rate policy, better resource mobilization and rationalization of public expenditure. The latter task, particularly to bring about orderly cuts in investments and current expenditures over the near term, has been a special Bank concern. Efforts are made to raise the efficiency of public sector entities and reduce their dependence on the budget; divest certain public concerns to the private sector; and reduce administrative controls of economic activities, liberalizing domestic prices and bringing these as much as possible to international levels.
- Q2. Do such agreements also relate to the financing of development programs and projects and, if so, in what way?
- A. Working in close cooperation with the Fund, the Bank seeks through various contacts to increase the flow of capital from the international financial community to the countries undertaking adjustment programs, including debt rescheduling as necessary. The reforms supported under the adjustment programs are intended to improve the economic environment for all economic activities, but the results of adjustment in terms of improved conditions take time to become evident. Once a medium term macroeconomic framework is agreed upon, development programs in the borrower country are restructured, and this affects the selection of projects to be financed either by the World Bank or by others. While the development programs in the country concerned are being restructured and before the results of accelerated growth are produced, fast-disbursing Bank loans help sustain the efforts underway and cushion the borrower against short term shortages. The Bank usually continues to finance capital formation within the agreed programs depending on the situation in

each case. By improving the overall climate of activity through agreed policy reform, projects benefit by showing greater returns. Through experience, we have found that projects have a greater chance of success if they are fitted into an overall macroeconomic program. [See also answer to Q3.]

- Q3. What are the indirect effects of such agreements on the possibilities of selecting, conceiving, planning and implementing development programs and projects? Is any specific information available on this issue for the last four years, particularly as regards the sectoral distribution of projects?
- A. Where a medium-term macroeconomic framework has been agreed, the stage is set for a coordinated effort to bring Bank support to the country at various levels including SALs, Sector Adjustment Loans as well as project loans. One obvious advantage of drawing a medium term program is to clarify the areas where Bank support would be most helpful. Because of improved prospects in the countries undergoing the adjustment, total Bank lending would tend to rise, as also the share in country lending of quick-disbursing adjustment lending, and both these factors support and enrich the dialogue with the borrower and improve project selection as well as sustain sectoral reforms to be pursued. The sectoral distribution of projects financed by the World Bank in the fiscal years 1983-86 is shown in the two appended tables. Projects remain the major medium through which the Bank supports development in borrower countries (84.5% of total commitments, 1983-86), and the emphasis recently placed on macroeconomic policy and sectoral reforms will enhance the productivity of such projects. Comparative advantage in the countries that undertake adjustment programs affects the orientation of the Bank's sectoral adjustment lending. Often the sectoral adjustment of agriculture or industry is coupled with trade reforms so that the classification of adjustment lending by sector can be arbitrary. It is too early yet to expect changes in the policy framework of particular sectors to have raised the rates of return earned on the investments. The intention, however, is to attempt to identify major policy changes to be supported by sector lending so that project investments can be conceived within a more favorable framework, with better chances of realizing their objectives. Two more tables are also appended: one showing all adjustment lending operations undertaken until end-June 1986; and another showing Bank lending for projects in countries that are undertaking adjustment.
- Q4. Is it necessary and conceivable for corrections to be made to the adjustment measures so as to avoid negative effects on the development process and on development co-operation?

- A. Normally a series of adjustment operations is mounted and it is always possible to adjust targets and change emphases in the light of developments and when studies specifically initiated under the program begin to yield results that can guide specific policy changes such as the degree of protection or incentives to exports. We have become aware that the adjustment programs with their stress on efficiency and market forces may have negative effects on vulnerable groups and that we should build into the design of the adjustment program certain safeguards to cushion these groups against some of the hardships of adjustment. The attempt to perfect this approach is still in its early stages. It is usual under an adjustment program to begin by cutting effective demand, thus perhaps increasing unemployment; raising interest rates, thus reducing investment; devaluing the local currency, thus raising inflation; and reducing consumer subsidies, thus raising the cost of living for the poor. Such measures eventually lead to a more sustainable course of development, and many of the initial harms get corrected as growth accelerates. We have occasionally argued with the Fund in particular country situations that the pace of stabilization might be moderated in order to safeguard medium term growth, but such a divergence of views has been quite rare. We are not aware that the adjustment process can have a negative impact on development cooperation which we try to promote for the benefit of all. For countries undertaking adjustment, we have attempted to persuade the aid-giving community to offer more program aid during the transitional stage, and to coordinate project activities within the agreed overall investment plan which forms part of the adjustment program.

**Mr. Conable's Meeting with
Dr. Gerhard Stoltenberg, Minister of Finance &
Alternate Governor of the Fund
(9:00 A.M., Friday, October 24, 1986)**

Dr. Stoltenberg is considered to be the most powerful member of the German Cabinet. The following are issues particularly important to him, in addition to others on the Baker Plan, GCI, IDA8, and liberalizing world trade covered in earlier U.K. briefs.

Bank/IMF Collaboration

While Germany generally supports policy-based lending, they have some doubts as to its reliability as a source of long-term growth. You may wish to assure them that reviews of such lending have revealed that where the commitment to reform is firm and the pace thereof reasonable, policy-based lending can yield significant positive results. The Bank remains committed to conditionality. You may wish to assert that close cooperation in coordinating financing packages with the Fund is imperative. However, the mandates of the two organizations are clearly different, and the Bank's main focus on development will cause it to maintain a separate character of operations.

Cofinancing

The Bank has significantly increased its adjustment lending to Sub-Saharan African countries undertaking adjustment programs primarily through the Special Facility for Africa and will continue in this direction under IDA8. Germany participated in the Special Facility as a joint cofinancier, using German bilateral assistance funds that were predominantly (90%) project-related. For this reason, Germany's attempts to finance Facility operations that are adjustment oriented have not been very successful. While the Ministry of Economic Cooperation is keen to see Germany increase German participation in adjustment lending, the Ministry of Finance has been more reluctant. You may wish to encourage Mr. Stoltenberg to increase German funding for policy-based lending in both its bilateral and joint-financing programs.

IDA8

You may wish to thank Dr. Stoltenberg for Germany's decision to make a special voluntary contribution to IDA8 over and above its traditionally high share, in order to facilitate an early conclusion to the negotiations. The amount of the contribution has not yet been specified, but could be \$57.5 million for reasons indicated in the Warnke brief.

MIGA

The Germans initially were reluctant to sign the convention. However, during the Preparatory Committee meetings the Germans participated actively. In fact, the Committee incorporated a substantial concession to the German position, in strengthening MIGA's role as a policy instrument toward improvement of investment conditions. **You may wish to inform Dr. Stoltenberg that several other OECD countries have indicated their hope to ratify the convention by the first half of 1987 and express your hope that Germany will do the same.**

Biographical Information

Dr. Gerhard STOLTENBERG
Federal Minister of Finance
(Alternate Governor - IMF)

Dr. Stoltenberg was quoted as saying on January 15, 1986 that he does not intend to provide government guarantees to commercial banks lending new money to developing nations under the Baker Plan. At the same time he said that his Government is ready to support other elements of the Baker proposal. Dr. Stoltenberg has also been mentioned as a likely contender to succeed Mr. Kohl as CDU candidate in the next Federal elections.

Experience

- Since October 1982 - Federal Minister of Finance

- Since 1947 - Member of the Christian Democratic Union Party at the Bundestag. He was Vice Chairman in 1955, Federal Vice Chairman in 1969 and Chairman since 1971

- 1971-82 - Minister President, Schleswig-Holstein State Parliament

- 1965-69 - Federal Ministry of Scientific Research

- 1955-61 - Federal Chairman, Jung Union

- 1954-60 - Kiel University where he was research assistant and lecturer.

- 1954-57 - Member, Schleswig-Holstein State Parliament

Other

Published works on political and economic subjects.
Recipient of the Grand Federal Cross of Merit and an honorary doctorate degree from the University of the Andes in Bogota, Colombia.

Education

Ph.D. from Kiel University.

Personal

Born on September 29, 1928.
Married with two children.

GERMANY

**Mr. Conable's meeting with
Federal President von Weizsacker
(12:00 noon, Friday, October 24, 1986)**

President von Weizsacker's concern will probably be similar to those of Ministers Warnke and Strottenberg. He may also be interested in the general direction you intend to give the Bank, as has been discussed in the brief for Mrs. Thatcher.

Biographical Information

Richard von WEIZSACKER
President, Federal Republic of Germany

Experience

- Since 1984 - Present position
- 1981-84 - Mayor of West Berlin
- 1981-83 - First Chairman, Berlin CDW
- 1979-81 - Vice-President of the Bundestag
- 1969-81 - Member of the Bundestag
- 1974 - Presidential candidate
- 1972-79 - Deputy Chairman CDU/CSU Parliamentary Group
- Since 1967 - Lawyer in Bonn, member of the Synod and Council of the Protestant Church in Germany, the Chamber of Public Responsibility, and the Robert Bosch Foundation

Education

Studied law and history at the University of Oxford, Grenoble, Gottingen, Ph.D. in Law

Personal

Born April 15, 1920 in Stuttgart
Married, with three sons and one daughter

Other

Father was also Mayor of Berlin
Served in Army 1938-45 (was a captain, was wounded and was POW)
Enjoys chess, collecting icons, mountaineering, and swimming

OFFICE MEMORANDUM

DATE October 13, 1986

TO Mr. Barber Conable

FROM Moeen A. Qureshi *MAQ*

EXTENSION 73665

SUBJECT Meetings in Germany

Here is what Gerhard Boehmer and I have been able to put together concerning your meetings in Germany, which you may wish to use as a basis for further discussions with Boehmer.

Meetings with Minister Warnke:

- 1) Role of the Bank and the strategy with indebted countries: Minister Warnke would like to hear from you on how you envisage the Bank's strategy in meeting the problems of indebted countries, i.e. the implementation of the Baker Plan. He also shares the general reluctance with respect to guarantees. You might make the same points with him, stressing the need for exceptions.
- 2) IDA: You recall his response in the Development Committee for an "additional contribution". The Germans have not decided on a specific amount. Please do not ask him about the amount, just a brief "thank you" would be in order.
- 3) Budget: Warnke, too, is seized with the idea that the Bank ought to be a leaner institution. I think the point to be made to him is that you are looking into this area; you do intend to take this function into your own office and he should have confidence that you will sort this matter out in due course.
- 4) Personnel: While the Germans are very well represented at all levels of the Bank, there are increasing difficulties in recruiting young Europeans, including Germans. Minister Warnke may not mention this subject at all, but if he does, he will likely hint that in case you need some senior people from Germany, he could be of assistance in identifying the right kind of people.
- 5) Women in development: Warnke was struck by your reference to this particular issue in your Annual Meetings speech. He is likely to ask you what specific actions you have in mind.
- 6) Role of the Bank in the GATT Round: The main subject is, of course, familiar but he might turn to the question that was raised by Anne Kreuger as to whether the Bank should provide "advisory services" to developing countries to assist them in their negotiations in Geneva. (I personally would hope we do not!)

Meeting with Minister Stoltenberg:

1) Role of the Bank: He, too, would like your ideas regarding the future role of the Bank. In addition to the points mentioned above, Stoltenberg is particularly interested in the issue of Bank/Fund Collaboration (you should confirm that it now works well). Stoltenberg might be interested in some typical areas of possible conflict between the two institutions (e.g. budget deficits, exchange rates). You should confirm that differences in emphasis and approach between the two institutions exist and this is both natural and healthy -- given our emphasis on development and the Fund's emphasis on achieving stability as quickly as possible. In these circumstances there must be, and are, differences of view at the operating level from time to time -- these are now sorted out on a continuing basis.

Stoltenberg might also want to know about Bank conditionality. He had an impression that the Bank sometimes "gives money away". He should be assured that the Bank conditionality in SAL's and other policy-oriented loans, though different from that of the Fund is complementary in nature and is also frequently more comprehensive and detailed than in the case of IMF programs.

2) Other points: Stoltenberg will also have a greater interest in monetary and trade issues than Warnke. He would be interested in hearing about your visit to Punte del Esta. He may seek your views regarding the impact of international monetary and exchange rate developments on the economic situation of developing countries.

Meeting with the Parliamentary Committee

You should know that there are two members of the "Green Party" on the Committee. The more radical elements in the Committee are also usually the most vocal. They are likely to ask you some of the questions which were previously raised by them in the context of hearings on the Bank/Fund which were conducted by the Committee earlier this year. (A copy of these questions will be provided to you). The members of the Committee will want to know about the Bank's strategy regarding adjustment and debt. Their main thrust is likely to be:

(a) is there a development orientation to Bank adjustment programs?

(b) what are the social aspects and implications of adjustment programs?

(c) issues concerning environment and population.

Political, Economic and Aid Situation

With federal elections due in January, Chancellor Kohl's coalition of Christian Democrats and Free Democrats may have a good chance of winning another four years in office. Mr. Kohl's personal prestige has recently been bolstered after the closing of an investigation into his alleged role in the "Flick scandal", and following a narrow victory of his conservative-liberal coalition in crucial state elections in the Northern "Land" of Lower-Saxony.

Germany's economic performance continues to be strong with GNP growth forecast of around 3% for 1986 and 1987 - among the highest growth rates of West European economies. Germany's current account surplus is expected to rise to \$28.6 billion in 1986 and \$21.6 billion in 1987 (after \$13.1 billion in 1985) while the strengthening of the Deutsche Mark against the Dollar and the oil price decline have brought the inflation rate down to around 0.7%, the lowest level since the 1960s. Unemployment is expected to fall slightly from 8.3% in 1985 to 7.9% in 1986 - the first measurable decline since 1979.

Germany's development assistance program reached a record high (0.49% of GNP) in 1983, then leveled off to 0.45% in 1984 as a result of the government's budget stabilization program, and came back to 0.47% in 1985. German aid policy is noted for the importance it attaches to technical assistance, the needs of the least developed countries and support to the aid work of non-governmental organizations. Responding to further requests to increase the efficiency of German development assistance, Aid Minister Warnke is placing increased emphasis on sound project selection, an improved policy dialogue, better aid coordination, and a bigger role for churches and NGOs.

On May 16, 1986, after a long debate on "Aid Effectiveness", the Bundestag adopted a new set of "Guidelines for the Federal Government on Development Policy". The guidelines advocate an improved policy dialogue and better donor coordination and post-evaluation procedures. They also call for "an adequate appropriation of resources to the World Bank, ... based on a balanced burden-sharing..." and subject to "the established 30% limit on multilateral aid within the total aid budget"; and they "underline the extraordinary importance of a healthy capital structure and solid financial policies" (of the Bank), and "the need for maintaining an appropriate ratio between the Bank's decision-making powers and financial responsibilities".

The Bundestag Committee for Economic Development plans to hold a hearing on the impact of the IMF and World Bank's policy-based lending on November 5.

Germany is the Bank's third largest shareholder and has an 11.5% share in IDA7. It has been the Bank's strongest official cofinancing partner and agreed to Special Joint Financing for the Sub-Saharan Africa Facility on an untied basis, despite domestic pressure for more "employment effectiveness" of German aid. Multilateral assistance accounts for slightly more than 30% of German ODA, and should not rise beyond that level according to a recent resolution of the German Parliament.

Germany is the largest donor to the European Development Fund, which received 42% of Germany's multilateral aid program ODA in 1981-83. The World Bank Group received 34% and the regional development banks, 6%. UN agencies received 15% only, which is one of the lowest shares among DAC countries.

COFINANCING

The Federal Republic is our most important cofinancing partner in terms of official development assistance (ODA). Over the last ten years the FRG cofinanced 104 Bank projects for which they committed a total of US\$1.9 billion.

Official

A Cofinancing Framework Agreement with the Bank was signed in 1974. This was one of the very first agreements of this sort. After Germany, another 12 countries have signed similar agreements with the Bank.

For Special Joint Financing under the Special Facility for Sub-Saharan Africa, Germany has committed approximately US\$150.0 million which are in the process of being committed and disbursed.

From FY84 through FY86, Germany cofinanced 12 Bank operations committing US\$150.0 million on average per year. It has provided 11.3% of all bilateral funds during this period. Projects have been concentrated in the Eastern and Southern Africa region; yet South Asia projects, although by far fewer, have benefitted just as much. The main benefitting sectors were agriculture and energy.

Export Credits

Since FY77, Germany export credits have been used to the extent of US\$83.4 million for cofinancing.^{1/}

Private

German banks have been fairly active participants in the Bank's B-loan program since FY84. Nineteen banks have contributed a total of US\$58.8 million to eight B-loans.

^{1/} The source of export credit cofinancing is usually firmed up after the borrower finalizes the procurement by selection from amongst a number of suppliers from different countries. This information generally becomes available a year or two after Board approval. Our statistics in this respect are therefore not up-to-date.

GERMANY

BORROWINGS

Germany continues to provide one of the Bank's four largest borrowing markets. The Bank's outstanding public issues and private placements amounted to 14% of all outstanding issues by foreigners as of December 31, 1985.

World Bank Borrowing Operations: FY82-86

	<u>DM Borrowing</u>		<u>Total Borrowing</u>	
	<u>(DM billion)</u>	<u>(US\$ billion)</u>	<u>(US\$ billion)</u>	<u>DM Share (%)</u>
FY82	2.9	1.2	8.5	14.1
FY83	3.8	1.5	10.3	14.6
FY84	4.9	1.8	9.8	18.7
FY85	5.9	1.9	11.2	17.2
FY86	5.4	2.1	10.6	19.8

Relationship with Authorities

Despite criticism concerning the Bank's high liquidity we have received very good cooperation in our borrowing transactions from the working level in the MOF and the Bundesbank. The Bundesbank allows us to borrow DM from SAMA. However, although there is widespread interest among other central banks for IBRD instruments denominated in DM, the Bundesbank is not prepared to let the Bank borrow DM from central bank/official sources other than OPEC. This was reconfirmed in consultations which took place in early March.

FY86 Results and FY87 Program

DM borrowings (including swaps) in the amount of DM 5.4 billion (\$2.1 billion) constituted 19.8% of the Bank's FY86 borrowings. At June 30, 1986, outstanding debt denominated in DM (\$11.8 billion) constituted 16.9% of the Bank's outstanding debt.

In FY87 we plan to raise DM 3.7 billion including swaps. This translates into \$1.7 billion which would represent at the current exchange rate, i.e., with German authorities' approval, 20% of the FY87 borrowing program.

<u>Official Borrowings</u>	<u>Millions of US\$ Equivalent</u> <u>1/</u>
Outstanding as of 9/18/86	= 1275.4
FY86 Borrowings	= 199.5
FY86 Maturities	= 203.4
FY87 Maturities	= 218.7 (DM 500 million)
Foreign Exchange Reserves (bil. US\$) <u>2/</u>	= 37.7
Ratio of Outstanding to FER (%)	= 3.4

1/ July 21, 1986 rates.

2/ As of May 1986.

Note: Due to confidentiality, CBF statistics are not included.

Our borrowings from the Bundesbank date back to 1957 when a series of private placements in US\$ and subsequently in DM were started. These were refinanced as each original borrowing matured, thus allowing the Bank to use long-term funds at intermediate-term costs. To date we have borrowed US\$1,046.1 million and DM 11,420.2 million through such private placements. At present DM 2,401.8 million are outstanding in 10 separate private placements of 5-year maturity, each of which is being rolled over at a rate of about DM 500 million per fiscal year. The Bundesbank has also subscribed with reliable frequency to our 2-Year US\$ Issues for a total of US\$443.0 million of which US\$24.5 million is outstanding.

Market Conditions

Apart from an overshooting Central Bank Money Supply, the "fundamentals" continue to be positive in Germany. Economic growth has picked up and is estimated at 3% for the year and the rise in the CPI continues below zero. The DM has been firming up in the EMS which removes one of the main arguments of the Bundesbank against lowering German interest rates.

ENVIRONMENT AND NATURAL RESOURCE MANAGEMENT

Environmental and resource problems in developing countries have typically been dealt with by the World Bank and its member-country governments in a number of ways:

- o Directly, by investments in water supply and sanitation, solid-waste disposal, water-pollution and air-pollution control, conservation and afforestation projects, and by the introduction of associated policy improvements. For example, the Sarajevo water supply and sewage/air pollution control projects (respectively \$45 and \$27 million loans approved in 1976).
- o Directly, by ensuring that development projects affect the environment as little as possible consistent with other project objectives. Assurance may be secured by investments in pollution-control components or other ameliorative measures, or through policy prescriptions. For example, the Indonesia Irrigation XV (\$45 million credit approved in 1980) includes a component for the setting up of a Natural Park in the Dumoga area.
- o Indirectly, by investments in development projects or by introduction of policies that generate income or improve productivity, or introduce appropriate institutions or legislation. One such example is the recently approved \$500 million loan to Brazil's electric power sector where, for the first time, the Bank has become involved with the environmental aspects of all investments in this important sector.

The Bank has taken criticisms about its role in the environment very seriously and in August, 1986 a special study team was established to review and make recommendations on the internal organization of the institution for dealing with environment issues.

The five Bank projects that have been subject to criticism on environmental grounds follow.

ECONOMICS OF NATURAL RESOURCE MANAGEMENT

One of the most significant, and potentially far reaching initiatives undertaken by the Bank recently in the field of environment is a special study on the economics of natural resource management.

The effects of poor natural resource management are being demonstrated dramatically in many developing countries in which land and water resources, in principle renewable, are in fact deteriorating at rates which threaten the basis upon which already fragile economies rest. It is apparent that the traditional project-by-project approach is an inadequate means of dealing with natural resource degradation. Although concern with individual large-scale development projects is important, it is even more important to influence the countless small- and medium-scale activities which between them account for a major part of the environmental degradation observed in the developing world, and which by definition cannot be subject to control on an individual basis. The need for public intervention is clear in light of the observed failure of market forces to automatically resolve the problem. The aim should be to analyze systems of incentives—taxes, prices, subsidies, land tenure arrangements, and the associated institutional reforms--which have a pervasive effect, influencing behavior so as to avoid undue environmentally damaging problems. Public intervention can, of course, work for good or ill; examples abound of subsidies which directly, and with substantial impact, induce inefficient use of environmental resources. It is clear, however, that the policy framework within which decisions to use natural resources are made is critical if success is to be achieved in meeting environmental goals; the performance of individual projects is much less so.

TRANSMIGRATION IN INDONESIA

Background

The resettlement of Indonesians from densely populated Java and Bali to other islands of the archipelago began about eighty years ago under the Dutch Administration. Since Independence in 1949, the government has continued the program in view of the benefits in reducing land and population pressures in one part of the country, transferring skilled farmers to under-utilized land elsewhere, raising the incomes of the transmigrants themselves, and stimulating regional development in remote parts of Indonesia. The program remained relatively modest until 1979. For example, in the first five-year plan (Repelita I, 1969-74) about 40,000 families were moved, in the second five-year plan (1974-79) about 45,000 families were moved, while in the third five-year plan (1979-84) 366,000 families were settled on sponsored programs and about 170,000 families were identified as having moved spontaneously. During the current five-year plan (1984-89), the government originally targetted 750,000 families for movement, of which about 400,000 would be fully sponsored, but due to land and resource constraints, the number to be moved is expected to be about half.

While transmigration is encouraged, the program is voluntary and applicants are placed on waiting lists. Most settlers are young, recently married, and with some farming experience to ensure that they adapt well to their new surroundings. The overwhelming majority are drawn from the overpopulated areas of rural Java. The transmigrants are provided, at government expense, with transport to their new homes, 2.0-3.5 ha of land, a house, food for 12-18 months, seeds, fertilizers, and pesticides for about three years, and necessary agricultural equipment. Social services, including water supply, health dispensaries, and schools, are also provided in the new settlements.

World Bank's Role

The World Bank has financed five transmigration and two swamp reclamation projects since 1976, involving total lending of about U.S.\$600 million. While contributing only about 5% of total financing for the third five-year Plan, Bank-assisted projects have led to substantial improvements, including improved site screening and evaluation, better program management and farming systems, procedures for utilizing valuable timber, higher construction standards, more comprehensive support services for the settlers, and better economic and social analysis. Bank-assisted projects will, when completed, have directly supported the settlement of about 47,000 families, about 10% of those expected to be settled in Repelita III and IV. Two Bank-assisted projects have focussed on the selection of suitable sites and appropriate designs for the eventual settlements. Studies for this purpose are undertaken by internationally recruited consultants. The rate of rejection of unsuitable sites is relatively high, and about 40% of rejections have been the result of environmental or social considerations (including steep terrain and existing land uses).

Assessment

Experience in transmigration to date has been mixed. On one hand, Government's ability to move 1.5 million people and provide them with land, housing, and initial support is a commendable logistical achievement. The program has also created about a half million jobs for poor farmers and has therefore had significant employment and equity implications. That so many people were moved without significant social conflict and without heightening ethnic tensions is also a tribute to both the Government and the Indonesian people. And the fact that virtually all migrants (with the exception of disaster victims) move voluntarily to difficult pioneer areas and that most remain on site, attests both to the poverty of these smallholders in Java and to the increased opportunities which they perceive in the outer islands. It is also clear that transmigration has significantly altered the face of the outer islands and has provided the physical infrastructure and human resources upon which future development can be based.

On the other hand, agricultural performance in Repelita II and III transmigrant communities has been disappointing. Migrant incomes are slightly below the average for Java, and well below those in the outer islands, and most cash income has been from off-farm work. Therefore, concern exists that if off-farm employment opportunities decline in the face of investment cuts, migrant incomes may decrease, job competition increase, and wages stagnate. To prevent this, it will be necessary to sustain relatively high levels of investment in the provinces to which migrants have already been sent, and the Government has taken steps in this direction. Transmigration will also place a heavy demand on services in the outer islands and it will be desirable to maintain and improve sites and services without reducing funds available to the provinces for other needed work. Finally, there is an environmental cost to large-scale settlement, and protection of conservation and wildlife resources should be a matter of highest priority.

Groups critical of Indonesian transmigration have focussed particularly on development plans for Irian Jaya, charging that the plans and programs threaten the destruction of remote tribal communities in that province. Irian Jaya, which covers the western half of the island of New Guinea is as large as California and more than three times the size of Java. It is Indonesia's largest province but contains only 1.2 million people. Two-thirds of these are indigenous to the province, and half of these (about 400,000 people) live in remote tribal communities in the highlands of the province where many are still on the periphery of the modern economy. To date, 20,000 transmigrants families have been settled in Irian Jaya and the Bank estimates that about 15,000 to 25,000 families a year will be moved there in the current five-year plan.

With Bank encouragement, the government has taken various steps to strengthen the social aspects of site selection and evaluation. Phase II studies have traditionally included an examination of the local cultures and farming systems; under the Fifth Transmigration Project, these aspects of the terms of reference have been made explicit. Sociologists and anthropologists are to be added to the advisory group and to teams of consultants. Inter-ministerial mechanisms for identifying and dealing with the interests of local populations are also being strengthened. Land allocation and compensation processes have been decentralized to the provincial and district levels where the views of local residents are most likely to be heard. In addition to these measures, it is government policy that local people should be provided with the same benefits as the sponsored transmigrants, if they wish to participate in the program, and that they should receive parallel benefits if they do not.

While transmigration has been controversial and has encountered problems, on balance it has benefitted the national economy in several ways. Sponsored settlement has increased food production by expanding cropped areas by at least 350,000 ha during Repelita III and allowed previously landless farmers to become self-sufficient in food. Less than 10% of those settled have returned to their original homes and most of these have been replaced by spontaneous migrants. In addition, the program created 500,000 new agricultural jobs during Repelita III. It has provided improved education and health services to transmigrant families and generated a flow of spontaneous migrants who have settled in the vicinity of the new transmigration villages to take advantage of the infrastructure, services, and markets.

Recent Developments

Indonesia has recently encountered budgetary difficulties due to falling oil revenues and has curtailed a number of development programs. Funds available for transmigration are being used primarily for the maintenance and development of existing sites and new settlement has been slowed. Sites are being completed where clearing has already begun and very little new land clearing is likely to be initiated for the remainder of the current five-year plan. Under these circumstances, about 200,000-250,000 families are likely to be settled under fully sponsored programs, about half the number that had been expected to be resettled during the current five-year plan.

INDIA: NARMADA DAM

Background

A long-term program to develop multipurpose hydropower and irrigation dams on the Narmada River was launched in 1985, in west-central India with assistance from the World Bank and IDA (\$450 million). The total cost of the first phase of the project is about \$2.5 billion.

The Narmada is the largest westward-flowing river in India. It rises in eastern Madhya Pradesh and discharges into the Gulf of Cambay, draining some 98,800 square kilometers in the states of Madhya Pradesh, Gujarat, and Maharashtra. The first phase consists of a hydroelectric power project and an irrigation project. Together, the projects will harness and regulate the flows of the Narmada River to establish reliable and efficient supplies of hydroelectric power for the country's western region, and of irrigation water for the drought-prone areas in Gujarat and Rajasthan.

The development of the Narmada project will open up the potential for what would be the most important irrigation development in India to take place before the end of this century. Present plans call for the construction of 30 major projects (21 irrigation, 5 hydropower, and 4 multipurpose), some 400 medium irrigation schemes, and several thousand minor schemes. Out of the thirty major projects presently envisaged, only one has been completed (Barna), and another one is nearing completion (Tawa), and one (Bargi) has been started, all in Madhya Pradesh (MP) on tributaries of the Narmada. In addition to power generation and irrigation, water has been allocated for domestic and industrial uses.

The Narmada River Development (NRD) will have a dramatic impact on the economies of MP and Gujarat. When planned, implemented, and operated, the irrigation components alone should result in an increase in agricultural value added of U.S.\$1,500-2,000 million annually and directly generate some 700,000 full-time jobs.

From an environmental point of view, measures have been taken by the Indian authorities to provide appropriate safeguards as concerns the resettlement and rehabilitation (R&R) of the displaced people of the Sardar Sarovar (Narmada) Dam and power project. The project's emphasis is on rehabilitation through the restoration of the productive capacity of the displaced people, rather than land-for-land per se as compensation. This emphasis was a conscious and deliberate decision based on a conviction that comprehensive rehabilitation, rather than mere land compensation, constitutes a much more solid and equitable form of recompense.

Current Issues

Principal objections to the Narmada project are coming from environmental groups which contend that: (a) inadequate provisions were made by the government and the Bank to resettle and rehabilitate people already forced to move from their homes; and (b) Bank documents violate the institution's own guidelines and the International Labor Organization (ILO) convention 107 relating to tribal and indigenous peoples.

With respect to displaced people, on December 12, 1979, the Narmada Water Disputes Tribunal rendered its Final Order regarding the interstate division of waters, which included provisions for the resettlement of displaced land owners in the States of Madhya Pradesh and Maharashtra. The Order required that irrigable land of equal size to that owned by affected individuals (called "oustees" by the Indian government) be provided to each family having legal title to the land, with a minimum of 2 hectares per family.

The resettlement and rehabilitation component financed by the World Bank includes the above provisions of the Final Order. Moreover, in accordance with World Bank policies, the Final Order's requirements as to resettlement and rehabilitation have been enhanced in essentially two ways:

(1) First, through the legal agreements relating to the Sardar Sarovar (Narmada) Project, entered into by the Bank, the Government of India, and the participating States on May 10, 1985, the provisions of the Final Order relating to landowner oustees of Madhya Pradesh and Maharashtra were extended to the oustees of Gujarat.

(2) Second, the overall resettlement and rehabilitation program under the project provides for full rehabilitation of all displaced people, landowner or landless, tribal or otherwise, of Madhya Pradesh, Maharashtra and Gujarat. The above legal agreements require the restoration, at a minimum, of the standard of living being enjoyed by displaced people prior to their displacement. The displaced people are, in addition, to be relocated as tribes, village units, village sections or families in accordance with their preference.

Rehabilitation under the project goes beyond the mere provision of land and will include vocational training programs, alternative employment opportunities, social and physical infrastructure and community services, taking into account the traditions and cultural backgrounds, and with the informed consent of the displaced groups.

With regard to lands occupied by people without legal title, the legal agreements specifically provide that in order to increase or at least regain their standard of livelihood, displaced landless people will be rehabilitated in the agricultural and non-agricultural sector in ways which ensure that the landless have their standards of living protected at a minimum.

There is no inconsistency between the terms of the International Labour Organization's (ILO) Convention 107 relating to Tribal and Indigenous Populations and the World Bank's own guidelines regarding both resettlement and rehabilitation, and tribal peoples. At the same time, the World Bank's agreements with the Government of India essentially follow our own guidelines on tribal peoples.

With regard to resettlement of tribal people in forested zones, a fact that needs to be underlined is that out of the 37,000 hectares estimated to be submerged, a reported 11,600 hectares are recorded as forest land. Of these, 4,500 hectares are in Gujarat, 2,700 hectares in Madhya Pradesh, and 4,400 hectares in Maharashtra. However, satellite photographs of the area indicate that only a small portion of the 11,600 hectares designated as forest land actually have some tree cover. Nevertheless, in order to establish compensatory forested areas, the participating States have informed the Bank that they plan to afforest alternative land in lieu of the amount of the entire land recorded as forest land which is to be submerged, irrespective of whether or not that land is now tree-covered. As a result of the project, therefore, there is expected to be a net gain of truly forested area.

There are other safeguards to ensure the full implementation of each aspect of the agreed resettlement and rehabilitation (R&R) program. The program will be closely monitored and evaluated by the Government of India through the Narmada Control Authority, an Interstate entity established by the Final Order, which is being strengthened under the project specifically in the area of resettlement and rehabilitation; independent research institutions employed by each State in accordance with terms of reference satisfactory to the Bank; and committees, established by the participating States, with adequate representation of the displaced people.

The Government of India and the States concerned will report to the Bank periodically on the progress of the R&R program. In addition to these safeguards, the Bank will also monitor the progress of the R&R program during regular semi-annual project supervision missions, which will include anthropologist/sociologist expertise and consultant assistance required.

Semi-annual reviews of the progress of R&R activities will be conducted. Through these reviews, the R&R activities will be updated and revised as changing situations warrant, so that the activities can be adjusted annually in order to meet the evolving needs of the displaced population, which will inevitably occur. This dynamic and flexible approach by the Indian authorities, which will allow the changing needs of the displaced people to be addressed as they arise, is the most suitable strategy for achieving the successful rehabilitation program.

BRAZIL: NORTHWEST REGION INTEGRATED DEVELOPMENT PROGRAM
(POLONOROESTE)

Background

The Northwest region of Brazil encompasses an area of 410,000 sq km (about three quarters the size of France) in Rondonia and western Mato Grosso. In the early 1900's Marshal Candido Rondon joined Cuiaba with Porto Velho during construction of the telegraph, and an earth road (BR-364) was built in the 1960's. The road deteriorated and remained closed for weeks during each long rainy season and, even when passable, entailed very high transport costs. Distance, difficulty of access and an environment less attractive to settlers than more accessible areas kept the Amazon region relatively intact until 1970.

Since then, the situation has changed dramatically. Powerful forces of frosts killing coffee in Sao Paulo and Parana; droughts in the Northeast; increase in mechanized export agriculture, particularly soybean production; and large-scale cattle ranching all combined to decrease rural employment and greatly swell the number of migrants. This coincided with the improvement of the BR 364 road in 1969, the rapid spread of compelling and largely erroneous rumors of fertile soils in Rondonia, and the plans of INCRA (National Institute for Colonization and Agrarian Reform) to allot enormous (minimum 100 ha) holdings per family. Annual population growth by 1980 soared to nearly 16% in Rondonia (a doubling in less than 5 years) and almost 8% in Mato Grosso.

By the late 1970's, the Northwest region was one of the most dynamic in Brazil. With 5,000 people arriving per month with few financial resources, little employment, and nowhere to go, the region became volatile and unhealthy, if not dangerous. In 1979, the Government invited the World Bank to survey the region, to assess the development potential, and to identify issues concerning possible financing.

The area was then under virtually uninterrupted forest cover and had a total population of no more than a million. Less than five percent of the forest area had been cleared. In the 1970s several promising colonization schemes under the supervision of INCRA had been developed, but these suffered from a lack of road infrastructure, agricultural support services, health and education facilities.

World Bank Role

In 1980, the Bank undertook a general economic survey of the Northwest region. The request arose from concern that the uncontrolled and spontaneous settlement process could harm the regional ecology. The Bank produced a report that concluded that the region has potential for economic development based on agriculture, provided a balanced, long-term program could be undertaken in which environmental risks were minimized. After careful deliberation, the Government adopted such a program. One important aim was to steer continuing migration away from fragile and/or ecologically exceptional areas (including Amerindian areas) and to encourage sound agricultural practices that would preserve the region's long-term potential.

The Bank has assisted this program through projects approved between 1981 and 1984 involving a total of about \$435 million. Throughout this period, Bank staff, working with government and regional officials, have undertaken periodic comprehensive reviews of the program's progress. There have been some problems: for example, the program has been comparatively more successful with infrastructure development than with institution building or services to farmers. The special project for protection of Amerindians, involving, among other things, full establishment of five reserve areas, has not moved as well as planned.

Current Environment Issues

In recent months, environmental groups, principally in the U.S. and Western Europe, have intensified their criticism of the program. Several hearings were also held in the U.S. Congress. This criticism has often been accompanied by the suggestion that the Bank, as the major and only external lender to POLONOROESTE, should press the Brazilian Government for substantial improvements in the implementation of the program. The main criticisms are: (a) the program has caused severe environmental damage (deforestation, soil erosion, etc.) in many parts of the region; (b) jeopardy to tribal peoples; (c) the Bank has failed to use its influence with the Brazilian government to manage the program in a more environmentally-benign manner.

As a result of difficulties in implementation of the program, the Government of Brazil and the Bank agreed earlier in 1985 that there would be no disbursements from the loan account until certain deficiencies were corrected. Remedial action was subsequently taken and disbursements are now being made; however, the Bank is monitoring the situation closely.

Agreed proposals to improve the implementation of POLONOROESTE cover: (i) the reorganization and strengthening of present institutional and coordination arrangements and upgrading of staff capabilities; (ii) temporary moratorium on all construction not related to the protection of environmental, forest and Amerindian reserve lands, malaria control

activities and measures absolutely essential to the consolidation of previous infrastructure investments; (iii) improved funding arrangements to ensure the timely availability of financial resources required by the program; (iv) measures to reduce immigration into the Northwest region; (v) forestry and environmental protection, and, (vi) Amerindian protection.

The Brazilian administration has moved to implement these plans, has completed the actions for Amerindian protection initiated under the previous administration, and has taken the measures needed to ensure the achievement of original program objectives.

In retrospect, the easiest course for the Bank may have been not to get involved at all in the POLONOROESTE program, to "play it safe" and thereby possibly avoid public criticism. This would not, however, have prevented environmental problems and jeopardy to tribal people from occurring as a result of continued uncontrolled settlement.

BOTSWANA LIVESTOCK

Background

Livestock raising is a major agricultural activity in Botswana, a country that has more than three times as many cattle as people. The Bank has approved \$18.9 million for three projects (the latest in May 1985) to assist livestock development in the country. Several problems were encountered in the first two and these were taken into account in the design of the third.

Although the country's rangeland resource has, in the past, yielded a sufficient level of beef production to fully utilize the country's abattoir capacity, there is now growing evidence of serious overgrazing and range degradation, which will threaten the long term viability to the cattle industry. It is apparent that conservation of the grazing resource can only be achieved if overgrazing on the tribal lands, which presently account for 65% of total land area, can be reversed. To achieve this, market-oriented producers (whether individuals or groups) will have to be linked with demarcated grazing areas, and "free" access to remaining, truly communal areas will have to be limited to and controlled by the remaining subsistence or very small scale producers.

The third livestock project, encompassing 35 million hectares in four of Botswana's districts, will help address these problems by strengthening government's institutional capacity to promote, through both program and policy interventions, more effective use of the rangeland resource and further development of improve livestock production systems. About 1,000 farmers would be directly involved in the production components but the project's substantial efforts at building land use planning capacity and mechanisms to introduce improved rangeland management have been designed to create the basis for the eventual involvement of most of the country's 58,000 livestock farmers.

The project's support for the Government's Tribal Grazing Lands Policy emphasizes increased offtake and improved management of the rangeland through fenced ranches, rotational grazing and provision of trained managers. The project will help syndicates of farmers to set up ranches, and support ways of managing grazing in fully communal areas (although this task had proved extremely difficult in all countries with communal rights to grazing land).

Current Environment Issues and Bank's Role

The gist of the criticism regarding the Botswana livestock project is that the rangeland and wildlife of Botswana are seriously jeopardized and that the Bank is either aggravating the situation with its projects or not doing enough to persuade the government to take correct action.

In fact, the third livestock project contains components for strengthening ineffective mechanisms for land use planning, land allocation and administration; this should, over time, help improve rangeland management. Fenced ranches to be financed by the Bank will, at worst, hinder but not prevent wildlife migration; the main problems here are large fences erected by government to prevent the spread of foot and mouth disease by buffalo. Botswana's problems are largely the result of traditional attitudes about wildlife and cattle that are difficult to change quickly but, more important, the worst drought in living memory.

The difficulties of the first project and the partial success of the second had pointed to the need for such a fundamental overhaul of the land management apparatus. Hence, the third livestock project will strengthen the Department of Wildlife, enabling it to execute an extensive conservation program being prepared for financing by the EEC, UNEP, the International Union for the Conservation of Nature, Sweden, the U.K., etc.

A wildlife conservation specialist was included in the appraisal and supervision team. The Bank also arranged special discussions with the government during project negotiations on environmental issues, and secured the agreement of the government to review the progress of the environmental program. In discussions with the Bank, the EEC has confirmed that it is giving priority to environmental assistance to Botswana. The government is acutely aware of the ecological dangers, and does not lack sources of grant finance for its expanding environmental activities.

CHINA: THREE GORGES PROJECT

A new environmental issue for the Bank may be emerging out of our involvement with the long discussed Three Gorges Hydro project in China. Some international environmental groups have been sounding the alarm about what they contend will be intolerable destruction of the environment, elimination of one of China's premier natural beauty spots on the Yangtze river, resettlement of some 1.5 million people. These allegations are based, however, on a wrong assumption—that a 200 meter dam would be built at a particularly critical site on the river. This site has in fact been abandoned by the Yangtze Valley Planning office and other plans are being studied which are more desirable from an ecological standpoint.

Background

For more than half a century, China has considered tapping the potential of the middle reaches of the Yangtze river for hydro development, improved navigation and flood control. Periodic floods have been devastating; in 1954, for example, they resulted in several million deaths and wiped out the main north-south rail line for more than a half year. Last year the Canadian government offered Canadian \$7.5 million for a feasibility study to develop the Three Gorges section of the river, where there are steep, soaring cliffs and grand vistas, (China's "Grand Canyon"). The work is being done by a consortium of Canadian engineering firms. The Chinese government agreed, on condition that it first receive an independent assessment of (a) the project and (b) the terms of reference for the feasibility study by the World Bank. The Bank put together an 11 member team of international experts in all fields of river-hydro-flood-control development, as well as environment. Financing was provided from a Technical Cooperation Credit. The team completed its work in May 1986 and the feasibility study commenced in September 1986. The entire project is expected to take 15 years to finish and could cost at least US\$45 billion.

Because of concern by environmental groups, Representative George Miller (D-Calif.) introduced a bill last March that seeks to force the U.S. Bureau of Reclamation, which had done some earlier advisory work on the project, to prepare an environmental assessment of Three Gorges.

Meanwhile, terms of reference for the Canadian feasibility have been designed in such a manner that all environmental aspects--health, wildlife, resettlement, etc.--will be considered carefully and options prepared to help mitigate any potential adverse effects. Bank experts believe that since the Yangtze has already been dammed (at Gezhouba) and since the proposed new dam will create a relatively small reservoir that will be almost run-of-the river and contained within the existing canyon, the environmental consequences may turn out to be much less than expected.

THE WORLD BANK

NEW APPROACH TO WOMEN IN DEVELOPMENT

FY 1987

Summary

The time has come to make World Bank "women in development" efforts more operational. We want to get beyond studies and training. We want to show what can actually be done to include women in development programs and how that contributes to economic performance, easing of poverty, and other development objectives. Several donors and developing countries have made clear they would welcome Bank leadership in this transition.

The Bank has just adopted a new, more operational approach to women in development. It was tried for several months on a pilot basis in Africa and proved promising. The Bank has therefore decided to concentrate now on one or more countries in each Region to institute the new approach. It is intended to promote those countries' main objectives. And it should carry a cost in resources and time that will be affordable. With that in mind, it emphasizes gains in economic productivity attainable through more effective involvement of women and focuses on practical ways to involve women in normal operations in agriculture, education, and PHN. The Advisor on Women in Development will offer support to the Regions and some initiative.

It emphasizes three practical steps:

- * WID country action plans covering several sectors;
- * Program initiatives on:
 - agricultural extension services and credit for women; and
 - "safe motherhood" (maternal health and family planning services at the local level); and
- * Selection of major Bank operations particularly (but not exclusively) in agriculture, industry, education, and population, health, and nutrition for a "best effort" to help women.

Each Region will select "countries of emphasis" and decide whether to begin with a country action plan covering several sectors or with key projects in one or two major sectors (particularly productive sectors). In both cases the aim is the same: practical, effective action.

POPULATION

The use of population and health lending to help countries supply safe, effective, and affordable family planning and other basic health services that will reduce child mortality and thereby reduce a primary cause of demand for large families has been a crucial element of the Bank's strategy. The Bank is rapidly increasing its own population and related health lending as promised at the U.N. International Population Conference in Mexico City in 1984. Projects approved for population, health and nutrition which totalled \$118.4 million in FY83, increased to \$1513.3 million in FY86. Recognizing that population pressures are a source of poverty and heavy environmental damage, the Bank is active in not only providing direct assistance for family planning, but also in facilitating policy planning within governments, and in providing support for training, and data collection and analysis.

Population assistance is the Bank's highest priority in Sub-Saharan Africa where population growth rates are still increasing and the problem is extremely severe. A recent World Bank policy study, Population Growth and Policies in Sub-Saharan Africa, concluded that the Bank would put more stress on population issues in its policy dialogue with member governments, and in research. The Bank will also encourage expansion of basic health services, female education and other development programs that generate demand for smaller families; strive to double its own lending for population and related health programs in Sub-Saharan Africa in the next three years; and respond flexibly to requests from African governments for funding of contraceptives, training, clinic construction, information programs, and technical assistance. The Bank is not, however, neglecting the population concerns in other parts of the world such as Asia, Latin America and the Caribbean. South Asia for example, continues to be one of the largest recipients of IDA credits for population, health and nutrition.

Bank's resources for population activities are to be concentrated in the next three years on:

- strengthening the population policy dialogue with governments, placing special emphasis on the importance of fertility reduction as a national development objective;
- continuing the orderly expansion of lending for family planning;
- fully integrating family planning in Bank-assisted health projects;
- working with other Bank units, particularly the regions, to promote a multisectoral approach to population issues. This will entail systematic attention to population and fertility issues in country economic work and CPPs, as well as in education, agriculture and rural development;
- expanding the Bank's operational linkages with external organizations active in the sector, such as WHO, UNFPA and IPPF, as well as bilateral agencies and NGOs.

Fact Sheet on the Mexican Financial Package

<u>A. Commercial Banks</u>	<u>Amount</u> (US\$Bn)	<u>Maturity/</u> <u>Grace</u> <u>Years</u>	<u>Interest</u>
1. <u>New Money</u>			
(a) Direct Syndication	5.0 <u>1/</u>	12/5	LIBOR + 13/16
(b) World Bank Co-financing <u>2/</u>	1.0	15/9	LIBOR + 13/16
2. <u>Contingency Facilities</u> <u>3/</u>			
(a) Investment Support Contingency	1.2	8/4	LIBOR + 13/16
(b) Growth Contingency <u>4/</u>	0.5	12/7	LIBOR + 13/16
3. <u>Modification in Payment Terms of Existing Debt</u>			
(a) Pre-1983 Debt (Previously Restructured)	43.7	20/7	LIBOR + 13/16
(b) Debt Contracted in 1983/84	8.55	No Change	LIBOR + 13/16
4. <u>Private Debt (FICORCA)</u>	11.2	(To be restructured on terms comparable to the restructuring of public debt).	
5. <u>Interbank Credit Lines</u>	5.2	(The minimum level to be maintained until June 30, 1989)	
<u>B. Other 1986/87 Financing</u>			
1. <u>IMF</u>			
Stand-by Facility (18 months)	SDR 1.4	(about \$1.7 bn)	
Oil Price Contingency	SDR 0.6	(about \$0.7 bn)	
2. <u>World Bank</u> <u>5/</u>	2.3		
3. <u>IDB</u>	0.4		
4. <u>Japan</u> <u>6/</u>	1.0		
5. <u>Paris Club</u> <u>7/</u>	1.8	10/5	
6. <u>CCC</u>	0.6		

Note: Total net additional resources to be made available to Mexico under the package (including Paris Club rescheduling and contingencies) for 1986/87 amount to about \$16.2 billion.

FOOTNOTES

- 1/ To be reduced by amount saved by Mexico in 1987 as a result of lower spreads on old-debt and shift from Prime to LIBOR, negotiated as part of the overall package (estimated at about US\$300 million)
- 2/ B-Loan co-financing with World Bank transport sector loans. A non-accelerable World Bank guarantee for US\$500 million is being negotiated.
- 3/ In lieu of oil price contingency proposed by IMF.
- 4/ Has US\$250 million in World Bank guarantees.
- 5/ Includes NVP of the two World Bank guarantees of about US\$180 million (face value of US\$750 million).
- 6/ US\$250 million in co-financing with the World Bank Trade Loan, US\$250 million for steel projects and US\$500 million for the Pacific Petroleum Project.
- 7/ Rescheduling of 100% of the principal falling due through the first quarter of 1988 and 60% of the interest payments falling due through the end of 1987. Interest on rescheduled debt to be fixed bilaterally on the basis of "appropriate market rates".

Outline of Nigeria Financial Package^{1/}

- (a) Rescheduling of 1986-87 medium and long-term debt payments due, of about \$1.7 billion for 10 years, with four years' grace. The amortization payments are back-loaded -- 5% in the first year, 15% in the second, and 20% in each of the next four.
- (b) Rescheduling of about \$2.1 billion trade arrears with nine months' grace. First repayment of \$50 million on October 1, 1987, and the balance over 39 months.
- (c) \$320 million in a one-year facility with automatic conversion to seven years with three years' grace, provided the Fund certifies that its program is on track and Nigeria is current on interest payments.

The Bank's \$452 million Trade Loan was approved today -- October 16.

1/ Details not yet available

ADJUSTMENT LENDING - STATUS REPORTS

Attached are two status reports on Bank lending for adjustment in selected highly-indebted middle-income countries, and Sub-Saharan African countries.

For 12 highly-indebted middle-income countries:

- o Loan commitments in Calendar Year 1986 are expected to be more than double the lending level of 1982, despite the fact that lending has been restrained in several countries by slow progress in the adjustment process.
- o Loan commitments in 1986 are expected to be about 33 percent above the 1985 lending level.
- o Gross disbursements in Calendar Year 1986 are expected to increase by close to 100 percent over the level of disbursements reached in 1982.
- o Quick-disbursing policy-based lending will be about 40 percent of total commitments in these countries.

For low-income Sub-Saharan Africa, combined lending from IDA and the Special Facility for Africa has led to a substantial expansion in the support for adjustment-based lending.

Specifically, in 16 countries with satisfactory adjustment programs:

- o Average commitments in Fiscal Years 1985 and 1986 were almost triple the volume of commitments in Fiscal Year 1982.
- o Average gross disbursements in Fiscal Years 1985 and 1986 also were almost three times the Fiscal Year 1982 level.
- o Quick-disbursing policy-based loans constituted 53% of total commitments in these countries.

Attachments

STATUS OF PROGRAMS FOR HIGHLY-INDEBTED COUNTRIES

This table summarizes some key elements of the financial support programs for 12 highly-indebted countries. Most of these countries are already in the process of identifying and/or implementing programs of major structural reform, while, for a few others, this process is either only at a very early stage or not yet begun.

The World Bank has been actively promoting and supporting these reform programs and has greatly increased both the level of lending and the share of fast disbursing lending to those countries undertaking such reforms (e.g., Chile, Côte d'Ivoire, Mexico). Lending to these 12 countries in 1986 is expected to be more than double the 1982 level, increasing by more than 30% over the 1985 level. Gross disbursements to this group of countries are expected to follow a similar pattern. Quick disbursing lending ranges from 0-60% of new commitments, reflecting the progress of individual countries in embarking on a program of structural or sectoral reforms.

The Bank's financial support in these heavily-indebted countries is closely coordinated with commercial bank financing agreements and Paris Club 1/ rescheduling arrangements, and is provided in close collaboration with the International Monetary Fund.

1/ The Paris Club is the name given to the ad hoc meetings of creditor governments which arranges the renegotiation of debt owed to official creditors or guaranteed by them.

STATUS OF PROGRAMS FOR HIGHLY INDEBTED COUNTRIES
(as of Sept. 15, 1986)

Country	<u>Commercial Bank Agreements</u>			<u>Paris Club</u>	<u>World Bank Actions</u>	<u>World Bank Lending and Disbursement Data</u>						
	<u>Time period</u> <u>Already covered</u>	<u>Amounts</u>	<u>New Loans</u>			<u>Gross disbursements</u>			<u>Average Share of</u> <u>Fast Disbursing</u> <u>Lending</u> <u>1985 & 1986</u> <u>(est.)</u>			
			<u>\$ Million</u>			<u>\$ Million</u>						
			<u>1982</u>	<u>1985</u>	<u>1986</u> <u>(est.)</u>	<u>1982</u>	<u>1985</u>	<u>1986</u> <u>(est.)</u>				
ARGENTINA	<u>August 1985-</u> <u>May 1986</u>	Rescheduled \$13.9 billion New Money: \$4.2 billion	—			-	240	480	83	144	290	49%
	<u>May 1986</u> <u>Dec. 1986</u>	Principal Payments rolled-over										
BRAZIL	<u>1986</u>	Agreement reached on rescheduling amounts due in 1985 and 1986 totaling \$15.5 billion.	—			1090	1648	1980	623	760	900	14%

STATUS OF PROGRAMS FOR HIGHLY INDEBTED COUNTRIES

(as of Sept. 15, 1986)

<u>Commercial Bank Agreements</u>				<u>World Bank Lending and Disbursement Data</u>							
<u>Country</u>	<u>Time period</u> <u>Already covered</u>	<u>Amounts</u>	<u>Paris Club</u>	<u>World Bank Actions</u>	<u>New Loans</u>			<u>Gross disbursements</u>			<u>Average Share of</u> <u>Fast Disbursing</u> <u>Lending</u> <u>1985 & 1986</u> <u>(est.)</u>
					<u>1982</u>	<u>1985</u>	<u>1986</u> <u>(est.)</u>	<u>1982</u>	<u>1985</u>	<u>1986</u> <u>(est.)</u>	
EQUADOR	<u>1985 - 1989</u> <u>1986</u>	Rescheduled: \$4.2 billion New money: \$200 million	Period: 1985-1987 Amount: \$392m.	Adjustment program supported by Agriculture Sector Loan (Oct. 85 - \$100m), Industrial Finance project (\$100m) and a Small-Scale Enterprise project (\$30m) both approved in March 1986.	152	106	225	41	40	100	30%
MEXICO	<u>August 1985</u> <u>December 1999</u>	Rescheduled \$48.7 billion. New financing agreement being discussed.	—	The Bank is supporting Government's reform efforts in trade policy, industrial and agricultural sectors.	540	928	1920	408	840	1300	54% ^{1/}
MOROCCO	—	Tentative agreement reached on rescheduling of \$771m. due in 1985-86.	Period: Jan. 85 - Feb. 87. Amount: \$2191m.	Bank has made two Industrial and Trade Policy Adjustment loans in support of medium-term adjustment. An Education Sector Reform loan (\$150m) and Agriculture Sector and credit loans have also been approved. Future Bank support planned for Public Enterprise Rationalization and further agriculture sector reforms.	166	381	450	134	307	330	54%

^{1/} Includes fast disbursing Emergency Reconstruction loan.

STATUS OF PROGRAMS FOR HIGHLY INDEBTED COUNTRIES
(as of Sept. 15, 1986)

Country	Commercial Bank Agreements			World Bank Actions	World Bank Lending and Disbursement Data						
	Time period Already covered	Amounts	Paris Club		New Loans			Gross disbursements			Average Share of Fast Disbursing Lending 1985 & 1986 (est.)
					1982	1985	1986 (est.)	1982	1985	1986 (est.)	
NIGERIA	<u>Jan. 1983-</u> <u>July 1984</u>	Rescheduling of short term letters of credit totalling \$1.9 billion. No new money. A new financial package is currently under discussion.	—	Government has completed a medium-term adjustment program with World Bank & IMF assistance. Bank lending to date has been for agriculture, urban and infrastructure Sectors. The first loan in support of Nigeria's adjustment program will be a Trade Policy and Export promotion loan to be provided in the context of a comprehensive financial package.	247	236	810	144	271	400	43%
PHILIPPINES	<u>Oct. 1983-</u> <u>Dec. 1986</u>	\$5.5 billion Debt rescheduling. \$3 billion Trade Credits. New Money \$925 million.	Period: Jan. 85- June 86 Amount: \$600 m.	Future adjustment lending is expected to be provided through an Economic Recovery loan and a Public Corporate Sector Rationalization loan.	533	104	150	251	233	200	—

STATUS OF PROGRAMS FOR HIGHLY INDEBTED COUNTRIES
(as of Sept. 15, 1986)

Country	<u>Commercial Bank Agreements</u>		Paris Club	<u>World Bank Actions</u>	<u>World Bank Lending and Disbursement Data</u>						
	<u>Time period</u> <u>Already covered</u>	<u>Amounts</u>			<u>New Loans</u>			<u>Gross disbursements</u>			<u>Average Share of</u> <u>Fast Disbursing</u> <u>Lending</u> <u>1985 & 1986</u> <u>(est.)</u>
					<u>\$ Million</u>			<u>\$ Million</u>			
					<u>1982</u>	<u>1985</u>	<u>1986</u> <u>(est.)</u>	<u>1982</u>	<u>1985</u>	<u>1986</u> <u>(est.)</u>	
URUGUAY	<u>January 1985-</u> <u>December 1989</u>	Rescheduled: \$2 billion New Money: \$45 million Hydropower Cofinancing	—	Past support for adjustment program provided through Agriculture Sector loan. Negotiations concluded on a voluntary cofinancing of \$45m. for a hydropower project; this is the first voluntary lending to region since 1982, offering is over-subscribed. Further adjustment lending planned in 1987.	-	49	-	22	30	45	-
YUGOSLAVIA	<u>1985-1988</u>	Amount: \$3.8 billion. No new money	In April 1986 it was agreed to reschedule about \$700 m. falling due from May 86-March 1988.	Bank discussing SAL II with authorities for over a year. Although stabilization measures are in place, progress on medium-term structural adjustment is slow.	136	253	165	330	295	229	-
					<u>3319</u>	<u>5396</u>	<u>7245</u>	<u>2565</u>	<u>3807</u>	<u>4914</u>	<u>37.2%</u>

Adjustment-Related Lending
IDA and Special Facility for Africa

The attached table shows the status of Bank assistance in 16 African countries, in which economic adjustment programs are underway or under preparation.

Average annual lending to these countries in FY85/86 is almost three times its FY82 level; disbursements have increased by a similar factor. These increases, in a period of great scarcity of concessional assistance, reflect the importance attached to effectively supporting adjustment programs.

In addition, in the first months of FY87, adjustment loans have been extended to two other countries -- the Central African Republic (\$12.3 million) and The Gambia (\$4.1 million).

Over half of the Bank's financial support to these countries is in the form of fast disbursing adjustment lending.

SUB-SAHARAN AFRICA

IDA and Special Facility for Africa (including Special Joint Financing)

(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86			Adjustment related commitments as percent of total FY85-86
				Commitments	Gross disbursements	Commitments	Gross disbursements	
Burundi	A Structural Adjustment Credit (\$50 million), covering broad issues of public sector management and economic incentives, was approved in May 1986.	None.	Last Roundtable in 1984.	21.2	13.7	53.0	23.1	50
Equatorial Guinea	A \$10 million Rehabilitation Import Credit was approved in May 1986.	Paris Club accorded debt relief of \$26 million in July 1985 covering from January 1985 through June 1986.	Last Roundtable in 1982; next one is scheduled for Spring 1987.	0.0	0.0	9.7	2.0	52
Ghana	A \$40 million supplement to the FY85 Reconstruction Import Credit approved in FY86. A Structural Adjustment Credit focusing on a broad range of issues is planned for FY87. Additional operations are underway or planned to support reforms in the road, industry, education, health, and agricultural sectors.	None.	Annual Consultative Group meetings since 1983. An industry sector donors' meeting was held in May 1986 and a donors' meeting focusing on the education & health sectors scheduled for September 1986. Also monthly local donors' meetings.	0.0	16.5	148.1	77.5	53

IDA and Special Facility for Africa (including Special Joint Financing)
(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86		Adjustment related commitments as percent of total FY85-86	
				Commitments	Gross disbursements	Commitments		Gross disbursements
Guinea	Structural Adjustment Credit for \$75 million approved February 1986 to support economic reforms and to strengthen key ministries. An operation is also planned to support a reform program in the transport sector.	Paris Club met in April 1986. It accorded \$28 million in debt relief in 1982 and consolidated about \$200 million of medium- and long-term debt. Meetings with non-Paris Club and non-guaranteed creditors expected to take place shortly.	Informal donors' meeting held in April 1986 to coordinate adjustment assistance. Consultative Group planned for December 1986. Ongoing donor consultation in agriculture, transport, power, and water.	19.0	7.5	60.2	27.1	83
Guinea-Bissau	A Reconstruction Import Credit (RIC) for \$10 million approved in FY85 and a supplement to the RIC (\$5 million) approved in FY86. A Structural Adjustment Credit is planned for FY87. An operation to support reform in the agricultural sector is also planned.	None.	A Roundtable follow-up was held in April 1985. The Bank chaired an informal donors' meeting in February 1985 to arrange balance of payments support for 1985-86 (another is planned for late 1986). Semiannual meetings are planned for local aid coordination activities.	0.0	1.7	10.5	10.4	71

IDA and Special Facility for Africa (including Special Joint Financing)
(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86		Adjustment related commitments as percent of total FY85-86	
				Commitments	Gross disbursements	Commitments		Gross disbursements
Kenya	Policy support being provided through sector loans for agriculture, industry, and public investment reform.	None.	Last Consultative Group in April 1986. Regular local donors' meetings are planned on agricultural, population and health sectors.	61.0	15.6	60.5	38.5	50
Madagascar	Industrial sector credit (\$60 million) approved in FY85. A second project is planned for FY87. An agricultural sector credit was also approved.	Paris Club met in May 1985 covering a consolidation period of fifteen months (from January 1985) and providing debt relief of \$135 million. London Club met at the same time, and debt relief of \$78 million was agreed in principle.	Last Consultative Group meeting in April 1986. No formal local aid coordination mechanism.	20.7	26.6	90.5	59.9	67
Malawi	A Structural Adjustment Credit was approved in FY86 for \$115 million. Improvements in agricultural marketing policy will be supported in FY87.	None since October 1983.	A Roundtable was held in February 1984. A Consultative Group met in January 1986. Local donor consultations have been organized for health, education, agriculture, and transport.	11.3	17.2	82.1	56.0	69

IDA and Special Facility for Africa (including Special Joint Financing)
(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86		Adjustment related commitments as percent of total FY85-86	
				Commitments	Gross disbursements	Commitments		Gross disbursements
Mali	Bank support for reform is envisaged through three sector operations that aim at rehabilitation of public enterprises and the major irrigation authority and at institutional and financial reform in the power sector. A Structural Adjustment Credit is tentatively planned for FY88.	None.	The last Roundtable was held in December 1985. There is an effective mechanism for joint donor/government management of food aid and cereals policy reform. Sector meetings have been tentatively planned on rural development, forestry, health and population.	20.0	15.5	51.2	33.2	-
Mauritania	Bank support for reform provided through a Public Enterprise Rehabilitation project (\$16.4 million). A Structural Adjustment credit is planned for FY87 supporting policy reforms to improve public sector management and domestic production.	Paris Club met in May 1986 and accorded \$41.6 million in debt relief through March 1987.	The first Consultative Group meeting was held in November 1985, following a limited donors' meeting in March 1985 on financial restructuring. Sector meetings are planned for fisheries, water supply and irrigation. A second Consultative Group meeting is	12.7	3.7	18.4	8.1	45
Niger	Structural adjustment lending has been the major World Bank instrument for policy dialogue; with a first credit approved in FY86 (\$60 million), focusing on policies in public management, parastatals and agriculture. Further support has been given through a health project and a transport sector project, and is envisaged through a primary education project.	Paris Club met in November 1985 and provided \$32 million in debt relief during 1986. The last London Club was in November 1984 and provided \$28 million in debt relief.	A first Roundtable is scheduled for early 1987. Annual sector meeting is planned for health and a transport sector meeting is tentatively scheduled for Spring 1987.	26.1	13.2	72.2	17.3	48

IDA and Special Facility for Africa (including Special Joint Financing)
(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86		Adjustment related commitments as percent of total FY85-86	
				Commitments	Gross disbursements	Commitments		Gross disbursements
Senegal	Bank support for policy reform mostly through Structural Adjustment Credits (SAC). The second tranche of the first SAC was cancelled, but following an improved program of adjustment and reform, a second SAC was approved in February 1986 (\$70 million). The new SAC is considered the first of a series, and supplemental financing is planned for FY87.	Paris Club met in January 1985 and accorded \$105 million in debt relief over an eighteen-month consolidation period ending in June 1986. London Club met at the same time and agreed on \$22 million in debt relief.	Following a series of special donors' meetings, the first Consultative Group met in December 1985; a second is planned for December 1986. There are monthly meetings of local representatives organized by the World Bank. Sector donor meetings have been held or are planned for telecommunications, energy, industry, agriculture, fisheries, and water supply.	19.5	19.6	74.3	50.1	49
Somalia	Bank support for policy reform is focused on improving the supply of agricultural inputs through two credits in FY85 and FY86.	Paris Club met in March 1985 and accorded \$142 million in debt relief during 1985.	A Consultative Group meeting was held in November 1985, following a smaller, gap-fill exercise. There are semiformal monthly meetings of local donor representatives, including UNDP-sponsored meetings with NGOs on emergency relief. Regular sector meetings have been held since 1982 on forestry and livestock. More are planned in the agricultural and road sectors.	15.0	17.1	47.5	34.1	74

IDA and Special Facility for Africa (including Special Joint Financing)
(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86		Adjustment related commitments as percent of total FY85-86	
				Commitments	Gross disbursements	Commitments		Gross disbursements
Togo	Bank support of adjustment channeled through two broadly focused Structural Adjustment Credits. The second, in FY85 (\$27.8 million), was supplemented in FY86 with a further \$10 million.	Paris Club met in June 1985 and accorded \$22 million in debt relief over a twelve-month consolidation period beginning in May 1985. The last agreement with commercial banks was in 1983, covering \$74 million in debt relief.	A Roundtable was held in June 1985. A rural development sectoral Roundtable was held in March 1986. Other follow-up is planned through donor meetings on specific issues, including infrastructure (transport, urban, power, water, human resources, technical assistance, and nonproject financing. There are regular local donor meetings.	5.5	10.3	47.4	29.7	73
Zaire	Bank support for reforms is channeled through sector operations for highway rehabilitation (\$55 million in FY85 supplemented in FY86 with a further \$32.9 million) and two credits to the industrial sector totalling \$70 million. A Structural Adjustment Credit focused on public management and macroeconomic incentives is being prepared.	Paris Club met in May 1986 and accorded \$465 million in debt relief over twelve months.	The last Consultative Group meeting was held in April 1986. Follow-up is through regular meetings of the External Resources Coordinating Committee. Local aid representatives have met regularly since 1984. Special sector meetings have focused on cofinancing and other issues in agriculture, mining, roads, and water/sanitation.	100.8	22.1	133.5	65.1	30

IDA and Special Facility for Africa (including Special Joint Financing)
(as of June 30, 1986, in million US dollars)

Country	World Bank actions	Paris/London Clubs	Aid coordination	FY82	Annual Average FY85 and FY86			Adjustment related commitments as percent of total FY85-86
				Commitments	Gross disbursements	Commitments	Gross disbursements	
Zambia	Bank support for reform is being provided through quick-disbursing import support and technical assistance credits. On-going import support includes IDA credits of \$45.1 million, Special African Facility credits of \$52 million and Special Joint Financing of \$34.5 million. Technical assistance is being provided to the Ministry of Finance, to other ministries (Agriculture, Health) and to major parastatals (ZCCM, ZIMCO, and NCZ). A Recovery Credit (\$50 million) has been approved and is expected to be available to support the reform effort shortly and a Structural Adjustment Credit is being discussed with the authorities.	Paris Club met in March 1986 and provided debt relief on \$522 million of principle due through end 1986. The most recent agreement with commercial banks was in 1984. London Club discussions are ongoing.	The most recent Consultative Group meetings were held in June and December 1985; another is scheduled for late 1986. A Joint Monitoring Committee was set up in 1984 and a project tracking system has been put into place to assist donor coordination. Local coordination meetings have been held on a number of issues, including agriculture. Increased coordination with commercial lenders is also being sought.	50.5	4.2	105.1	60.0	53
TOTALS				383.3	204.5	1064.2	592.1	53

Summary and conclusions

Sub-Saharan Africa is emerging from one of the worst famines in recent history. Good rains have come to much of the region. Per capita incomes should rise this year for the first time since 1980. Even so, there is little cause to celebrate. Low-income Africa is poorer in 1986 than it was a generation ago in 1960. And though the recent good news interrupts the trend of chronic economic decline, it will not be enough to reverse it. Population growth is largely unchecked, productivity all but stagnant. If present trends continue, the human disaster of 1983-84 in sub-Saharan Africa will return to haunt the world community.

This year gives a breathing space. Africa should use it to make structural adjustments aimed at reviving growth, especially in agriculture, and to halt the deterioration in basic health and education services. Donor countries, for their part, must not see 1986 as a time to relax. The principal theme of this report is that Africa's attempts to help itself will fail without additional resources in the form of new aid and debt relief.

Progress in domestic policy reform

Many African governments are now making significant progress in structural adjustment. But they still have much to do to correct the accumulated policy distortions of the past.

In many African countries, government policy has long discriminated against agriculture--the sector which is not only crucial for any attempt to raise output and exports, but which also gives most of the poor their livelihood. Dismantling such policies will help the region to increase output and exports, and help the poor at the same time. This process has begun. Governments have started to reduce the overvaluation of their currencies--one way in which agriculture had been penalized. They have increased agricultural prices and lowered real urban wages. They have reduced public spending, with its bias toward expanding employment in urban areas.

These are welcome reforms, but no more than the first steps. Exchange rates remain severely overvalued in many African countries. Producers' shares of export prices are still too low. Urban wages are higher than in other low-income developing countries.

Africa's governments have done even less to overcome the region's longer-term obstacles to development. Family planning, education and health, resource conservation and agricultural research are vital in this respect. In some cases, however, services have declined, canceling out progress made in earlier years. And governments still have much to do to improve the allocation of resources--by giving

a greater role to prices, markets and the private sector, by increasing the supply of domestic savings, and by running public enterprises more efficiently.

Resource scarcity

Declining imports and investment threaten to undermine structural adjustment in low income Africa.

Adjustment with growth requires extra resources, but the recent trend in resource flows has been just the opposite. The investment rate in low-income Africa has been falling since 1980 and is now the lowest among developing regions. It is not sufficient to maintain and rehabilitate existing productive capacity, nor to provide for new capacity. This decline in investment mirrors declines in Africa's supply of both domestic and foreign savings; the shortfall in foreign savings in turn reflects a worsening debt crisis and a diminishing flow of commercial capital. A dozen countries now face acute debt difficulties, with little prospect of improvement.

Africa needs more imports, not just of investment goods, but also of essential consumer goods and raw materials. Imports per capita have been declining since 1970, and the rate of decline has accelerated in the 1980s. In spite of higher coffee prices and lower oil prices, the outlook for the terms of trade is poor. Without new aid and debt relief, imports per capita will continue to fall for the rest of this decade and beyond.

Measuring the resource gap

To continue its progress toward economic adjustment, low-income Africa will need at least \$11 billion a year in concessional flows during 1986-90. Allowing for known and expected aid commitments, a gap of \$2.5 billion remains.

In calculating external resource requirements, the objective is to halt the trend of decline in per capita consumption by 1990 and achieve some growth thereafter. This minimum objective would require a GDP growth rate of at least 3-4 percent a year by 1990. On the basis of the Bank's country experience, it is unlikely that such growth rates can be achieved, unless the decline in import capacity is reversed. At a minimum, imports per capita should return to their level of 1980-82. This implies imports of \$28.5 billion a year in current prices during 1986-90. Provision must also be made for debt-service payments that are projected to rise to an average of \$6.8 billion a year over the period. Altogether, then, the region needs \$35.3 billion a year for the next five years.

The possible sources of that finance are as follows. Exports might provide at best \$20 billion a year--and this assumes that governments continue to adopt export-oriented policies. New bank borrowing on commercial terms might provide \$1 billion a year; in view of the region's poor debt-servicing capacity, it would be imprudent to seek more. In all, another \$1 billion a year in nonconcessional finance might come from the IMF, from direct private foreign investment, and in short-term capital flows. Debt reschedulings, under existing procedures, should provide around \$2.3 billion a year. Known and expected aid commitments imply concessional flows of \$8.5 billion a year--an increase of about 30 percent from the level of 1980-82. Altogether, the region might tap \$32.8 billion, leaving a resource gap of \$2.5 billion a year.

	1980-82 <u>actual</u>	1986-90 <u>projected</u>
	annual average	
	(billions of dollars)	
<u>Foreign exchange requirements for IDA-eligible countries</u>		
Imports of good and services (excluding interest)	22.9	28.5
Debt service payments (including payments to IMF)	<u>4.0</u>	<u>6.8</u>
Total	26.9	35.3
<u>Sources of finance</u>		
Exports of goods and services	16.0	20.0
Nonconcessional flows	3.3 ^a	2.0
Debt rescheduling	1.1	2.3 ^b
Concessional flows	<u>6.5</u>	<u>8.5 ^c</u>
Total	26.9	32.8
<u>Resource gap</u>		
To be filled by additional concessional flows and debt rescheduling	-	<u>2.5</u>

-
- a. Including miscellaneous flows not specified elsewhere.
 - b. Based on existing practices.
 - c. Based on existing and expected commitments.

Bridging the resource gap

Multilateral agencies might provide \$1 billion of the resource gap of \$2.5 billion a year. This leaves \$1.5 billion a year to be met from new bilateral aid and additional debt relief.

Multilateral agencies could, at best, meet about \$1 billion of the gap if the IDA-8 replenishment is at least \$12 billion and low-income Africa receives a large part of the SDR 2.7 billion expected in the IMF Trust Fund reflows. Bilateral aid and additional debt relief must bridge the remaining gap of \$1.5 billion a year. That would mean an increase of 30 percent over the aid and debt relief given in 1984 and a 20 percent increase over the levels currently projected.

The additional resources will be needed to pay for imports during 1986-90 and to cover debt service payments, so they must be in quick-disbursing form. The correct pattern of assistance--in particular, the split between quick-disbursing aid and debt relief--will vary from case to case. But one general rule should be observed: no donor country should be a net recipient of resource flows from any African country undertaking credible economic reforms.

Additional bilateral assistance could be provided in different ways and the appropriate combination would depend on the particular circumstances of the donor and the recipient country. Several donors have already converted bilateral official loans into grants for low-income countries--as proposed in the UNCTAD declaration of 1977; other donors may wish to adopt this practice. For export credit agencies, the terms of refinancing scheduled debt service payments should at a minimum continue whatever concessionality the original loans might have had and, to the extent feasible, increase the concessionality consistent with the financing needs of the adjustment programs. Third, the group of creditors that participate in rescheduling of principal and interest should be widened to include non-OECD countries and, wherever possible, private creditors. However, these sources can at best meet only a small fraction of the resource gap for low-income Africa. Consequently, there is no alternative to a substantial increase in bilateral aid, particularly in the form of balance of payments support for adjustment programs.

The above assessment does not consider the resource needs of middle-income African countries for initiating adjustment with growth. It is estimated that for a GDP growth rate of 3-4 percent a year during 1986-90, gross resource flows to these countries should be in the range of \$7-10 billion a year, and there is a gap of \$1-3 billion a year to be filled by concerted action by commercial banks and bilateral and multilateral agencies.

Improving aid coordination

Donors must act more in concert--with each other and with recipients. This report suggests six ways to improve coordination.

First, donors must be willing to work within adjustment programs designed by African governments. Second, they should better harmonize decisions on aid and debt relief together. Third, the major participants should discuss the elements of the required financial package in advance of full-scale aid coordination meetings. Fourth, to provide effective support for medium-term adjustment, donors should be more willing to give medium-term indications of aid. Fifth, instruments should be established to monitor progress toward economic reform and toward implementing governments' and donors' agreements. Sixth, the multilateral agencies must assume a larger role in orchestrating donor assistance--both in designing adjustment programs and in financing them. The World Bank and the IMF, in particular, must work together with African governments, first to develop adjustment and investment programs aimed at restoring growth, and second to assess the requirements for, and sources of, external finance.

A year of opportunity

Recovery from the drought has brought lower food prices, and imported petroleum will be cheaper because of the decline in oil prices. This makes 1986 a good year for Africa to accelerate its process of correcting overvalued exchange rates: lower food and petroleum prices will soften the inflationary impact of devaluation on urban dwellers; at the same time, devaluation would help raise the farm prices of agricultural exports and partly offset the effects of lower food prices on farmers. Lower food prices have also created an opportunity for Africa to dismantle, without undue hardship, more of its controls on food pricing and marketing.

It is a year of opportunity for donors too. Decisions on the IDA-8 replenishment and on the IMF Trust Fund reflows will affect the resources available for Africa over the next five years. The Development Committee's meeting in April and the special session of the UN General Assembly in May can establish the principles on which the concerted effort of the African countries and the international community can be based.

Table 4-2. Lending to Borrowers in Eastern and Southern Africa, by Sector, Fiscal Years 1977-86

(millions of US dollars)

Sector	Annual average 1977-81	1982	1983	1984	1985	1986
Agriculture and Rural						
Development	219.4	177.6	315.6	166.8	255.6	190.7
Development Finance Companies	39.0	92.5	79.9	48.3	50.0	56.8
Education	63.6	61.0	81.8	15.4	85.0	79.1
Energy						
Oil, Gas, and Coal	9.7	35.7	26.0	53.0	25.1	3.1
Power	47.4	19.0	149.5	189.6	41.1	169.0
Industry	26.4	4.0	29.3	75.0	6.4	170.0
Nonproject	90.9	70.0	130.9	145.0	45.0	95.0
Population, Health, and						
Nutrition	—	23.0	6.8	13.8	3.5	10.8
Small-scale Enterprises	2.0	5.2	—	—	—	—
Technical Assistance	11.1	30.7	6.0	26.6	27.8	53.4
Telecommunications	7.0	71.7	22.0	—	72.6	—
Tourism	6.2	—	—	—	—	—
Transportation	126.0	83.2	169.3	375.3	134.9	78.5
Urban Development	21.2	—	49.0	55.8	20.0	—
Water Supply and Sewerage	23.6	41.0	63.7	22.0	49.0	9.5
Total	693.5	714.6	1,129.8	1,186.6	786.0	915.9
Of which: IBRD	238.9	107.9	326.6	445.2	74.5	198.1
IDA	454.6	606.7	803.2	741.4	711.5	717.8

NOTE: Details may not add to totals because of rounding.

Table 4-1. Eastern and Southern Africa: 1984 Population and Per Capita GNP of Country Borrowers, Fiscal Years 1984-86

Country borrowers, fiscal 1984-86	Population ^a (thousands)	Per capita GNP 1984 ^b (US\$)
Botswana	1,034	960
Burundi	4,573	220
Comoros	382	n.a.
Djibouti	n.a.	n.a.
Ethiopia	42,169	110
Kenya	19,540	310
Lesotho	1,478	530
Madagascar	9,893	260
Malawi	6,832	180
Mauritius	1,011	1,090
Mozambique	13,436	n.a.
Rwanda	5,837	280
Seychelles	65	n.a.
Somalia	5,234	260
Sudan	21,345	360
Swaziland	731	790
Tanzania ^c	21,345	210
Uganda	14,971	230
Zaire	29,671	140
Zambia	6,429	470
Zimbabwe	8,099	760

NOTE: The 1984 estimates of GNP per capita presented above are from the "World Development Indicators" in the *World Development Report 1986*.

n.a. Not available.

a. Estimates for mid 1984.

b. *World Bank Atlas* methodology, 1982-84 base period.

c. The GNP per capita refers to mainland Tanzania only.

Table 4-4. Lending to Borrowers in Western Africa, by Sector, Fiscal Years 1977-86
(millions of US dollars)

Sector	Annual average 1977-81	1982	1983	1984	1985	1986
Agriculture and Rural						
Development	235.9	288.9	104.6	503.5	124.4	244.0
Development Finance Companies	21.0	19.0	140.1	—	9.3	28.5
Education	28.0	19.7	55.5	9.5	34.0	35.6
Energy						
Oil, Gas, and Coal	4.1	114.0	36.0	51.0	2.6	—
Power	48.2	108.8	24.0	30.0	15.5	48.0
Industry	13.1	20.0	19.7	21.9	—	23.9
Nonproject	12.0	150.0	80.0	326.7	119.2	321.0
Population, Health, and						
Nutrition	—	—	15.0	16.7	60.6	70.3
Small-scale Enterprises	12.7	16.0	15.0	41.0	—	30.0
Technical Assistance	18.5	26.0	26.0	53.9	47.7	5.0
Telecommunications	—	38.0	—	—	—	46.5
Tourism	5.6	—	—	—	—	—
Transportation	171.9	115.5	96.8	88.4	275.0	114.8
Urban Development	16.4	61.0	20.0	28.2	22.0	153.0
Water Supply and Sewerage	38.0	110.0	31.5	10.9	101.0	10.0
Total	625.5	1,086.9	664.2	1,181.7	811.3	1,130.6
Of which: IBRD	374.7	853.8	236.5	710.2	419.1	703.1
IDA	250.8	233.1	427.7	471.5	392.2	427.5

NOTE: Details may not add to totals because of rounding.

Table 4-3. Western Africa: 1984 Population and Per Capita GNP of Country Borrowers, Fiscal Years 1984-86

Country borrowers, fiscal 1984-86	Population ^a (thousands)	Per capita GNP 1984 ^b (US\$)
Benin	3,920	270
Burkina Faso	6,559	160
Cameroon	9,874	800
Cape Verde	320	320
Central African Republic	2,521	260
Chad	4,877	n.a.
Côte d'Ivoire	9,878	610
Equatorial Guinea	366	n.a.
Gambia, The	718	260
Ghana	12,309	350
Guinea	5,932	330
Guinea-Bissau	870	190
Liberia	2,127	470
Mali	7,341	140
Mauritania	1,659	450
Niger	6,205	190
Nigeria	96,485	730
São Tomé and Príncipe	105	330
Senegal	6,376	380
Sierra Leone	3,664	310
Togo	2,940	250

NOTE: The 1984 estimates of GNP per capita presented above are from the "World Development Indicators" in the *World Development Report 1986*.

n.a. Not available.

a. Estimates for mid 1984.

b. *World Bank Atlas* methodology, 1982-84 base period.

Table 1-8. Special Facility for sub-Saharan Africa Operations Approved, Fiscal 1986

Country and project	Special Facility amount ^a (US\$ millions)	Date of approval
Burundi		
Structural-adjustment credit I	36.0	May 1986
Equatorial Guinea		
Reconstruction-import credit	4.0	May 1986
Ghana		
Road-rehabilitation and maintenance credit	14.0	August 1985 ^b
Reconstruction-import credit II	41.0	September 1985 ^b
Industrial sector-adjustment credit	25.0	April 1986
Guinea		
Structural-adjustment credit	59.0	February 1986
Guinea-Bissau		
Reconstruction-import credit	5.0	April 1986 ^b
Kenya		
Agricultural-sector credit	40.0	June 1986
Madagascar		
Industrial-assistance credit	20.0	December 1985 ^b
Agricultural-adjustment credit	41.0	May 1986
Malawi		
Structural-adjustment credit III	79.0	December 1985
Niger		
Structural-adjustment credit	40.0	February 1986
Transportation-sector credit	38.0	May 1986
Rwanda		
Highway IV project	15.0	December 1985
Senegal		
Structural-adjustment credit	51.0	February 1986
Somalia		
Agricultural-inputs program I	22.0	December 1985 ^b
Agricultural sector-adjustment credit	40.0	June 1986
Togo		
Structural-adjustment credit II	40.0	August 1985 ^b
Zaire		
Highway VI project	34.0	November 1985 ^b
Industrial sector-adjustment credit	60.0	June 1986
Zambia		
Agricultural-rehabilitation credit	14.0	November 1985 ^b
Industrial-reorientation credit	64.0	September 1985
Total	782.0 ^c	

a. The amounts shown include approved Special Facility credits plus specific amounts of special joint financing (SJF) indicated by SJF contributors.

b. For these projects, IDA credits were approved in fiscal 1985. The approval date indicates approval of the Special Facility supplemental financing.

c. Figures rounded in millions of dollars.

Table 1-9. Proposed Contributions to the Special Facility for sub-Saharan Africa
(millions)

Donor	National currency	Special drawing rights ^a	US dollars ^a
Direct contributions			
Austria	S 222.8	12.1	13.9
Belgium	BF 300.0	5.6	6.4
Canada	Can\$ 100.0	62.5	71.8
Denmark	Dkrl 170.0	17.1	19.7
Finland	Fmk 78.0	12.9	14.8
France	F 1,500.0	179.2	206.0
Ireland	£Ir 1.5	1.7	2.0
Italy	Lit 300,000.0	164.7	189.3
Netherlands	f. 350.0	118.3	136.0
Norway ^b	NKkr 265.0	29.8	34.2
Spain	Ptas 1,665.9	9.9	11.4
Sweden	SKr 440.0	52.3	60.2
United States	\$ 71.8	62.4	71.8
IBRD ^c	—	130.5	150.0
Special joint financing			
Belgium	BF 300.0	5.6	6.4
Germany, Federal Republic of ^d	DM 300.0	114.1	131.2
Japan ^e	¥ 33,200.0	166.0	190.9
Saudi Arabia	SRls 360.0	85.9	98.8
Switzerland	SwF 80.4	36.9	42.5
United Kingdom ^f	£ 75.0	97.1	111.6
Total		1,364.9	1,568.8

NOTE: Amounts are indicative as of June 3, 1986.

a. The US-dollar and SDR equivalents are based on exchange rates prevailing on June 3, 1986.

b. Includes investment income of NKkr4 million.

c. On October 11, 1985, the Board of Governors approved the transfer of FY1985 IBRD net income to the Special Facility for sub-Saharan Africa.

d. DM100 million a year, first two years allotted, third year to be requested.

e. ¥17,500 million provided for the first year and ¥15,700 million provided in the second year; amount for the third year to be determined.

f. £75 million to be disbursed over a five-year period.

plenishment of IDA will provide the Association with funds for credit commitments in the period fiscal 1988-90.

In Seoul, where IDA-7 (the seventh replenishment) was reviewed at the midpoint of the replenishment period, IDA deputies discussed the marked deterioration in the economies of the poorest countries, especially those in Africa. At the same time, the planned lending by the Association to the poorest countries had been sharply curtailed because of the lower volume of resources made available under IDA-7 as compared with IDA-6 (the sixth replenishment). As a result, investments in these countries in infrastructure, social sectors, and productive activity

by IDA deputies to complete the negotiations by the time of the 1986 Annual Meetings.

The deputies also reaffirmed at the Seoul meeting their strong support for IDA as an institution, and emphasized its important role as a multilateral institution in providing basic investment for long-term growth and for helping design and support needed economic reforms and structural changes. They also stressed that IDA was an effective institution and that, therefore, it should play a pivotal role in alleviating poverty and enhancing development in the poorest nations.

Considerable progress was made during the first two formal meetings. At the Paris meeting,

Total IBRD and IDA Lending to
Sub-Saharan Africa FY77-86

	<u>Annual</u> <u>Average</u> <u>FY77-81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
IBRD	613.6	961.7	563.1	1154.4	493.6	901.2
IDA	705.4	839.8	1230.9	1212.9	1103.7	1145.3

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N W
Washington, D C 20433
U S A

(202) 477-1234
Cable Address INTBAFRAD
Cable Address INDEVAS

October 16, 1986

Mr. Lund Hansen
General Manager
HOTEL CLARIDGE'S
Brook Street, Mayfair
W1A 2JQ London
United Kingdom

TELEPHONE: 629 88 60
TELEX: 21872


Dear Mr. Hansen,

This is to reconfirm and guarantee the following reservation:

NAME: Mr. Barber CONABLE and Mrs. Conable
TITLE: President of the World Bank
ACCOMMODATIONS: One twin-bedded room at the World Bank Rate
ARRIVAL: Sunday October 19 (however, room reserved from
preceding night to ensure
immediate access on arrival
early morning)
DEPARTURE: Tuesday October 21, 1986
CONFIRMATION: via World Bank London Office/New Zealand house
MODE OF PAYMENT: Mr. Conable will pay hotel directly.

We recommend Mr. and Mrs. Conable to your very special attention and
thank you in advance for your courtesies.

Sincerely yours,



Raymond P. Messerly

RPM/s

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

October 15, 1986

Mr. Michel Bonnetot
General Manager
HOTEL GEORGE V
31 avenue George V
65008-PARIS, France

TELEPHONE: 47 23 54 00
TELEX: 290 776

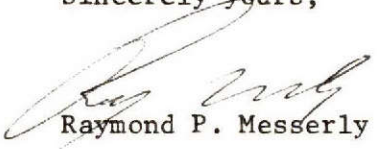
Dear Mr. Bonnetot,

This is to reconfirm and guarantee the following reservations:

NAME: MR. Barber B. CONABLE and Mrs. Conable
TITLE: President of the World Bank
ACCOMMODATIONS: One twin-bedded room at the special World
Bank rate of FFR. 1575 including taxes &
service.
ARRIVAL: Tuesday October 21, 1986
DEPARTURE: Thursday October 23, 1986
MODE OF PAYMENT: Mr. Conable will pay hotel directly.

We recommend Mr. and Mrs. Conable to your very special attention and
thank you in advance for your courtesies.

Sincerely yours,



Raymond P. Messerly

RPM/s

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address INTBAFRAD
Cable Address INDEVAS

October 15, 1986

Mr. Juergen Fischer
General Manager
HOTEL KOENIGSHOF
Adenauerallee 9-11
5300-Bonn
West Germany

TELEPHONE: 26010
TELEX: 886535

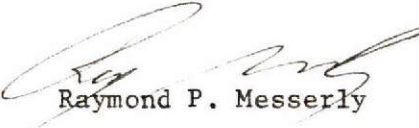
Dear Mr. Fischer,

This is to reconfirm and guarantee the following reservations:

NAME: Mr. Barber B. CONABLE and Mrs. Conable
TITLE: President of the World Bank
ACCOMMODATIONS: One twin-bedded room at the special
World Bank rate.
ARRIVAL: Thursday October 23, 1986
DEPARTURE: Friday October 24, 1986
MODE OF PAYMENT: Mr. Conable will pay hotel directly
CONFIRMATION: B.M.Z. Bonn and Banque Mondiale/Paris

We recommend Mr. and Mrs. Conable to your very special attention and thank you in advance for your courtesies.

Sincerely yours,


Raymond P. Messerly

RPM/s

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address INTBAFRAD
Cable Address INDEVAS

October 15, 1986

Mr. Hartmute Zunk
General Manager
BRISTOL HOTEL KEMPINSKI
Kurfuerstendamm 27
1000-WEST BERLIN

TELEPHONE: 881091
TELEX: 183 553 KEMPI D

Dear Mr. Zunk,

Further to our telex, this is to reconfirm and guarantee the following reservation:

NAME:	Mr. Barber B. CONABLE and Mrs. Conable
TITLE:	President of the World Bank
ACCOMMODATIONS:	One twin-bedded room
ARRIVAL:	Friday October 24, 1986
DEPARTURE:	Saturday October 25, 1986
MODE OF PAYMENT:	Mr. Conable will pay hotel directly.

We recommend Mr. and Mrs. Conable to your very special attention and thank you in advance for your courtesies.

With warm personal regards,

RPM/s


Raymond P. Messerly

Please give to
Mr. Bart

European Trip
Oct. 18-25

Saturday, October 18

- 6:30p Depart Watergate for Airport
8:25p Departure from Dulles Airport to London
British Airways 216 (Boeing 747)

Sunday, October 19

- 8:35a Arrive London Heathrow
Car and driver reserved- **Let driver know
if you want him for the day or only in
the evening.
Accommodations at Claridge's, Brook Street,
London W1 (626-8866)
for M/M Conable, Mr. Qureshi, Mr. Bart-
Mr. Bart will arrive at the Hotel @12:30

** Mr. Bart or Mr. Carter will brief you on the
Husain meeting to reschedule the environmental
conference.

** Call Bowen Wells with regrets for cancellation of
meeting with Members of Parliament (he lives in
Herford, an hour's drive from London)
Home phone: 992-53993
London office phone: 212-5154

- 8:00p Dinner hosted by Sir John and Lady Baring -
BBC & CWC - informal - guests include
M/M Andreas Tuckey, M/M Michael Howard,
Mr. Andreas Whittam-Smith (Independent
Press), Mrs. Sarah Crew,
Sir Peter and Lady Walters - at Baring home
Flat 7, 34 Bryanston Square, London W1
(262-0245)
(fyi - Qureshi has dinner with C. Tickel
so will not be joining)
*See briefing book, Tab 2

Monday, October 20

- 10:30a Mr. Christopher Patten, MP, Minister of Overseas Development Administration, Eland House, Stag Place, London SW1 (213-5419) - Sir Crispin Tickel, Permanent Secretary, and Mr. R.M. Ainscow, Deputy Secretary, will join
*See briefing book, Tab 3
- 12:00 Mr. Robin Leigh-Pemberton, Governor, Bank of England, Threadneedle Street, London EC2 (601-4444)
*See briefing book, Tab 4
- 12:30 Mr. George Blunden, Deputy Governor, Bank of England
*See briefing book, Tab 4
- 1:00- Lunch hosted by Deputy Governor Blunden
2:45 Bank of England
- 3:15 Sir Shridath Ramphal (known as Mr.), Secretary General, Commonwealth Secretariat, Marlborough House, Fall Mall, London SW 1 (839-3411)
*See briefing book, Tab 5
- 4:30 The Prime Minister, The Rt. Honorable Mrs. Margaret Thatcher MP
10 Downing Street, London SW 1 (233-3000)
BBC and Mr. Tim Lankester, ED, only
*See briefing book, Tab 6
- 5:00 The Chancellor of the Exchequer, The Rt. Honorable Mr. Nigel Lawson MP
H. M. Treasury, 11 Downing Street
*See briefing book, Tab 7
- 8:00 Dinner hosted by BBC & CWC at Claridge's -
Guests include M/M Christopher Patten (ODA), M/M Ian Stewart (Treasury), M/M Michael McWilliams (Chartered bank), Lord and Lady Roll (Advisor to IFC and Chairman of S.G. Warberg), M/M Michael Faber (academia), M/M John Judson (Atkins), Sir Shridath Ramphal (Commonwealth Secretary General), M/M Lankester

Tuesday, October 21

- 7:15 Depart Hotel
- 9:20a Depart London/Gatwick Sabena 562
Reservations for M/M Conable,
Messrs. Qureshi and Bart
- 10:30 Arrive Brussels
Large car and driver from Brussels to
Paris (about a 3-1/2 hour drive)
- @2:00 Arrive Paris
Accommodations at the George V for
M/M Conable, Mr. Qureshi
Car and driver reserved in Paris
- 3:30 Prime Minister Jacques Chirac
Hotel Matignon, 57, rue de Varenne, 75007
(42.75.80.00)
*See briefing book, Tab 9
- 4:15 Jean-Bernard Raimond, Minister of Foreign
Affairs, 37, Quai d'Orsay, 75007
(45.55.95.40)
*See briefing book, Tab 10
- 5:00 Michel Aurillac, Minister of Cooperation
20, rue Monsieur, 75007
(47.83.10.10)
*See briefing book, Tab 11
- 8:30 Dinner hosted by Minister Eduoard Balladur,
Minister of Economy, Finance & Privatization
(location?) - probably stag
*See briefing book, Tab 12

Wednesday, October 22

- 9:00a Visit Paris office, tour facility, meet support staff - BBC & CWC - 66, Avenue d'Iena)
- 10:00 BBC meet with Paris office professional staff
- 12:00 Mr. Daniel Lebegue, Director of Treasury
Ministry of Finance, 93, rue de Rivoli 75001
*See briefing book, Tab 13
- 1:00 Stag lunch hosted by Mr. Michel Camdessus,
Governor of Banque de France, 1 rue de la
Vrilliere, 75001
Guests include: Bank reps. and Roland
Billecart (General Manager, Central Fund of
Economic Cooperation)**Billecart is the man
Mme. Ploix suggested you meet re African aid
*See briefing book, Tabs 28-30, Mr. Wheeler
Chairman, Development Aid Committee-OECD),
Mr. Waitzenegger (First Deputy Governor, Bank
of France), Mr. Cappanera (Director General
Foreign Services, Bank of France)
*See briefing book, Tab 14
- 2:30- Maurice will show BBC & CWC around City
5:00
- 5:30 President Francois Mitterrand
Palais de l'Elysee (42.92.81.00)
Messrs. Qureshi and Bart will accompany
*See briefing book, Tab 15
- 8:00 Dinner hosted by BBC & CWC with key government
and financial representatives
(still in formative stage since date had to
be changed - Mr. Bart will update)

Thursday, October 23

- 9:00 Depart Hotel
- 10:30a Depart Paris for Bonn/Cologne
Lufthansa German Airlines 125
(Reservations for M/M Conable, Mr. Qureshi,
Mr. Bart)
- 11:35 Arrive at Cologne Airport
Accommodations at Koenigshof for M/M
Conable, Messrs. Qureshi, Bart and Boehmer-
Mr. Boehmer and a representative of the
Federal Government will meet you at Airport.
- 12:30 Working lunch hosted by Dr. Juergen Warnke,
Minister for Economic Cooperation, followed
by meeting with Minister Warnke
Topics of interest include: comments in your
AM speech on women in development,
structural adjustment loan to Chile,
aid coordination in Egypt and Bangladesh.
*See briefing book, Tab 17
- 3:30- Informal meeting with members of Bundestag
5:00 Committee for International Economic
Cooperation
*See briefing book, Tab 18
- 5:00 Return to Hotel Koenigshof
- 7:00p Depart Hotel for dinner hosted by Minister
Warnke with leaders of German banking
community - Castle Rheineck
(CWC to Opera)

Friday, October 24

- 9:00a Dr. Gerhard Stoltenberg, Minister of
Finance and Alternate Governor of the
Fund (accompanied by Qureshi & Boehmer)
*See briefing book, Tab 19
- CWC and Mr. Bart will depart Hotel for Airport
at 9:15.
- 10:10a Depart Cologne
British Airways 3004
(Reservations for M/M Conable, Messrs.
Qureshi, Boehmer)
- 11:10 Arrive Berlin-Tegel
Car arranged by Mr. Boehmer
Accommodations at Hotel Bristol Kempinski
for M/M Conable, Mr. Qureshi & Mr. Boehmer
- 12:00 Federal President Richard von Weizsaecker
*See briefing book, Tab 20
- 12:30 BBC & CWC Proceed to Congress Center for lunch
hosted Mr. Haupt, General Manager of
Preparation Group for 1988 Annual Meetings,
tour the Congress Center (site of the '88
AM) and tour the city
- 5:30- Free time for shopping, freshening up, etc.
7:00
- 7:00 Mr. Rexrodt, Senator of Finance of Berlin, to
meet with BBC & CWC and Bank reps. at Hotel
- 8:00 Mr. Rexrodt will accompany group to Dahlem
Museum for the 125th Anniversary celebration
of the German Chamber of Industry and
Commerce

Saturday, October 25

8:00a Breakfast hosted by Mr. Diepgen, Governing
Mayor of Berlin

CWC has separate breakfast

10:50a Depart Berlin-Tegel
Pan Am 643 Airbus
Reservations for M/M Conable,
Mr. Qureshi

11:55 Arrive Frankfurt

12:45 Depart Frankfurt
Pan Am 061

4:40 Arrive Dulles Airport

Charlotte Conable's Itinerary
European Trip
October 18-25, 1986

London

Sunday, October 19

8:00p Dinner hosted by Sir John and Lady Baring -
BBC & CWC - informal - guests include
M/M Andreas Tuckey, M/M Michael Howard,
Mr. Andreas Whittam-Smith (Independent Press),
Mrs. Sarah Crew, Sir Peter and Lady Walters -
at Baring home, Flat 7, 34 Bryanston Square,
London W1 (262-0245)
*See briefing book, Tab 2

Monday, October 20

9:00 Janet Hickman of London Office will meet you
at Claridge's and accompany you to meetings
(930-8511)

9:30a Meeting with NGO representatives hosted by
John Mitchell of The World Development
Movement - briefing on their programs in UK
Location: Bedford Chambers, Covent Garden,
London WC2E 8HA (01) 836-3672
Participants: John Mitchell (WDM), Michael
Palmer (WDM), Glenys Kinnock (One World & wife
of Chairman of Labour Party), Joan Lester
(in line to become Minister in next Labour
government), John Clark (Oxfam), Adrian Hewitt
(ODI), Lady Diana Hood (Save the Children),
David Ward (Labour Party Executive Cte. for
the next election), representative from
Christian Aid

12:30 Meeting with International Planned Parenthood
Federation - Mr. Bradman Weerakoon, Secty General
Location: Regent's College, Inner Circle, Regent's
Park, London, NW1 4NS (01) 486-0743
Participants: Bradman Weerakoon (Secretary General
IPPF), Vernon Aluvehare (Assistant Secretary

General IPPF), Susan Perl (Director Program Development), Michael Sozi (Regional Director, Africa), Mark Laskin (Resource Development), representatives of (3-4): Oxfam, Save the Children, Other NGOs.

- 1:00 Lunch at IPPF - Guests include Bernard Aluvihare, Assistant Secty General; Susan Pearl, Director Programmes Department; Michael Sosi, Regl Director for Afrida; Sureha P=Puri, Information Officer; Dilys Cossey, Organizer, British Parliamentarian Group; Lady Medawar, Chairperson, Common Ground (environmental matters); Alistair Service, General Secretary, Family Planning Assn.
- 8:00 Dinner hosted by BBC & CWC at Claridge's
Guests include M/M Christopher Patten (ODA), M/M Ian Stewart (Treasury), M/M Michael McWilliams (Chartered bank), Lord and Lady Roll (Advisor to IFC and Chairman of S.G. Warberg), M/M Michael Faber (academia), M/M John Judson (Atkins), Sir Shridath Ramphal (Commonwealth Secretary General); M/M Tim Lankester

Paris

Tuesday, October 21

- 1:30 Arrive Paris
- 2:45 Mrs. Carter and Mr. Bretaudeau will meet you at Hotel George V with car
- 3:00- Meeting with Rony Brauman (Physicians Without Borders)
4:00 NGO involved in health programs in developing countries) - 68 Boulevard St-Marcel, Paris 5
**Note - Mr. Brauman is leaving for Kabul, Afghanistan Tuesday evening.
- 4:00 Visit Notre Dame cathedral with Mrs. Carter

Wednesday, October 22

- 9:00a Visit Paris Office, tour facility, meet support staff
CWC & BBC (66 Avenue d'Iena)
- 10:00 Visit Louvre Museum with Mrs. Carter

- 1:00 Lunch hosted by Mrs. Camdessus at the Bank of France Residence, 9 rue de Vallois
Guests include: Mrs. Roland-Billecart (wife of head of French Aid Fund), Mrs. Wheeler (wife of DAC chairman), Mrs. Waitzenegger (wife of Bank of France Deputy Governor), Mrs. Carter
- 2:30- Maurice Bart will show you and BBC around the
5:00 City
- 5:15 Return to Hotel George V
- 8:00 Dinner hosted by BBC & CWC with key government and financial representatives (still in formative stage since date had to be changed - Mr. Bart will update)

Bonn

Thursday, October 23

- 11:35a Arrive Cologne/Bonn - proceed to Hotel Koenigshof and to afternoon program of visits in Cologne, accompanied by an escort
- 8:00p Attend performance at Opera House of Bonn: Richard Wagner "The Flying Dutchman"

Friday, October 24

- 9:15a You and Mr. Bart leave Hotel Koenigshof to Cologne/Bonn Airport

Berlin

- 11:10a Arrive Berlin
- 12:30 Proceed to Congress Center - Lunch hosted by Mr. Haupt, General Manager of Preparation Group for 1988 AM, tour of the Congress Center, site of the 1988 AM, and tour of the city
- 5:30- Free time
7:00
- 7:00 Meeting with Mr. Rexrodt, Senator of Finance of Berlin, at Hotel Bristol Kempinski - BBC & CWC

8:00 Mr. Rexrodt will accompany entire group
to Dahlem Museum for the 125th Anniversary
celebration of the German Chamber of Industry
and Commerce

Saturday, October 25

8:00a Breakfast in Hotel with Mrs. Haupt and another who will
be involved with the Spouses program for the '88 AM

10:50 Depart Berlin